UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended September 30, 2006

OR

¨ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from ________ to ________

Commission File Number 000-50724

DCT INDUSTRIAL TRUST INC.

(Exact name of registrant as specified in its charter)

Maryland	**82-0538520**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
518 Seventeenth Street, Suite 1700 Denver, Colorado	**80202**
(Address of principal executive offices)	**(Zip Code)**

(303) 597-2400

(Registrant s telephone number, including area code)

Dividend Capital Trust Inc.

(Former name, former address, and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x

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

As of October 31, 2006, 151,965,749 shares of common stock of DCT Industrial Trust Inc., par value $0.01 per share, were outstanding.

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DCT Industrial Trust Inc. and Subsidiaries

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PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DCT Industrial Trust Inc. and Subsidiaries

Consolidated Balance Sheets

(in thousands, except share and per share information)

	September 30, 2006 (Unaudited)	December 31, 2005
ASSETS		
Land	$ 502,745	$ 327,428
Buildings and improvements	2,111,506	1,499,414
Intangible lease assets	200,797	155,276
Construction in progress	28,686	12,807
Total Investment in Properties	2,843,734	1,994,925
Less accumulated depreciation and amortization	(175,000)	(96,604)
Net Investment in Properties	2,668,734	1,898,321
Investments in and advances to unconsolidated joint ventures	19,786	6,090
Net Investment in Real Estate	2,688,520	1,904,411
Cash and cash equivalents	19,507	94,918
Restricted cash	6,781	5,027
Notes receivable	9,217	9,670
Deferred loan costs, net	5,648	6,498
Deferred loan costs financing obligations, net	20,229	12,270
Straight-line rent and other receivables	18,824	18,347
Deferred acquisition costs and other assets, net	11,213	6,554
Assets held for sale	39,715	
Total Assets	$ 2,819,654	$ 2,057,695
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Accounts payable and accrued expenses	$ 29,069	$ 26,139
Distributions payable	14,006	19,787
Tenant prepaids and security deposits	13,563	9,321
Other liabilities	16,343	6,769
Intangible lease liability, net	20,645	10,320
Lines of credit	165,012	16
Unsecured notes	425,000	
Mortgage notes	638,148	642,242
Financing obligations	235,822	154,713
Liabilities related to assets held for sale	11,082	
Total Liabilities	1,568,690	869,307

Minority interests	46,447	55,577
Stockholders equity:		
Preferred stock, $0.01 par value, 50,000,000 shares authorized, none outstanding		
Shares-in-trust, $0.01 par value, 100,000,000 shares authorized, none outstanding		
Common stock, $0.01 par value, 350,000,000 shares authorized, 150,557,138 and 133,206,784 shares issued and outstanding at September 30, 2006 and December 31, 2005, respectively	1,506	1,332
Additional paid-in capital	1,396,674	1,235,156
Distributions in excess of earnings	(181,951)	(100,888)
Accumulated other comprehensive loss	(11,712)	(2,789)
Total Stockholders Equity	1,204,517	1,132,811
Total Liabilities and Stockholders Equity	$ 2,819,654	$ 2,057,695

The accompanying notes are an integral part of these consolidated financial statements.

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DCT Industrial Trust Inc. and Subsidiaries

Consolidated Statements of Operations

(Unaudited, in thousands, except per share information)

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
REVENUES:				
Rental revenues	$ 61,861	$ 35,934	$ 158,080	$ 81,340
Institutional capital management and other fees	220		398	
Total Revenues	62,081	35,934	158,478	81,340
OPERATING EXPENSES:				
Rental expenses	7,150	3,720	15,995	8,217
Real estate taxes	7,909	4,545	20,597	9,664
Real estate depreciation and amortization	30,232	21,062	81,196	47,430
General and administrative expenses	1,757	865	3,939	2,294
Asset management fees, related party	5,092	2,937	12,907	5,640
Total Operating Expenses	52,140	33,129	134,634	73,245
Operating Income	9,941	2,805	23,844	8,095
Equity in losses of unconsolidated joint ventures, net	(72)		(254)	
Gain (loss) on dispositions of real estate interests	(482)		7,550	
Interest expense	(20,517)	(9,708)	(46,687)	(18,253)
Interest income and other	482	629	5,004	2,216
Loss Before Minority Interests and Discontinued Operations	(10,648)	(6,274)	(10,543)	(7,942)
Minority interests	295	259	562	256
Loss From Continuing Operations	(10,353)	(6,015)	(9,981)	(7,686)
Income (Loss) From Discontinued Operations	188	(183)	125	(345)
NET LOSS	$ (10,165)	$ (6,198)	$ (9,856)	$ (8,031)
LOSS PER COMMON SHARE BASIC AND DILUTED:				
Loss From Continuing Operations	$ (0.07)	$ (0.06)	$ (0.07)	$ (0.09)
Income (Loss) From Discontinued Operations	0.00	0.00	0.00	0.00
Net Loss	$ (0.07)	$ (0.06)	$ (0.07)	$ (0.09)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic and Diluted	150,725	104,224	148,731	89,147

The accompanying notes are an integral part of these consolidated financial statements.

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DCT Industrial Trust Inc. and Subsidiaries

Consolidated Statement of Stockholders Equity

And Other Comprehensive Loss

For the Nine Months Ended September 30, 2006

(Unaudited, in thousands)

	Common Stock					
	Shares	**Amount**	**Additional Paid-in Capital**	**Distributions in Excess of Earnings**	**Accumulated Other Comprehensive Loss**	**Total Stockholders Equity**
Balance at December 31, 2005	133,207	$ 1,332	$ 1,235,156	$ (100,888)	$ (2,789)	$ 1,132,811
Comprehensive income:						
Net loss				(9,856)		(9,856)
Net unrealized loss on cash flow hedging derivatives					(9,403)	(9,403)
Amortization of cash flow hedging derivatives					480	480
Comprehensive loss						(18,779)
Issuance of common stock, net of offering costs	18,680	187	174,364			174,551
Redemption of common stock	(1,330)	(13)	(12,898)			(12,911)
Amortization of stock options			52			52
Distributions on common stock				(71,207)		(71,207)
Balance at September 30, 2006	150,557	$ 1,506	$ 1,396,674	$ (181,951)	$ (11,712)	$ 1,204,517

The accompanying notes are an integral part of these consolidated financial statements.

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DCT Industrial Trust Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Unaudited, in thousands)

	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
OPERATING ACTIVITIES:		
Net loss	$ (9,856)	$ (8,031)
Minority interests	(587)	(284)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Equity in losses of unconsolidated joint ventures, net	254	
Gain on disposition of real estate interests	(7,550)	
Real estate depreciation and amortization	82,764	48,796
Other	994	1,734
Changes in operating assets and liabilities:		
Other assets	(5,888)	(7,327)
Accounts payable, accrued expenses and other liabilities	15,726	14,090
Net cash provided by operating activities	75,857	48,978
INVESTING ACTIVITIES:		
Real estate acquisitions	(910,784)	(517,591)
Capital expenditures and other investments in real estate	(116,783)	(35,452)
Proceeds from dispositions of real estate investments	116,050	
Decrease (increase) in deferred acquisition costs	(14,135)	3,490
Decrease in restricted cash		4,854
Originations of notes receivable from unconsolidated joint ventures	(650)	(5,500)
Proceeds from repayment of notes receivable	1,480	
Master lease payments received	236	2,663
Other investing activities	51	
Net cash used in investing activities	(924,535)	(547,536)
FINANCING ACTIVITIES:		
Net proceeds from lines of credit	164,996	12
Proceeds from unsecured notes	425,000	
Proceeds from mortgage notes		60,926
Principal payments on mortgage notes	(5,064)	(1,945)
Proceeds from financing obligations	121,322	91,516
Principal payments on financing obligations	(6,136)	(891)
Increase in deferred loan costs	(502)	(2,168)
Increase in deferred loan costs financing obligation	(12,198)	(6,678)
Proceeds from sale of common stock	153,411	444,534
Offering costs for issuance of common stock, related party	(9,220)	(42,674)
Redemption of common stock	(16,802)	(5,183)
Decrease (increase) in restricted cash	142	(4,249)
Settlement of cash flow hedging derivative		(2,111)
Distributions to common stockholders	(39,101)	(16,397)
Distributions to minority interests	(2,581)	(59)
Net cash provided by financing activities	773,267	514,633

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(75,411)	16,075
CASH AND CASH EQUIVALENTS, beginning of period	94,918	23,520
CASH AND CASH EQUIVALENTS, end of period	$ 19,507	$ 39,595
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	$ 43,335	$ 16,948
Assumption of secured debt in connection with real estate acquired	$ 12,369	$ 436,058
Amount issued pursuant to the distribution reinvestment plan	$ 37,720	$ 19,151

The accompanying notes are an integral part of these consolidated financial statements.

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DCT Industrial Trust Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(Unaudited)

Note 1 Organization and Summary of Significant Accounting Policies

Organization

DCT Industrial Trust Inc. (formerly Dividend Capital Trust Inc.) is a leading real estate company specializing in the ownership, acquisition, development and management of bulk distribution and light industrial properties located in 24 of the highest volume distribution markets in the United States. In addition, we manage, and own interests in, industrial properties through our institutional capital management program. We were formed as a Maryland corporation in April 2002 and have elected to be treated as a real estate investment trust (REIT) for U.S. federal income tax purposes commencing with our taxable year ended December 31, 2003. We are structured as an umbrella partnership REIT (UPREIT) under which substantially all of our current and future business is, and will be, conducted through a majority owned and controlled subsidiary, DCT Industrial Operating Partnership LP (formerly Dividend Capital Operating Partnership LP) (our operating partnership), a Delaware limited partnership, for which DCT Industrial Trust Inc. is the sole general partner. As used herein, DCT Industrial Trust, we , our and us refer to DCT Industrial Trust Inc. and its consolidated subsidiaries and partnerships except where the context otherwise requires.

As of September 30, 2006, we owned interests in 388 industrial real estate properties totaling 60.4 million rentable square feet. Our portfolio of consolidated operating properties consists of interests in 374 industrial properties totaling 55.0 million rentable square feet that were 92.9% occupied as of September 30, 2006. In addition, as of September 30, 2006, we had majority interests in four consolidated development properties, a 20% interest in six unconsolidated properties in an institutional joint venture and investments in four development joint venture properties.

Prior to October 10, 2006, our day-to-day activities were managed by Dividend Capital Advisors LLC (our Former Advisor), an affiliate, under the supervision of our board of directors pursuant to the terms and conditions of an advisory agreement. On July 21, 2006, we entered into a contribution agreement with our operating partnership and Dividend Capital Advisors Group LLC (DCAG), the parent company of our Former Advisor. On October 10, 2006, pursuant to the contribution agreement, our operating partnership acquired our Former Advisor from DCAG for an aggregate 15,111,111 units of limited partnership interest in our operating partnership (OP Units), which included the modification of a special series of units of limited partnership interest in our operating partnership (the Special Units, which are described in Note 8) held by DCAG into 7,111,111 OP Units. We refer to this transaction as the Internalization. In connection with the Internalization, our Former Advisor became a wholly-owned subsidiary of our operating partnership (see the additional description of the Internalization in Note 14).

As of October 10, 2006, we became a self-administered and self-advised REIT. Prior to October 10, 2006, our Former Advisor was majority owned and/or controlled by three of our directors and certain officers and/or their affiliates and other third parties. In addition, under the terms of certain dealer manager agreements, Dividend Capital Securities LLC (our Former Dealer Manager) served as the dealer manager of our prior continuous public offerings of common stock and our operating partnership s private placement of undivided tenancy-in-common interests (TIC Interests) in certain of our properties. Prior to the Internalization, our Former Dealer Manager was also indirectly owned by three of our directors and certain officers and/or their affiliates and other third parties. Prior to the Internalization, our Former Advisor and its affiliates, including our Former Dealer Manager, received various forms of compensation, reimbursements and fees for services relating to our prior continuous public offerings of common stock, our operating partnership s private placement and for the investment in and management of our real estate assets.

Prior to the Internalization, we did not directly employ any employees. Upon closing of the Internalization, we employed 60 persons.

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Summary of Significant Accounting Policies

Interim Financial Information

The accompanying unaudited consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (GAAP) and with the instructions to Form 10-Q and Article 10 of Regulation S-X for interim financial information. Accordingly, these statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments, consisting only of normal recurring items necessary for their fair presentation in conformity with GAAP. Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with our audited consolidated financial statements as of December 31, 2005 and related notes thereto as filed on Form 10-K on March 16, 2006 and amended on Form 10-K/A filed on April 28, 2006.

Use of Estimates

The preparation of the consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain items in the consolidated financial statements for periods in 2005 have been reclassified to conform to the 2006 classifications.

Consolidation

Our consolidated financial statements include the accounts of our company and our consolidated subsidiaries and partnerships which we control either through ownership of a majority voting interest, as the primary beneficiary, or otherwise. Investments in entities in which we do not own a majority voting interest but over which we have the ability to exercise significant influence over operating and financial policies are presented under the equity method. Investments in entities in which we do not own a majority voting interest and over which we do not have the ability to exercise significant influence are carried at the lower of cost or fair value, as appropriate. Our judgments with respect to our level of influence or control of an entity and whether we are the primary beneficiary of a variable interest entity as defined by Financial Accounting Standards Board (FASB) Interpretation No. 46(R), *Consolidation of Variable Interest Entities* (FIN No. 46(R)), involve consideration of various factors including the form of our ownership interest, our representation on the entity s board of directors, the size of our investment (including loans) and our ability to participate in policy making decisions. Our ability to correctly assess our influence or control over an entity affects the presentation of these investments in our consolidated financial statements and, consequently, our financial position and specific items in our results of operations that are used by our stockholders, lenders and others in their evaluation of us.

Generally, we consolidate real estate partnerships and other entities that are not variable interest entities (as defined in FIN No. 46(R)) when we own, directly or indirectly, a majority voting interest in the entity. In June 2005, the FASB ratified Emerging Issues Task Force Issue 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights* (EITF 04-5). EITF 04-5 provides an accounting model to be used by a general partner, or group of general partners, to determine whether the general partner(s) controls a limited partnership or similar entity in light of certain rights held by the limited partners and provides additional guidance on what constitutes substantive kick-out rights and substantive participating rights.

Investment in Real Estate, Valuation and Allocation of Real Estate Acquisitions

We capitalize direct costs associated with the acquisition, development or improvement of real estate, including acquisition fees and leasing costs as well as indirect costs, if appropriate. Costs associated with acquisition or development pursuits are capitalized as incurred and if the pursuit is abandoned, these costs are expensed in the period in which the pursuit is abandoned. Costs incurred for maintaining and making repairs to our real estate, which do not extend the life of our assets, are expensed as incurred.

Upon acquisition, the total cost of a property is allocated to land, building, building and land improvements, tenant improvements and intangible lease assets and liabilities pursuant to Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations* (SFAS No. 141). The allocation of the total cost to land, building, building and land improvements and tenant improvements is based on our estimate of their fair value based on all available information such as the replacement cost of such assets, appraisals, property condition reports, market data and other related information. Pursuant to SFAS No. 141, the difference between the fair value and the face value of debt assumed in an acquisition is recorded as a premium or discount and amortized to interest expense over the life of the debt assumed. The valuation of assumed liabilities is based on the current market rate for similar liabilities. The allocation of the total cost of a property to an intangible lease asset includes the value associated with the in-place leases which may include leasing commissions, legal and other costs. In addition, the allocation of the total cost of a property requires allocating costs to an intangible asset or liability resulting from in-place leases being above or below the market rental rates on the date of the acquisition. These assets or liabilities will be amortized over the life of the remaining in-place leases as an adjustment to revenues.

Real estate, including land, building, building and land improvements, tenant improvements and leasing costs, and intangible lease assets and liabilities are stated at historical cost less accumulated depreciation and amortization. Depreciation and amortization is computed on a straight-line basis over the estimated useful lives of the related assets or liabilities as follows:

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

The table above reflects the standard depreciable lives typically used to compute depreciation and amortization. However, such depreciable lives may be different based on the estimated useful life of such assets or liabilities. The cost of assets sold or retired and the related accumulated depreciation and/or amortization is removed from the accounts and the resulting write off, if necessary, is reflected in the consolidated statement of operations in the period in which such sale or retirement occurs.

Discontinued Operations

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS No. 144), we classify certain properties and related assets and liabilities as held for sale when the potential sale of such property is considered probable (see Note 9 for additional information). The operating results of such properties are presented in discontinued operations in current periods and all comparable periods presented. Depreciation is not recorded on properties held for sale; however, depreciation expense recorded prior to classification as held for sale is included in results from discontinued operations. The net gain on sale and any impairment losses are presented in results from discontinued operations when recognized.

Equity Method

We present investments in unconsolidated joint ventures under the equity method. The equity method is used when we have the ability to exercise significant influence over the operating and financial policies of a joint venture but do not control the joint venture. Under the equity method, these investments (including advances to the joint venture) are initially recorded on our consolidated balance sheet at our cost and are subsequently adjusted to reflect our proportionate share of net earnings or losses of each of the joint ventures, distributions received, contributions made and certain other adjustments, as appropriate. Such investments are included in investments in and advances to unconsolidated joint ventures on the accompanying consolidated balance sheets (see Note 3 for additional information).

Comprehensive Income (Loss)

We report comprehensive income (loss) in the accompanying consolidated statement of stockholders equity and other comprehensive income (loss). Amounts reported in accumulated other comprehensive income (loss) related to hedging transactions will be amortized to interest expense over the life of our hedged debt issuances. Any ineffectiveness, as defined by SFAS No. 133 (defined below), related to our hedging transactions is reported in the accompanying consolidated statements of operations. See Note 5 for additional information.

Derivative Instruments and Hedging Activities

SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133), as amended and interpreted, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. As required by SFAS No. 133, we record all derivatives on our consolidated balance sheets at fair value. Accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the designation of the derivative. Derivatives used to hedge our exposure to changes in the fair value of an asset, liability, or firm commitments attributable to a particular risk are considered fair value hedges. Derivatives used to hedge our exposure to variability in expected future interest payments, or other types of forecasted transactions, are considered cash flow hedges.

As of September 30, 2006, all of the hedges entered into by us had been designated as cash flow hedges. For derivatives designated as cash flow hedges, the changes in the fair value of the derivative that represents changes in expected future cash flows which are effectively hedged by the derivative are initially reported in other comprehensive income (loss) on our consolidated statement of stockholders equity and other comprehensive income (loss) (i.e., not included in earnings) until the derivative is settled. Upon settlement, the effective portion of the hedge is recognized in other comprehensive income (loss) and amortized over the term of the designated cash flow or transaction the derivative was intended to hedge. The change in value of any derivative that is deemed to be ineffective is charged directly to earnings when the determination of ineffectiveness is made. We assess the effectiveness of each hedging relationship by comparing the changes in fair value or cash flows of the derivative hedging instrument with the changes in fair value or cash flows of the designated hedged item or transaction. We do not use derivatives for trading or speculative purposes.

Our objective in using derivatives is to add stability to future interest expense and to manage our exposure to interest rate volatility associated with our forecasted debt issuances and certain variable rate borrowings. To accomplish this objective, we primarily use treasury locks and forward-starting swaps as part of our cash flow hedging strategy. These derivatives are designed to mitigate the risk of future interest rate fluctuations by providing a future fixed interest rate for a limited, pre-determined period of time. During the nine months ended September 30, 2006 and 2005, such derivatives were used to hedge the variability in existing and future interest expense associated with existing variable rate borrowings and forecasted issuances of debt, which may include the issuances of new debt, as well as refinancings of existing debt upon maturity.

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Revenue Recognition

We record rental revenues for the full term of each lease on a straight-line basis. Certain properties have leases that provide for tenant occupancy during periods where no rent is due or where minimum rent payments increase during the term of the lease. Accordingly, we record receivables from tenants that we expect to collect over the remaining lease term rather than currently, which are recorded as straight-line rents receivable. When we acquire a property, the terms of existing leases are considered to commence as of the acquisition date for the purposes of this calculation. For the three and nine months ended September 30, 2006, the total increase to rental revenues due to straight-line rent adjustments was approximately $2.0 million and $5.8 million, respectively. For the three and nine months ended September 30, 2005, the total increase to rental revenues due to straight-line rent adjustments was approximately $1.3 million and $2.6 million, respectively. In connection with property acquisitions, we may acquire leases with rental rates above and/or below the market rental rates. Such differences are recorded as an intangible asset or liability pursuant to SFAS No. 141 and amortized to rental revenues over the life of the respective leases. For the three and nine months ended September 30, 2006, the total net decrease to rental revenues due to the amortization of above and below market rents was approximately $0.3 million and $1.0 million, respectively. The total net decrease during the same periods in 2005 was approximately $0.7 million and $1.7 million, respectively. See additional information in Note 2.

In connection with certain property acquisitions, we have entered into master lease agreements with various sellers whereby the sellers are obligated to pay monthly rent until the earlier of the expiration of the master lease agreement or the commencement of rental payments from a new tenant. For financial reporting purposes, rental payments under master lease agreements are reflected as a reduction of the basis of the underlying property rather than rental revenues. For the three and nine months ended September 30, 2006, the total master lease payments received were approximately $0.1 million and $0.2 million, respectively. For the three and nine months ended September 30, 2005, the total master lease payments received were approximately $0.7 million and $2.7 million, respectively.

Early lease termination fees are recorded in rental revenues when such amounts are earned and the unamortized balances of assets and liabilities associated with the early termination of leases are fully amortized to their respective revenue and expense line items on our consolidated statements of operations over the shorter of the expected life of such assets and liabilities or the remaining lease term. During the three and nine months ended September 30, 2006, the early termination of leases resulted in additional income of $0.2 million and $0.5 million, respectively, and resulted in additional expenses of $0.1 million and $0.6 million, respectively. During the three months ended September 30, 2005, the early termination of leases resulted in a decrease of income of $22,000 and, for the nine months ended September 30, 2005, the early termination of leases resulted in additional income of $3.5 million. During the three and nine months ended September 30, 2005, the early termination of leases resulted in additional expenses of $0.4 million and $1.0 million, respectively.

Stock-Based Compensation

We previously adopted an employee stock option plan (the Employee Option Plan) and an independent director stock option plan (the Independent Director Option Plan). We previously accounted for these plans pursuant to SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123), and effective January 1, 2006, we adopted SFAS No. 123(R), *Share-Based Payment* (SFAS No. 123(R)), and its related interpretations (see Note 11 for additional information). Options granted under our Employee Option Plan and the Independent Director Option Plan have been valued using the Black-Scholes option-pricing model (Black-Scholes) and amortized to compensation expense on a straight-line basis over the period during which the right to exercise such options fully vests. Such expense is included in general and administrative expense on the accompanying consolidated statements of operations. In connection with the Internalization, we adopted, and our stockholders approved, the 2006 Long-Term Incentive Plan (the Long-Term Incentive Plan). Beginning October 10, 2006, we will use the Long-Term Incentive Plan to grant restricted stock, stock options and other awards to our personnel and we will not make any further grants under the Employee Option Plan or the Independent Director Option Plan.

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New Accounting Pronouncements

In September 2006, the staff of the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements.* This bulletin provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. The guidance in this bulletin must be applied to financial reports covering the first fiscal year ending after November 15, 2006. We do not believe such adoption will have a material impact on our annual 2006 consolidated financial statements.

On September 18, 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157), which defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands disclosures about fair value measurements. We will adopt the provisions of SFAS No. 157 effective January 1, 2008. We do not believe such adoption will have a material impact on our consolidated financial statements.

On July 13, 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48). This interpretation clarifies the accounting for uncertainty in income taxes recognized in an entity s financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification of interest and penalties, accounting in interim periods, disclosure and transition. This interpretation is effective for fiscal years beginning after December 15, 2006. We will be required to adopt this interpretation in the first quarter of 2007. We are currently evaluating the requirements of FIN 48. We do not believe such adoption will have a material impact on our consolidated financial statements.

In December 2004, the FASB issued SFAS No. 123(R) which is a revision of SFAS No. 123. SFAS No. 123(R) requires companies to measure the cost of employee services received in exchange for an award of an equity instrument based on the award s fair value on the grant date and recognize the cost over the period during which an employee is required to provide service in exchange for the award, generally the vesting period. This statement focuses primarily on accounting for transactions in which an entity obtains employment services in share-based payment transactions. SFAS No. 123(R) is effective for publicly listed companies for the annual period beginning after December 15, 2005. We adopted SFAS No. 123(R) during the first quarter of 2006 and there was no material impact on our consolidated financial statements.

Note 2 Real Estate

Our consolidated real estate assets consist of operating properties, properties under development and land held for future development. Our real estate assets, presented at historical cost, include the following as of September 30, 2006 and December 31, 2005 (in thousands):

	September 30, 2006	December 31, 2005
Operating properties	$ 2,783,141	$ 1,978,475
Properties under development	35,067	8,401
Land held for development	25,526	8,049
Total Investment in Properties	**2,843,734**	**1,994,925**
Less accumulated depreciation and amortization	(175,000)	(96,604)
Net Investment in Properties	**$ 2,668,734**	**$ 1,898,321**

Acquisition Activity

During the nine months ended September 30, 2006, we acquired 118 properties located in 18 markets, aggregating approximately 17.7 million square feet for a total cost of approximately $965.9 million, which includes acquisition fees paid to our Former Advisor. These properties were acquired from unrelated third parties, using net proceeds from our prior continuous public offerings, our operating partnership s private placement and debt issuances and existing cash balances. For all properties acquired and consolidated, the results of operations for such properties are included in our consolidated statements of operations from the dates of acquisition.

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Notable Acquisitions

Cal TIA Portfolio

On June 9, 2006, we purchased a portfolio of 78 buildings comprising approximately 7.9 million rentable square feet located in eight markets, as well as a land parcel comprising 9.2 acres located in the Orlando market (collectively referred to as the Cal TIA Portfolio), for a total cost of approximately $510.1 million (which includes an acquisition fee of $4.9 million that was paid to our Former Advisor). Upon acquisition, this portfolio was 92.2% leased and occupied. We funded this purchase using our existing cash balances, net proceeds from our prior continuous public offerings and our operating partnership s private placement and debt proceeds of approximately $387.0 million. These debt proceeds consisted of borrowings from our senior unsecured revolving credit facility in the amount of $112.0 million and the issuance of $275.0 million of senior unsecured notes. See Note 4 for additional information regarding our debt issuances. The allocation of the purchase price was based on the fair value of all assets acquired and was finalized during the quarter ended September 30, 2006.

PC Portfolio

On May 19, 2006, we acquired a portfolio of ten buildings comprising approximately 2.7 million rentable square feet located in Columbus, Ohio (collectively referred to as the PC portfolio). Upon acquisition, this portfolio was 82.7% leased and occupied. The PC portfolio was acquired for a total cost of approximately $107.8 million, which includes an acquisition fee of approximately $1.1 million paid to our Former Advisor.

OCMI Portfolio

On April 13, 2006, we acquired a portfolio of seven buildings comprising approximately 1.9 million rentable square feet (collectively referred to as the OCMI portfolio). Of these seven buildings, four are located in Minneapolis, Minnesota, two are located in Plainfield, Indiana, and one is located in Columbus, Ohio. Upon acquisition, the OCMI portfolio was 100% leased and occupied. The OCMI portfolio was acquired for a total cost of approximately $95.8 million, which includes an acquisition fee of approximately $1.0 million paid to our Former Advisor.

Disposition Activity

Contribution of Properties to an Institutional Fund

On February 21, 2006, we entered into a joint venture with affiliates of Boubyan Bank of Kuwait (BBK), an unrelated third party, to create an institutional fund, DCT Fund I LLC (Fund I), that owns and operates industrial properties located in the United States. We contributed six industrial properties to Fund I, totaling approximately 2.6 million rentable square feet after completion of a 330,000 square foot expansion project. The contribution value of the six buildings upon completion of the expansion was approximately $122.8 million. Contemporaneously with our contribution, Fund I issued $84.4 million of secured non-recourse debt to a third party and BBK contributed $19.7 million of equity to Fund I. Upon receipt of these proceeds, Fund I made a special distribution to us of approximately $102.7 million. The expansion was completed during June 2006, and, contemporaneously with the completion of the expansion, Fund I issued $11.1 million of additional secured non-recourse debt to a third party and BBK contributed $2.6 million of equity to Fund I. Upon receipt of these proceeds, Fund I made a special distribution to us of approximately $13.7 million. With the completion of these transactions, our ownership of Fund I is 20% and BBK s ownership of Fund I is 80%.

The contribution of the six properties into Fund I (exclusive of the expansion project) resulted in a gain of approximately $5.0 million of which approximately $4.0 million was recognized in our earnings in the quarter ended March 31, 2006. The completion of the expansion in June 2006 resulted in an additional gain of approximately $5.1 million of which approximately $4.1 million was recognized in earnings in the quarter ended June 30, 2006. In total, the transaction resulted in an aggregate gain of approximately $8.1 million for the nine months ended September 30, 2006. The remaining gain of approximately $2.0 million has been deferred and will be amortized to earnings over the weighted average lives of Fund I s properties.

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Pursuant to our joint venture agreement, we act as asset manager for Fund I and earn certain fees, including asset management fees, related to the properties we manage. Such fees totaled approximately $137,000 and $316,000 for the three and nine months ended September 30, 2006, respectively. In addition to these fees, after we and BBK are repaid our respective capital contributions plus a preferred return, we have the right to receive a promoted interest in Fund I based on performance. Although Fund I s day-to-day business affairs are managed by us, all major decisions are determined by both us and BBK.

Discontinued Operations

As of September 30, 2006, we determined that the potential sale of six properties to a third party was probable and classified those properties as held for sale in accordance with SFAS No. 144. See Note 9 for additional information.

Development Projects

Logistics Way

On September 12, 2006, we entered into a joint venture agreement with Logistics Way Investors Joint Venture (LWI), an unrelated third-party developer, to acquire approximately 36 acres of land and to develop a 570,000 rentable square foot distribution facility in the city of Nashville, Tennessee (Logistics Way). Pursuant to the joint venture agreement, LWI and we will provide approximately 5% and 95%, respectively, of the required equity capital to fund the development project and, during the quarter ended September 30, 2006, LWI and we contributed initial equity capital of approximately $0.2 million and $3.2 million, respectively. Both parties will receive a preferred return on their respective capital contributions. We have the right to purchase LWI s interest in the venture at fair market value any time after the later to occur of (i) stabilization of the project, and (ii) the date 12 months after completion of the project. LWI has the right to put their interest to us 18 months after shell completion at fair market value. We currently estimate that the building will be completed in April 2007 for a total estimated cost of approximately $22.1 million including land costs. Our investment in this joint venture is included in investments in and advances to unconsolidated joint ventures in the accompanying consolidated balance sheets.

Dulles Summit

On August 4, 2006, we entered into a joint venture agreement with SIP 8, L.P. (SIP), an unrelated third-party developer, to acquire approximately 50 acres of land, including 33 developable acres and 17 acres of un-developable wetlands in the city of Dulles Summit, Virginia (Dulles Summit). The joint venture will develop a total of six light industrial facilities in two phases aggregating approximately 456,000 rentable square feet, with each phase consisting of three buildings. Pursuant to the joint venture agreement, SIP and we will provide approximately 5% and 95%, respectively, of the required equity capital to fund the development project and, during the quarter ended September 30, 2006, SIP and we contributed initial equity capital of approximately $12.9 million and $0.6 million, respectively. Both parties will receive a preferred return on their respective capital contributions. We have the right to purchase SIP s interest in the venture at fair market value on a building by building basis, and SIP has the right to put their interest in the venture to us at fair value on a phase by phase basis, upon stabilization. We currently estimate that construction of phase I will begin during the second quarter of 2007 for a total estimated cost of approximately $24.3 million including land costs. This joint venture is consolidated and included in the accompanying consolidated balance sheets.

Sycamore Canyon

On April 20, 2006, we entered into a joint venture agreement with SycCanyonS JP/PI, LLC (SCS), an unrelated third-party developer, to acquire approximately 35 acres of land and to develop two warehouse buildings comprising approximately 900,000 rentable square feet in the City of Riverside, California (Sycamore Canyon). Pursuant to the joint venture agreement, SCS and we will provide approximately 10% and 90%, respectively, of the required equity capital, which is currently estimated to be approximately $4.0 million with respect to the first building, to fund the development project. Both parties will receive a preferred return on their respective capital contributions. We have the right to purchase SCS s interest in the venture at fair market value any time after the later to occur of (i) stabilization of the project, and (ii) the date 48 months after completion of the project. SCS has the right to put their interest to us 12 months after shell completion at fair market value. We currently estimate that

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the first building will be completed in January 2007 for a total estimated cost of approximately $23.2 million including land costs. Our investment in this joint venture is included in investments in and advances to unconsolidated joint ventures in the accompanying consolidated balance sheets.

Intangible Assets

Aggregate net amortization for intangible assets recognized pursuant to SFAS No. 141 in connection with property acquisitions (excluding assets and liabilities related to above and below market rents; see Note 1 for additional information) was approximately $9.0 million and $24.3 million for the three and nine months ended September 30, 2006, respectively, and $6.8 million and $15.4 million for the same periods in 2005, respectively. The following table describes the estimated net amortization of such intangible assets and liabilities for the next five years. In addition, the table describes the net increase (decrease) to rental revenues due to the amortization of above and below market rents for the next 5 years (in thousands):

For the 12 Months Ended September 30,	Estimated Net Amortization	Estimated Net Increase (Decrease) to Rental Revenues
2007	$ 32,436	$ (602)
2008	28,528	161
2009	20,855	181
2010	13,827	(23)
2011	9,037	414
Total	$ 104,683	$ 131

Note 3 Investments in and Advances to Unconsolidated Joint Ventures

We enter into joint ventures primarily for purposes of developing industrial real estate and to establish funds or other commingled investment vehicles with institutional partners. Our existing joint ventures do not qualify as VIEs pursuant to FIN No. 46(R). The following describes our unconsolidated joint ventures as of September 30, 2006 and December 31, 2005:

Unconsolidated Joint Ventures	Ownership Percentage	Number of Buildings	Rentable Square Feet	Net Equity Investment September 30, 2006	Net Equity Investment December 31, 2005
				(in thousands)	
Institutional Fund:					
DCT Fund I LLC	20%	6	2,647,192	$ 3,712	$
Developments:					
SouthCreek IV Distribution Facility	98%	1	556,800	6,177	5,937
Panattoni Investments	2.5%	3	2,086,698	251	153
Sycamore Canyon	90%	1	459,463	4,020	
Sumiden Building [(1)]	100%	1	55,000	2,401	
Logistics Way	95%	1	570,000	3,225	
Total		13	6,375,153	$ 19,786	$ 6,090

(1)

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

Note 4 Debt

As of September 30, 2006, the historical cost of all our consolidated properties, including properties held for sale, was approximately $2.9 billion and the historical cost of all properties securing our fixed rate mortgage debt and senior secured credit facility was approximately $1.2 billion and $99.4 million, respectively. Our debt has various covenants and we were in compliance with all of these covenants at September 30, 2006.

Debt Issuances

In June 2006, we issued, on a private basis, $275.0 million of senior unsecured notes requiring monthly interest-only payments at a variable interest rate of LIBOR plus 0.73% which mature in June 2008. In conjunction with this transaction, we entered into a $275.0 million swap to mitigate the effect of potential changes in LIBOR. See Note 5 for additional information regarding our hedging transactions. In April 2006, we issued, on a private basis, $50.0 million of senior unsecured notes with a fixed interest rate of 5.53% which mature in January 2011, and $50.0 million of senior unsecured notes with a fixed interest rate of 5.77% which mature in January 2016. The notes require quarterly interest-only payments until maturity at which time a lump sum payment is due. In January 2006, we issued, on a private basis, $50.0 million of senior unsecured notes requiring quarterly interest-only payments at a fixed interest rate of 5.68% which mature in January 2014. The proceeds from these note issuances were primarily used to fund acquisitions of properties.

Debt Assumptions

During the nine months ended September 30, 2006, we assumed secured notes of approximately $12.4 million in connection with three property acquisitions. These assumed notes bear interest at fixed and variable rates ranging from 5.79% to 7.48% and require monthly payments of either interest, or principal and interest. The maturity dates of the assumed notes range from August 2011 to April 2013. Pursuant to the application of SFAS No. 141, the difference between the fair value and face value of these assumed notes at the date of acquisition resulted in a premium of approximately $455,000, which is amortized to interest expense over the remaining life of the underlying notes.

For the three and nine months ended September 30, 2006, the amortization of such premiums resulted in a reduction of approximately $0.5 million and $1.5 million, respectively, of interest expense. For the three and nine months ended September 30, 2005, the amortization of such premiums resulted in a reduction of approximately $0.5 million and $0.9 million, respectively, of interest expense.

Lines of Credit

We have a $250.0 million senior unsecured revolving credit facility with a syndicated group of banks. The facility matures in December 2008 and has provisions to increase its total capacity to $400.0 million. At our election, the facility bears interest either at LIBOR plus between 0.875% and 1.375%, depending upon our consolidated leverage, or at prime and is subject to an annual 0.25% facility fee. The facility contains various covenants, including financial covenants with respect to consolidated leverage, net worth, unencumbered assets, interest and fixed charge coverage and secured debt to total asset value. As of September 30, 2006 and December 31, 2005, we were in compliance with all of these covenants. As of September 30, 2006, there was a $165.0 million outstanding balance under this facility and, as of December 31, 2005, there was no outstanding balance under this facility.

We also have a $40.0 million senior secured revolving credit facility pursuant to which a separate syndicated group of banks has agreed to advance funds to our operating partnership and third-party investors in our operating partnership s private placement using TIC Interests in our buildings as collateral. The facility matures in December 2008 and has provisions to increase its total capacity to $80.0 million. At our election, the facility bears interest either at LIBOR plus 1.80%, or at prime and is subject to an unused facility fee. The facility contains various covenants, including financial covenants with respect to consolidated leverage, net worth, interest and fixed charge coverage and secured debt to total asset value. As of September 30, 2006 and December 31, 2005 we were in compliance with all of these covenants. According to the terms of the facility, in addition to our borrowings, any loans made to third-party investors in our operating partnership s private placement reduce the total capacity available from this facility. In addition, the obligations of the borrowers under the facility are several but not joint.

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As of September 30, 2006 and December 31, 2005, approximately $26.4 million and $14.1 million, respectively, of loans had been advanced to such third parties and we had an outstanding balance of $12,000 and $16,000, respectively.

Amortization of Loan Costs

Our interest expense for the three and nine months ended September 30, 2006 includes $0.5 million and $1.3 million for the amortization of loan costs, respectively, and $0.7 million and $1.5 million for such amortization for the same periods in 2005, respectively.

Note 5 Hedging Activities

During the nine months ended September 30, 2006, we entered into forward-starting interest rate swaps to hedge our interest rate risk associated with anticipated fixed-rate debt issuances that are expected to occur during the period from 2007 through 2012. Additionally, during June 2006, we entered into an eight-month, LIBOR-based, forward-starting swap to mitigate the effect on cash outflows attributable to changes in LIBOR related to the $275.0 million variable rate, unsecured notes issuance in June 2006. See Note 4 for additional information regarding our debt issuances. These forward-starting interest rate swaps have been designated as cash flow hedges.

Unrealized losses of $15.4 million and $8.8 million were recorded during the three and nine months ended September 30, 2006, respectively, and unrealized gains of $4.0 million and unrealized losses of $0.1 million were recorded during the three and nine months ended September 30, 2005, respectively, to stockholders equity and other comprehensive loss as a result of the change in fair value of the outstanding hedges. There was no ineffectiveness measured for the three and nine months ended September 30, 2006. As a result of ineffectiveness due to the change in estimated timing of the anticipated debt issuances, approximately $72,000 was recorded as a realized loss during the three and nine months ended September 30, 2005. Losses resulting from hedging ineffectiveness are recorded as a reduction of interest income and other in our accompanying consolidated statements of operations.

As of September 30, 2006 and December 31, 2005, the accumulated other comprehensive loss balance pertaining to the hedges were losses of approximately $11.7 million and $2.8 million, respectively. Amounts reported in accumulated other comprehensive loss related to derivatives will be amortized to interest expense as interest payments are made on our current fixed-rate debt and anticipated debt issuances. During the next 12 months, we estimate that approximately $2.4 million will be amortized from other comprehensive loss to interest expense resulting in an increase in our interest expense.

Note 6 Public Offerings

Since December 2002, we have conducted four prior consecutive public offerings of our common stock on a continuous basis and raised approximately $1.4 billion of net proceeds. On January 23, 2006, we closed the primary offering component of our fourth continuous public offering, but we continued to offer shares pursuant to our distribution reinvestment plan through our 2006 third quarter distribution. During the nine months ended September 30, 2006, we raised approximately $174.4 million of net proceeds from the sale of our common stock and, for the nine months ended September 30, 2005, we raised approximately $419.7 million of net proceeds from the sale of our common stock.

Our prior continuous public offerings have been conducted pursuant to four registration statements filed with the SEC throughout this time period and were managed by our Former Dealer Manager (see Note 10 for additional information). Pursuant to the first two registration statements, we sold our common stock at a price of $10.00 per share and, pursuant to the third and fourth registration statements, we sold our common stock at a price of $10.50 per share.

As of September 30, 2006, approximately 150.6 million shares of common stock were issued and outstanding. The net proceeds from the sale of these securities were transferred to our operating partnership for a number of OP Units equal to the shares of common stock sold in our prior continuous public offerings. Our operating partnership has used these proceeds to fund the acquisition and development of our properties.

Note 7 Our Operating Partnership s Private Placement

Prior to October 10, 2006, our operating partnership offered TIC Interests in our properties to accredited investors in a private placement exempt from registration under the Securities Act of 1933, as amended, and, as of September 30, 2006, the historical cost of those properties included in our operating partnership s private placement was $266.7 million. These TIC Interests may have served as replacement properties for investors seeking to complete like-kind exchange transactions under Section 1031 of the Internal Revenue Code of 1986, as amended (the Code). Additionally, the TIC Interests sold to accredited investors are 100% leased by our operating partnership pursuant to master leases, and such leases contain purchase options whereby our operating partnership has the right, but not the obligation, to acquire the TIC Interests from the investors at a later point in time in exchange for OP Units in our operating partnership under Section 721 of the Code. On October 10, 2006, we discontinued our operating partnership s private placement of TIC Interests.

During the three and nine months ended September 30, 2006, we raised approximately $22.9 million and $121.3 million, respectively, from the sale of TIC Interests in two and fourteen buildings, respectively. During the same periods in 2005, we raised approximately $55.2 million and $91.5 million, respectively, from the sale of TIC Interests in our properties. The sales of the TIC Interests are included in financing obligations in the accompanying consolidated balance sheets pursuant to SFAS No. 98 *Accounting for Leases* (SFAS No. 98). We have leased back the TIC Interests sold to the unrelated third-party investors and, in accordance with SFAS No. 98, a portion of the rental payments made to such investors under the lease agreements are recognized as interest expense using the interest method.

During the three and nine months ended September 30, 2006, we incurred approximately $3.8 million and $10.1 million, respectively, of rental expense under various lease agreements with certain of the third-party investors. During the same periods in 2005, we incurred approximately $1.4 million and $3.0 million, respectively, of rental expense under various lease agreements with certain third-party investors. A portion of such amounts was accounted for as a reduction of the outstanding principal balance of the financing obligations and a portion was accounted for as interest expense in the accompanying consolidated financial statements. The various lease agreements in place as of September 30, 2006 contain expiration dates ranging from May 2020 to December 2025.

Our operating partnership paid certain up-front fees and reimbursed certain related expenses to our Former Advisor, our Former Dealer Manager and Dividend Capital Exchange Facilitators LLC (our Former Facilitator), an affiliate of our Former Advisor, for raising capital through our operating partnership s private placement. Our Former Advisor was obligated to pay all of the offering and marketing related costs associated with the private placement. However, our operating partnership was obligated to pay our Former Advisor a non-accountable expense allowance, which equaled 2% of the gross equity proceeds raised through the private placement. In addition, our operating partnership was obligated to pay our Former Dealer Manager a dealer manager fee of up to 1.5% of gross equity proceeds raised and a commission of up to 5% of the gross equity proceeds raised through the private placement. Our Former Dealer Manager has re-allowed such commissions and a portion of such dealer manager fee to participating broker dealers. Our operating partnership was also obligated to pay a transaction facilitation fee to our Former Facilitator of up to 1.5% of the gross equity proceeds raised through the private placement. We terminated these arrangements with our Former Dealer Manager and our Former Facilitator on October 10, 2006, in connection with the consummation of the Internalization.

During the three and nine months ended September 30, 2006, our operating partnership incurred up-front costs of approximately $2.3 million and $12.0 million, respectively, payable to our Former Advisor and other affiliates for effecting these transactions which are accounted for as deferred loan costs. During the same periods in 2005, our operating partnership incurred up-front costs of approximately $3.5 million and $6.6 million, respectively. Such deferred loan costs are included in other assets in the accompanying consolidated balance sheets and amortized to interest expense over the life of the financing obligation. If our operating partnership elects to exercise any purchase option as described above and issue OP Units, the unamortized portion of up-front fees and expense reimbursements paid to affiliates will be recorded against minority interests as a selling cost of the OP Units. If our operating partnership does not elect to exercise any such purchase option, we will not meet the standards set forth in SFAS No. 98 in order to recognize the sale of such TIC Interests.

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During the nine months ended September 30, 2006, our operating partnership exercised purchase options to buy certain TIC Interests it had previously sold in four industrial properties. The following table sets forth certain details regarding these transactions (in thousands):

Exercise Date	Property	Market	OP Units Issued (1)	Total Value (2)
March 22, 2006	Plainfield I	Indianapolis	1,312	$ 13,777
June 30, 2006	6280 Best Friend Road	Atlanta	823	8,640
August 11, 2006	6575 Jimmy Carter Blvd.	Atlanta	475	4,992
September 15, 2006	Riverport	Louisville	716	7,517
Total			3,326	$ 34,926

(1) Holders of OP Units have substantially the same economic interest as our common stockholders (see Note 8 for additional information).

(2) Reflects the value of OP Units issued in connection with the exercise of purchase options to acquire the TIC Interests based on the selling price of our common stock at the time of the exercise of the option.

Note 8 Minority Interests

Minority interests consisted of the following as of September 30, 2006 and December 31, 2005 (in thousands):

	September 30, 2006	December 31, 2005
Special Units	$ 1	$ 1
OP Units:		
Net investment	47,091	16,149
Distributions	(1,784)	(303)
Share of cumulative net loss	(346)	(49)
Sub-total	44,961	15,797
Cabot limited partnership interests:		
Net investment	40,314	40,314
Distributions	(1,325)	(338)
Share of cumulative net loss	(765)	(477)
Limited partnership interests acquired	(38,224)	
Sub-total		39,499
Cabot non-voting common stock:		
Net investment	63	63
Distributions	(1)	
Share of cumulative net loss	(1)	
Sub-total	61	63
Veterans Parkway membership interest:		
Net investment	1,424	217

Total	$ 46,447	$ 55,577

Special Units

During 2002, our operating partnership issued 10,000 Special Units to DCAG for consideration of $1,000. The holder of the Special Units did not participate in the profits and losses of our operating partnership. Amounts distributable to the holder of the Special Units depended on operations and the amount of net sales proceeds received from property dispositions or upon other events. In general, after holders of regular OP Units in aggregate received cumulative distributions equal to their capital contributions plus a 7% cumulative non-compounded annual pre-tax return on their net contributions, the holder of the Special Units and the holders of regular OP Units received 15% and 85%, respectively, of the net sales proceeds received by our operating partnership upon the disposition of our operating partnership s assets. On October 10, 2006, in connection with the Internalization, the 10,000 Special Units were modified into 7,111,111 regular OP Units, which were included in the aggregate consideration of 15,111,111 OP Units related to the Internalization (see Note 14 for additional information).

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OP Units

At September 30, 2006 and December 31, 2005, we owned approximately 97% and 99%, respectively, of the outstanding equity interests of our operating partnership and the remaining equity interest in our operating partnership, other than the Special Units, was owned by third-party investors and our Former Advisor. After a period of one year, OP Units are redeemable at the option of the unitholder. We have the option of redeeming the OP Units with cash or with shares of our common stock on a one-for-one basis, subject to adjustment. At inception (April 12, 2002), our operating partnership issued 20,000 OP Units to our Former Advisor for gross proceeds of $200,000, which currently represents less than a 0.1% ownership interest in our operating partnership. In addition, as of September 30, 2006 and December 31, 2005, we had issued approximately 5.1 million and 1.7 million OP Units, respectively, to unrelated third-party investors in connection with our operating partnership s private placement (see Note 7 for additional information). On October 10, 2006, in connection with the Internalization, our operating partnership acquired our Former Advisor from DCAG for an aggregate of 15,111,111 OP Units (see Note 14 for additional information).

Cabot Limited Partnership Interests

On July 21, 2005, we completed a merger and acquired all of the outstanding common stock of Cabot Industrial Value Fund, Inc. (Cabot). Through our ownership of Cabot, we initially acquired an approximate 87% interest in Cabot Industrial Value Fund, LP (the Cabot Partnership), which, as of December 31, 2005, owned a portfolio of 104 properties with a total historical cost of approximately $654.5 million located in 12 markets throughout the United States and had approximately $308.8 million of mortgage debt outstanding. Pursuant to the Cabot merger, the third-party investors that were limited partners in the Cabot Partnership prior to the Cabot merger remained limited partners after the merger. Contemporaneously with the merger, we entered into a Put/Call Agreement whereby we had the option to acquire the limited partners remaining interests in the Cabot Partnership. Under this agreement, the remaining limited partners had an initial option to put the remaining interests to us beginning April 1, 2006 and ending July 1, 2006 and we had an initial option to call the remaining interests beginning April 1, 2007 and ending July 1, 2007. On April 1, 2006, the limited partners exercised their put option, and on April 21, 2006 we purchased the remaining interests from the limited partners for cash of approximately $40.4 million. Income and losses of the Cabot Partnership prior to April 21, 2006 were allocated pro rata based on the partners ownership interests.

Cabot Non-Voting Common Stock

In August 2005, our Former Advisor and its affiliates acquired 126 shares of Cabot s non-voting common stock for a purchase price of $500 each or $63,000 in the aggregate. Our Former Advisor purchased these shares on behalf of its employees and other affiliates and the proceeds from the sale of these non-voting common shares were used to invest in the Cabot Partnership. Collectively, as of September 30, 2006 and December 31, 2005, these non-voting shares of common stock represent less than a 0.1% ownership of Cabot at each date, and the holders of these shares will participate in the distributions of Cabot, which are based on the performance of the Cabot portfolio of properties, in proportion to their respective ownership percentages.

Veterans Parkway Membership Interest

On October 20, 2005, we purchased a shell-complete building comprising approximately 189,000 rentable square feet and a pad-ready land parcel located in Chicago, Illinois from a developer and entered into a related joint venture. We contributed approximately 95% of the equity capital to the joint venture and the developer contributed the remaining equity capital of approximately 5%. Both parties will receive a preferred return on their respective capital contributions and, after the parties are repaid their capital contributions plus their preferred returns from the joint venture, the developer will be entitled to a promoted interest on any excess earnings.

Note 9 Discontinued Operations and Assets Held for Sale

In accordance with SFAS No. 144, we report results of operations from real estate assets that meet the definition of a component of an entity and have been sold, or meet the criteria to be classified as held for sale, as discontinued operations. We included all results of these discontinued operations in a separate component of income on the consolidated statements of operations under the heading Income (Loss) From Discontinued Operations. This treatment resulted in certain reclassifications of 2005 financial statement amounts.

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At September 30, 2006, we had six properties with an aggregate of 567,441 rentable square feet classified as held for sale. For the three and nine months ended September 30, 2006 and 2005, discontinued operations included the results of operations of these properties.

The following is a summary of the components of income (loss) from discontinued operations for the three and nine months ended September 30, 2006 and 2005 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	**2005**	**2006**	**2005**
Rental revenues	$ 1,146	$ 700	$ 3,319	$ 1,932
Rental expenses and real estate taxes	(398)	(272)	(1,252)	(834)
Real estate depreciation and amortization	(422)	(534)	(1,568)	(1,366)
Operating income	326	(106)	499	(268)
Interest expense	(133)	(105)	(399)	(105)
Income (loss) before minority interests	193	(211)	100	(373)
Minority interests	(5)	28	25	28
Income (loss) from discontinued operations	$ 188	$ (183)	$ 125	$ (345)

As of September 30, 2006, the properties held for sale under the provisions of SFAS No. 144 and related mortgage debt balances were as follows (in thousands):

	September 30, 2006
Net investment in properties held for sale	$ 38,942
Other assets held for sale	773
Total assets held for sale	$ 39,715
Mortgage notes related to assets held for sale	$ 10,320
Other liabilities held for sale	762
Liabilities related to assets held for sale	$ 11,082

Note 10 Related Party Transactions

Our Former Advisor

Through September 30, 2006, our day-to-day activities were managed by our Former Advisor, an affiliate, under the supervision of our board of directors pursuant to the terms and conditions of an advisory agreement. As a result of the Internalization, on October 10, 2006, our Former Advisor became our wholly-owned subsidiary and we no longer bear the cost of the advisory fees and other amounts payable under the advisory agreement (see the additional description of the Internalization in Note 14).

Prior to the Internalization, our Former Advisor was considered a related party as it was indirectly majority owned and/or controlled by Tom Wattles (our Executive Chairman and director), Evan Zucker (our former Chief Executive Officer, President and Secretary and a former director, who resigned from such positions upon the consummation of the Internalization) and James Mulvihill (our former Treasurer and Chief Financial Officer, who resigned from such positions upon the consummation of the Internalization, but who remains a director).

The responsibilities of our Former Advisor included the selection of our investment properties, the negotiations for these investments and the property management and leasing of these properties. Pursuant to the advisory agreement, we paid certain acquisition and asset management fees to our Former Advisor. The amount of such acquisition fees was equal to 1% of the aggregate purchase price of all properties we acquired. During the three and nine months ended September 30, 2006, our Former Advisor earned approximately $0.4 million and $10.6 million, respectively, for acquisition fees which were accounted for as part of the historical cost of the acquired properties and, during the three and nine months ended September 30, 2005, our Former Advisor earned approximately $6.4 million and $9.2 million, respectively, for such fees.

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Additionally, we paid our Former Advisor an asset management fee equal to 0.75% per annum of the total undepreciated cost of the properties we owned in excess of $170 million. During the three and nine months ended September 30, 2006, we incurred asset management fees of $5.1 million and $12.9 million, respectively. During the three and nine months ended September 30, 2005, we incurred asset management fees of $2.9 million and $5.6 million, respectively.

Pursuant to the advisory agreement, our Former Advisor was obligated to advance all of our offering costs subject to its right to be reimbursed for such costs by us in an amount up to 2% of the aggregate gross offering proceeds raised in our prior continuous public offerings of common stock. Such offering costs included, but were not limited to, actual legal, accounting, printing and other expenses attributable to preparing the SEC registration statements, qualification of the shares for sale in the states and filing fees incurred by our Former Advisor, as well as reimbursements for marketing, salaries and direct expenses of its employees while engaged in registering and marketing the shares, other than selling commissions and the dealer manager fee.

During the three and nine months ended September 30, 2006, our Former Advisor incurred approximately $0.1 million and $1.5 million, respectively, of offering costs and, during the same periods, we reimbursed our Former Advisor approximately $0.1 million and $2.0 million, respectively, for such costs, which included unreimbursed costs from prior periods. For the three and nine months ended September 30, 2005, our Former Advisor incurred approximately $2.4 million and $6.3 million, respectively, of offering costs and, during the same periods, we reimbursed our Former Advisor approximately $3.1 million and $9.0 million, respectively, for such costs, which included unreimbursed costs from prior periods. These costs were considered a cost of raising capital and as such, were included as a reduction of additional paid-in capital on the accompanying balance sheets when such reimbursement obligations were incurred. We closed the primary offering component of our fourth continuous public offering on January 23, 2006, and as of September 30, 2006, we had reimbursed our Former Advisor for all of the then existing unreimbursed offering costs.

Our Former Advisor was obligated to pay all of the offering and marketing related costs associated with our operating partnership s private placement. However, our operating partnership was obligated to pay our Former Advisor a non-accountable expense allowance which equaled 2% of the gross equity proceeds raised through our operating partnership s private placement. During the three and nine months ended September 30, 2006, our operating partnership incurred approximately $0.5 million and $2.4 million, respectively, payable to our Former Advisor for such expense allowance. During the three and nine months ended September 30, 2005, our operating partnership incurred approximately $0.7 million and $1.3 million, respectively, payable to our Former Advisor for such expense allowance.

In accordance with the advisory agreement we were obligated, subject to certain limitations, to reimburse our Former Advisor for certain other expenses incurred on our behalf for providing services contemplated in the advisory agreement, provided that our Former Advisor did not receive a specific fee for the activities which generated the expenses to be reimbursed. For the three and nine months ended September 30, 2006, we reimbursed approximately $0.3 million and $0.8 million, respectively, for such costs. For the three and nine months ended September 30, 2005, we reimbursed approximately $0.1 million and $0.3 million, respectively, for such costs.

As of September 30, 2006, we owed our Former Advisor approximately $2.2 million for various fees and reimbursements as described above, which was included in accounts payable and accrued expenses on the accompanying consolidated balance sheets. As of December 31, 2005, we owed our Former Advisor approximately $0.6 million for various fees and reimbursements as described above, which was included in accounts payable and accrued expenses on the accompanying consolidated balance sheets.

Our Former Dealer Manager

Our prior continuous public offerings of shares of common stock and our operating partnership s private placement were managed by our Former Dealer Manager pursuant to the terms of certain dealer manager agreements. We terminated these dealer manager agreements on October 10, 2006 in connection with the consummation of the Internalization. Our Former Dealer Manager is owned by Dividend Capital Securities Group LLLP, in which Tom Wattles, Evan Zucker and James Mulvihill and their affiliates indirectly own limited partnership interests.

We previously entered into a dealer manager agreement with our Former Dealer Manager pursuant to which we paid a dealer manager fee of up to 2.0% of gross offering proceeds raised pursuant to our prior continuous public offerings of common stock to our Former Dealer Manager as compensation for managing such offerings. Our Former Dealer Manager had discretionary authority to re-allow a portion of such fees to broker-dealers who participated in an offering. We also paid up to a 6% sales commission of gross offering proceeds raised pursuant to our prior continuous public offerings of common stock. For the three and nine months ended September 30, 2006, we incurred no such costs and approximately $11.0 million, respectively, payable to our Former Dealer Manager for dealer manager fees and sales commissions. For the three and nine months ended September 30, 2005, we incurred approximately $11.6 million and $34.2 million, respectively, payable to our Former Dealer Manager for dealer manager fees and sales commissions. As of September 30, 2006, all sales commissions had been re-allowed to participating broker-dealers. Such amounts are considered a cost of raising capital and as such were included as a reduction of additional paid-in capital on the accompanying consolidated balance sheets. We terminated this dealer manager agreement on October 10, 2006, in connection with the consummation of the Internalization.

Pursuant to our first and second continuous public offerings, our Former Dealer Manager earned one soliciting dealer warrant for every 25 shares sold. The holder of a soliciting dealer warrant has the right to purchase one share of common stock for $12.00. In September 2005, our board of directors approved and we issued approximately 2.2 million soliciting dealer warrants to our Former Dealer Manager representing all of the warrants our Former Dealer Manager earned in connection with our first and second continuous public offerings. We valued these warrants using the Black-Scholes option-pricing model, and based on our historical volatility, these warrants had a nominal value. No warrants were offered in our third or fourth continuous public offerings. During the nine months ended September 30, 2006 and 2005, our Former Dealer Manager did not earn any soliciting dealer warrants as all shares sold during these periods were in connection with our third and fourth continuous public offerings.

We also previously entered into a dealer manager agreement with our Former Dealer Manager pursuant to which we paid a dealer manager fee of up to 1.5% of the gross equity proceeds raised through our operating partnership s private placement. We also have paid our Former Dealer Manager a sales commission of up to 5.0% of the gross equity proceeds raised through our operating partnership s private placement. For the three and nine months ended September 30, 2006, we incurred up-front fees of approximately $1.5 million and $7.7 million, respectively, payable to our Former Dealer Manager for dealer manager fees and sales commissions. For the three and nine months ended September 30, 2005, we incurred up-front fees of approximately $2.3 million and $4.3 million, respectively, payable to our Former Dealer Manager for dealer manager fees and sales commissions. As of September 30, 2006, substantially all of the sales commissions were re-allowed to participating broker-dealers who are responsible for affecting sales. Such amounts were included in deferred loan costs on the accompanying consolidated balance sheets. We terminated this dealer manager agreement on October 10, 2006 in connection with the consummation of the Internalization.

As of September 30, 2006 and December 31, 2005, we owed our Former Dealer Manager approximately $0.1 million and $1.4 million, respectively, in relation to the fees described above which were included in other liabilities on the accompanying consolidated balance sheets.

Our Former Facilitator

Our Former Facilitator has been responsible for the facilitation of transactions associated with our operating partnership s private placement. We terminated our arrangements with our Former Facilitator, including the agreement described below, on October 10, 2006 in connection with the consummation of the Internalization. Our Former Facilitator was considered a related party as it is indirectly majority owned and/or controlled by Tom Wattles, Evan Zucker and James Mulvihill and their affiliates.

We previously entered into an agreement with our Former Facilitator whereby we paid a transaction facilitation fee associated with our operating partnership s private placement. We paid our Former Facilitator up to 1.5% of the gross equity proceeds raised through our operating partnership s private placement for transaction facilitation. For the three and nine months ended September 30, 2006, we incurred approximately $0.3 million and $1.8 million, respectively, payable to our Former Facilitator for such fees. For the three and nine months ended September 30, 2005, we incurred approximately $0.5 million and $1.0 million, respectively, payable to our Former Facilitator for such fees. In accordance with SFAS No. 98, these fees, as well as the other fees associated with our operating partnership s private placement, were recorded as deferred loan costs and amortized over the life of the financing obligation (see Note 7 for additional information).

Internalization

On July 21, 2006, we entered a contribution agreement with our operating partnership and DCAG to acquire our Former Advisor for an aggregate of 15,111,111 OP Units. The Internalization was consummated on October 10, 2006 (see Note 14 for additional information).

Some of our directors and officers had material financial interests in the Internalization. In particular, prior to the consummation of the Internalization, Tom Wattles, Evan Zucker, James Mulvihill, Jim Cochran, Daryl Mechem, Matt Murphy and Michael Ruen were also employees of, or consultants to, our Former Advisor or its affiliates. Moreover, Mr. Wattles has indirect beneficial ownership and control with his spouse of a 12.825% membership interest in DCAG and is entitled to receive 8.084% of the net cash flows of DCAG, which we refer to as a "cash flow interest;" Mr. Zucker has indirect beneficial ownership and control with his spouse of a 23.014% membership interest in DCAG and a 12.280% cash flow interest; and Mr. Mulvihill has indirect beneficial ownership and control with his spouse of a 23.014% membership interest in DCAG and a 12.280% cash flow interest. Furthermore, Messrs. Cochran, Mechem, Murphy and Ruen, pursuant to certain contractual arrangements, have an aggregate 9.987% cash flow interest in DCAG.

In addition, in connection with the Internalization, we entered into employment agreements with Tom Wattles, Jim Cochran, Daryl Mechem, Matt Murphy and Michael Ruen on July 21, 2006, an employment agreement with Phil Hawkins on August 14, 2006 and an employment agreement with Stuart Brown on September 18, 2006. The employment agreements provide for these individuals to serve as our executive officers and became effective on October 10, 2006. Furthermore, we entered into certain additional agreements on October 10, 2006 with affiliates of DCAG (see Note 14 for additional information).

Note 11 Stock Option Plans and Warrant Purchase Agreements

Stock Option Plans

In connection with the Internalization, on October 10, 2006, we adopted, and our stockholders approved, our Long-Term Incentive Plan and our 2006 Incentive Compensation Plan (see Note 14 for additional information). We intend to use our Long-Term Incentive Plan to grant restricted stock, stock options and other equity awards to our eligible employees in the future.

Employee Option Plan

Prior to the Internalization, we adopted the Employee Option Plan, which was designed to enable us, our Former Advisor and its affiliates to obtain or retain the services of employees (not to include our directors) of our Former Advisor and its affiliates considered essential to our long-term success and the success of our Former Advisor and its affiliates by offering such employees an opportunity to participate in our growth through ownership of our shares. The Employee Option Plan was administered by our compensation committee, which was authorized to grant non-qualified stock options (the Employee Options) to certain employees of our Former Advisor and its affiliates. The compensation committee set the exercise price for the Employee Options in its discretion, which could not be less than the greater of (1) $11.00 per share or (2) the fair market value of the shares on the date the Employee Option was granted. A total of 750,000 shares were authorized and reserved for issuance under the Employee Option Plan. The compensation committee set the term of Employee Options in its discretion, which could not exceed the later of five years from the date of grant or five years from the date of a listing of our common stock. Our compensation committee set the period during which the right to exercise an Employee Option fully

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vests at three years from the date of grant. During the nine months ended September 30, 2006, we granted 251,000 options pursuant to this plan. As of September 30, 2006 and December 31, 2005, there were approximately 341,000 and 107,500 options outstanding under the Employee Option Plan, respectively, with a weighted average exercise price of $11.00. As of September 30, 2006 and December 31, 2005, approximately 33,333 and no such options were vested, respectively. As of September 30, 2006, no such options had been exercised and 17,500 had been forfeited. As of October 10, 2006, no further grants will be made under this plan.

During the nine months ended September 30, 2006, options issued under the Employee Option Plan were valued using Black-Scholes with the following assumptions: expected dividend yield of 6.10%, risk-free interest rate of 4.01%, volatility factor of 19.19% and an expected life of six years. The value of the options granted under the Employee Option Plan on the date of grant during the nine months ended September 30, 2006 was approximately $159,000. There were no employee options granted during the nine months ended September 30, 2005.

Independent Director Option Plan

Prior to the Internalization, we adopted the Independent Director Option Plan, which we used in an effort to attract and retain qualified independent directors. Previously, we granted non-qualified stock options to purchase 10,000 shares to each independent director pursuant to the Independent Director Option Plan effective upon the later of (1) the sale of 200,000 shares in our first continuous public offering, and (2) the independent director becoming a member of our board of directors. Such options vest 20% upon grant date and 20% each year for the following four years and have an exercise price of $12.00 per share. In addition, we previously issued options to purchase 5,000 shares to each independent director then in office on the date of each annual stockholder s meeting and these options vest 100% upon the second anniversary from the grant date and have an exercise price equal to the greater of (1) $12.00 per share or (2) the fair market value of the shares on the date they are granted. A total of 300,000 shares are authorized and reserved for issuance under the Independent Director Option Plan. Options granted under the Independent Director Option Plan shall lapse on the first to occur of (1) the tenth anniversary of the date we grant them, (2) the removal the independent director for cause, or (3) three months following the date the independent director ceases to be a director for any reason, other than death or disability. As of September 30, 2006 and December 31, 2005, we had 60,000 and 90,000 options outstanding, respectively, under the Independent Director Stock Option Plan, of which 32,000 and 26,000 were vested, respectively. As of September 30, 2006, no such options had been exercised and 40,000 options had been forfeited. As of October 10, 2006, no further grants will be made under this plan.

During the nine months ended September 30, 2006, options issued under the Independent Director Option Plan were valued using Black-Scholes with the following assumptions: an expected dividend yield of 6.10%, a risk-free interest rate of 4.01%, a volatility factor of 19.22% and an expected life of six years. The value of options granted under the Independent Director Option Plan on the date of grant during the nine months ended September 30, 2006 was approximately $5,651. During the nine months ended September 30, 2005, options issued under the Independent Director Option Plan were valued using Black-Scholes with the following assumptions: an expected dividend yield of 6.10%, a risk-free interest rate ranging from 4.01% to 4.19%, a volatility factor ranging from 19.17% to 20.01% and an expected life ranging from six to ten years. The value of options granted under the Independent Director Option Plan on the date of grant during the nine months ended September 30, 2005 was approximately $16,000.

Options granted under both the Employee Option Plan and the Independent Director Option Plan are valued using the Black-Scholes option-pricing model and are amortized to salary expense on a straight-line basis over the period during which the right to exercise such options fully vests. For the three and nine months ended September 30, 2006, we incurred approximately $20,000 and $52,000, respectively, of such expense which is included in general and administrative expense on the accompanying consolidated statements of operations. For the three and nine months ended September 30, 2005, we incurred approximately $12,000 and $25,000, respectively, of such expense which is included in general and administrative expense on the accompanying consolidated statements of operations. As of September 30, 2006, approximately $155,000 of such expense remained unrecognized which reflects the unamortized portion of the value of such options issued pursuant to the Employee Option Plan and the Independent Director Option Plan. We expect to recognize such expense over a weighted average period of 2.2 years.

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The following table describes the total option grants, exercises, expirations and forfeitures that occurred during the nine months ended September 30, 2006, as well as the total options outstanding as of December 31, 2005 and September 30, 2006 and the total options exercisable as of September 30, 2006.

	Independent Director Options	Employee Options	Weighted Average Option Price Per Share	Weighted Average Remaining Contractual Life (Years)
Issued and Outstanding at December 31, 2005	70,000	107,500	$ 11.39	
Grants	10,000	251,000	11.04	
Exercises				
Expirations				
Forfeitures	(20,000)	(17,500)	11.53	
Issued and Outstanding at September 30, 2006	60,000	341,000	$ 11.15	8.87
Exercisable at September 30, 2006	32,000	33,333	$ 11.49	8.77

Collectively, the options outstanding pursuant to our Independent Director Option Plan and our Employee Option Plan had a weighted average per option value as of September 30, 2006 and December 31, 2005 of $0.65 and $0.56, respectively.

Warrant Purchase Agreements

Pursuant to our first and second continuous public offerings, our Former Dealer Manager earned one soliciting dealer warrant for every 25 shares of common stock sold (see Note 10 for additional information). These warrants, as well as the shares issuable upon their exercise, were registered in connection with our first and second continuous public offerings. In September 2005, our board of directors approved and we issued approximately 2.2 million soliciting dealer warrants to our Former Dealer Manager representing all of the warrants our Former Dealer Manager earned in connection with both of the aforementioned offerings. We valued these warrants using the Black-Scholes option-pricing model, and based on our historical volatility, these warrants had a nominal value. Our Former Dealer Manager may retain or re-allow these warrants to broker-dealers that participated in the offering unless such issuance of soliciting dealer warrants is prohibited by either federal or state securities laws. As of September 30, 2006, 139,341 of these warrants had been re-allowed to participating broker-dealers. The holder of a soliciting dealer warrant is entitled to purchase one share of common stock from us at a price of $12.00 per share beginning on the first anniversary of the effective date of the offering in which such warrants were issued and ending five years after the effective date of such offering. Subject to certain exceptions, a soliciting dealer warrant may not be transferred, assigned, pledged or hypothecated for a period of one year following the effective date of the relevant public offering. Exercise of the soliciting dealer warrants is governed by the terms and conditions detailed in the warrant purchase agreement.

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Note 12 Net Loss per Common Share

We determine basic net loss per common share by dividing net income attributable to common stockholders by the weighted average number of shares of common stock outstanding during the period. We determine diluted net loss per common share by taking into account the effects of potentially issuable common stock, but only if the issuance of stock would be dilutive, including the presumed exchange of OP Units for shares of common stock. The following table sets forth the computation of our basic and diluted net loss per common share (in thousands except per share information):

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Numerator				
Loss From Continuing Operations	$ (10,353)	$ (6,015)	$ (9,981)	$ (7,686)
Unitholders share of net income (1)				
Numerator for basic and diluted earnings per share Adjusted loss from continuing operations	$ (10,353)	$ (6,015)	$ (9,981)	$ (7,686)
Income (Loss) From Discontinued Operations	$ 188	$ (183)	$ 125	$ (345)
Net Loss	$ (10,165)	$ (6,198)	$ (9,856)	$ (8,031)
Denominator				
Weighted average common shares outstanding Basic	150,725	104,224	148,731	89,147
Incremental weighted average effect of conversion of OP Units				
Weighted average common shares outstanding Diluted	150,725	104,224	148,731	89,147
Net Loss per Common Share Basic and Diluted				
Loss From Continuing Operations	$ (0.07)	$ (0.06)	$ (0.07)	$ (0.09)
Income (Loss) From Discontinued Operations	0.00	0.00	0.00	0.00
Net Loss	$ (0.07)	$ (0.06)	$ (0.07)	$ (0.09)

(1) For all periods presented with earnings subject to dilution, dilutive securities only included OP Units in our operating partnership, which are redeemable for cash or, at our option, for shares of our common stock (see Note 8 for additional information).

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Note 13 Segment Information

We consider each operating property to be an individual operating segment that has similar economic characteristics with all our other operating properties and we aggregate our operating segments into reportable segments based upon the property type. Prior to the quarter ended September 30, 2006, our management evaluated rental revenues and property net operating income aggregated by geographic location, or market, to analyze performance. During the quarter ended September 30, 2006, our management concluded that rental revenues and property net operating income aggregated by property type was a more appropriate way to analyze performance. Certain reclassifications have been made to 2005 amounts to conform to the 2006 presentation. The following table sets forth the rental revenues and property net operating income of our property type segments in continuing operations for the three and nine months ended September 30, 2006 and 2005 (in thousands).

	Three Months Ended				Nine Months Ended			
	Rental Revenues		NOI (1)		Rental Revenues		NOI (1)	
	2006	2005	2006	2005	2006	2005	2006	2005
Bulk industrial (2)	$ 47,542	$ 27,462	$ 36,650	$ 21,502	$ 122,768	$ 61,418	$ 95,842	$ 47,982
Light industrial and other	14,319	8,472	10,152	6,167	35,312	19,922	25,646	15,477
Total	$ 61,861	$ 35,934	$ 46,802	$ 27,669	$ 158,080	$ 81,340	$ 121,488	$ 63,459

(1) Net operating income (NOI) is defined as rental revenues, including reimbursements, less rental expenses and real estate taxes, which excludes depreciation, amortization, general and administrative expense and interest expense.

(2) Prior year results reflect properties that were contributed into Fund I during the first quarter of 2006. See additional information in Note 2.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Property NOI	$ 46,802	$ 27,669	$ 121,488	$ 63,459
Institutional capital management and other fees	220		398	
Equity in losses of unconsolidated joint ventures, net	(72)		(254)	
Gain (loss) on dispositions of real estate interests	(482)		7,550	
Interest income and other	482	629	5,004	2,216
Real estate depreciation and amortization	(30,232)	(21,062)	(81,196)	(47,430)
Interest expense	(20,517)	(9,708)	(46,687)	(18,253)
General and administrative expense	(1,757)	(865)	(3,939)	(2,294)
Asset management fees, related party	(5,092)	(2,937)	(12,907)	(5,640)
Minority interests	295	259	562	256
Loss from Continuing Operations	**$ (10,353)**	**$ (6,015)**	**$ (9,981)**	**$ (7,686)**

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

	September 30, 2006	December 31, 2005
Property type segments continuing operations:		
Bulk industrial	$ 2,038,643	$ 1,482,099
Light industrial and other	671,926	445,592
Total segment net assets of continuing operations	2,710,569	1,927,691
Assets held for sale	39,715	
Non-segment assets:		
Non-segment cash and cash equivalents	3,000	84,770
Other non-segment assets (1)	66,370	45,234
Total assets	**$ 2,819,654**	**$ 2,057,695**

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

Note 14 Subsequent Events

Potential Public Offering of Common Stock

On October 19, 2006, we filed a registration statement on Form S-11 with the SEC in connection with our proposed sale of up to $175.0 million of common stock (the Potential Offering). We intend to apply to have our common stock listed on the New York Stock Exchange (the NYSE) in connection with the Potential Offering. Currently, no public market exists for our shares and therefore the Potential Offering will be our first listed public offering.

Internalization of our Former Advisor

On July 21, 2006, we entered into a contribution agreement (the Contribution Agreement) with our operating partnership and DCAG. On October 10, 2006, pursuant to the Contribution Agreement, our operating partnership acquired our Former Advisor from DCAG for an aggregate of 15,111,111 OP Units, which included the modification of the Special Units (which are described in Note 8) held by DCAG into 7,111,111 OP Units. In connection with the Internalization, our Former Advisor became a wholly-owned subsidiary of our operating partnership, and certain employees of, or consultants to, our Former Advisor or its affiliates became our employees. As a result of these transactions, we have become a self-administered and self-advised REIT.

We also entered into several related agreements in connection with the Internalization including:

- a pledge and security agreement whereby DCAG pledged the OP Units received as consideration in the Internalization and certain other assets for certain periods to secure its indemnification obligations to us under the Contribution Agreement;

- a registration rights agreement whereby we granted registration rights to DCAG and its permitted transferees in respect of any shares of our common stock issued in exchange for the OP Units issued in the Internalization;

- a non-competition agreement with each of Evan Zucker, our former Chief Executive Officer, President, Secretary and a former director, and James Mulvihill, our former Chief Financial Officer and Treasurer and a current director.

a license agreement with an affiliate of DCAG granting us the right to continue to use the Dividend Capital name without payment of any fees for one year;

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a transition services agreement with DCAG whereby we receive enumerated services, including IT services, human resources, payroll and accounts payable services, necessary to operate our business for a one-year period; and

a joint venture agreement with Dividend Capital Total Realty Trust Inc. (DCTRT), a Maryland corporation which qualifies as a REIT for U.S. federal income tax purposes and which is externally advised by an affiliate of DCAG, and a wholly-owned subsidiary of DCTRT, which established a series of joint ventures that, subject to certain exceptions and conditions, will be the exclusive vehicles used by DCTRT and such subsidiary to invest in industrial real estate assets in our current major markets through the end of 2008.

Moreover, we terminated the dealer manager agreements with our Former Dealer Manager relating to our prior continuous public offerings of common stock and our operating partnership s private placement and the agreement with our Former Facilitator relating to our operating partnership s private placement.

Additionally, upon consummation of the Internalization, Phil Hawkins became our Chief Executive Officer and a director, Stuart Brown became our Chief Financial Officer and Jim Cochran became our President. Simultaneously, Evan Zucker resigned as our Chief Executive Officer, President, Secretary and director and James Mulvihill resigned as our Chief Financial Officer and Treasurer, but remains a director.

Certain of our directors and officers had material financial interests in the Internalization. To address these potential conflicts of interest, a special committee of our board of directors comprised of all of our independent directors was formed to review, consider and negotiate the terms and conditions of the Internalization and to make a recommendation to our entire board regarding the transaction. The special committee engaged and consulted with its own legal and financial advisors.

In connection with the Internalization, our stockholders approved an amendment and restatement of our charter that will become effective upon the closing of the Potential Offering discussed above. The purpose of this amendment is to conform our charter more closely with the charters of other companies that qualify as REITs for U.S. federal income tax purposes and whose securities are publicly traded and listed on the NYSE.

In addition, we adopted, and our stockholders approved, our Long-Term Incentive Plan and our 2006 Incentive Compensation Plan. These plans were established by our board of directors, which worked with its legal advisors and with employment compensation consultants to survey and study the market compensation ranges of our competitors, were approved by our stockholders and are designed to help us to attract, retain and motivate highly qualified individuals and more directly align the interests of our management with those of our stockholders.

DCTRT Joint Ventures

We have entered into strategic relationship with DCTRT whereby we have and anticipate continuing to enter into joint ventures with DCTRT and/or its affiliates to serve as the exclusive vehicles through which DCTRT will acquire industrial real estate assets in certain major markets in which we currently operate until the end of 2008. The exclusivity provisions will remain in effect so long as we introduce a certain minimum amount of potential acquisition opportunities within a specified time frame for each joint venture. In the event that (and only for so long as) these exclusivity provisions are not in effect for any reason prior to the end of 2008, Evan Zucker, our former Chief Executive Officer, President, Secretary and director, and James Mulvihill, our former Chief Financial Officer and Treasurer and a current director of our company, will be prohibited under their respective non-competition agreements with us from directly or indirectly participating in certain activities in respect of industrial real estate on behalf of either DCTRT or other related entities.

We will act as the managing member of the entities created under these joint venture agreements, subject to the approval of major decisions by DCTRT and will earn certain market-based asset management, acquisition and disposition fees and, after the return of capital to us and DCTRT, a promoted interest in the respective joint ventures. Each joint venture will be funded as follows: (i) an equity contribution from DCTRT to the joint venture (which will be not less than approximately 90% of the joint venture s required equity capitalization); (ii) an equity contribution from us to the joint venture (which will be up to 10% of the joint venture s required equity capitalization) and (iii) secured debt financing to be obtained by the joint venture with a targeted loan-to-value of no less than 55% and no more than 75%.

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On September 1, 2006, we entered into the first joint venture agreement with DCTRT (TRT/DCT Venture I) pursuant to which TRT/DCT Venture I will own up to $150.0 million of industrial properties. The portfolio will be comprised of:

(i) approximately $65.3 million in assets to be sold by us to DCTRT. We will manage these assets and receive a market-based asset management fee and DCTRT will have the right, under certain circumstances and subject to our approval, to contribute such assets to TRT/DCT Venture I at a later date;

(ii) an additional $14.8 million in assets to be contributed by us to TRT/DCT Venture I; and

(iii) an additional $69.9 million in assets that will either be (a) contributed by us to TRT/DCT Venture I, (b) sold by us to DCTRT pursuant to the same terms described in (i) above, or (c) acquired by TRT/DCT Venture I through third party purchases.

On October 16, and October 31, 2006, we sold collectively six industrial properties to DCTRT. As described above, we will manage these assets and earn an asset management fee and DCTRT will have the right, under certain circumstances and subject to our approval, to contribute such assets to TRT/DCT Venture I at a later date. The total purchase price of these six properties was approximately $65.3 million.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
Forward-Looking Information

We make statements in this report that are considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), which are usually identified by the use of words such as anticipates, believes, estimates, expects, intends, may, plans, projects, seeks, sho variations of such words or similar expressions. We intend these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and are including this statement for purposes of complying with those safe harbor provisions. These forward-looking statements reflect our current views about our plans, intentions, expectations, strategies and prospects, which are based on the information currently available to us and on assumptions we have made. Although we believe that our plans, intentions, expectations, strategies and prospects as reflected in or suggested by those forward-looking statements are reasonable, we can give no assurance that the plans, intentions, expectations or strategies will be attained or achieved. Furthermore, actual results may differ materially from those described in the forward-looking statements and will be affected by a variety of risks and factors that are beyond our control including, without limitation:

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

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

In addition, our current and continuing qualification as a real estate investment trust, or REIT, involves the application of highly technical and complex provisions of the Internal Revenue Code of 1986, as amended, or the Code, and depends on our ability to meet the various requirements imposed by the Code through actual operating results, distribution levels and diversity of stock ownership. We assume no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the consolidated financial statements included elsewhere in this report, as well as the section entitled Risk Factors in this report.

Unless the context otherwise requires, the terms we, us, and our refer to DCT Industrial Trust Inc. (formerly Dividend Capital Trust Inc.) and DCT Industrial Operating Partnership LP (formerly Dividend Capital Operating Partnership LP), or our operating partnership, and their consolidated subsidiaries.

Overview

DCT Industrial Trust Inc. was formed as a Maryland corporation in April 2002 in order to invest in industrial real estate properties. We are a leading real estate company specializing in the ownership, acquisition, development and management of bulk distribution and light industrial properties located in 24 of the highest volume distribution markets in the United States. In addition, we manage, and own interests in, industrial properties through our institutional capital management program. Our properties primarily consist of high-quality, generic bulk distribution warehouses and light industrial properties leased to corporate tenants. The properties we target for acquisition or development are generally characterized by convenient access to major transportation arteries, proximity to densely populated markets and quality design standards that allow for easy reconfiguration of space. In the future, we intend to continue to focus on properties that exhibit these characteristics, to expand our operations into other target markets in the United States and to add additional properties in our existing markets as well as acquire and develop properties in selected international markets, including Mexico, where we believe we can achieve favorable returns and leverage our management expertise. We have elected to be treated as a REIT for U.S. federal income tax purposes.

As of September 30, 2006, we owned interests in 388 industrial real estate properties consisting of 233 bulk distribution properties, 113 light industrial properties and 42 service center or flex properties totaling 60.4 million rentable square feet. Our portfolio of consolidated operating properties consists of interests in 374 industrial properties totaling 55.0 million rentable square feet that were 92.9% occupied as of September 30, 2006. In addition, as of September 30, 2006, we had majority interests in four consolidated development properties, a 20% interest in six unconsolidated properties in an institutional joint venture and investments in four development joint venture properties.

Our primary business objectives are to maximize sustainable long-term growth in earnings and funds from operations, or FFO, and to maximize total return to our stockholders. In our pursuit of these objectives, we will:

- acquire high-quality industrial properties;
- pursue development opportunities, including through joint ventures;
- expand our institutional capital management business;
- actively manage our existing portfolio to maximize operating cash flows;
- sell non-core assets that no longer fit our investment criteria; and
- expand our operations into selected domestic and international markets, including Mexico.

We own our properties through our operating partnership and its subsidiaries. We are the sole general partner of our operating partnership and owned approximately 97% of the outstanding equity interests of our operating partnership as of September 30, 2006.

Outlook

The primary source of our operating revenues and earnings is rents received from tenants under leases at our properties including reimbursements from tenants for certain operating costs. We seek earnings growth primarily through increasing rents and earnings at existing properties, acquiring and developing additional high-quality properties in major distribution markets, increasing fee revenues from our institutional capital management business, generating profits from our development activities and repositioning our portfolio including disposing of certain non-core assets and contributing assets to our joint ventures, funds or other commingled investment vehicles with institutional partners.

We believe that our near-term earnings in our existing properties will increase through increased rents on leases that are expiring, as well as an increase in our occupancy rates as we lease properties which were vacant when acquired. We expect strong growth in operating earnings from development and acquisitions in our target markets and selected new markets. We also believe our focus on our target distribution markets from which companies distribute nationally, regionally and/or locally mitigates the risk of any individual tenant reconfiguring distribution networks and changing the balance of supply and demand in a market. Finally, developing and maintaining excellent relationships with third-party logistics companies facilitates our ability to lease them space in our portfolio.

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Our net income and FFO in the near term may decrease as a result of the internalization transaction described below in connection with the one-time, non-recurring non-cash charge to earnings we will incur for the portion of the internalization consideration that is allocated as the cost for terminating our advisory agreement with Dividend Capital Advisors LLC, our Former Advisor. While we no longer bear the external costs of the various fees and expenses previously paid to our Former Advisor as a result of becoming self-advised, our expenses will include the compensation and benefits of our officers and the other employees and consultants previously paid by our Former Advisor or its affiliates. Further, our net income per share and FFO per share may decrease by a material amount in the near term due to the additional expenses recognized, as well as the OP Units issued in connection with the internalization transaction, which may be exchanged for shares of common stock on a one for one basis.

The principal risks to our business outlook include:

- an economic slowdown or softening of the U.S. economy and the local economies of our target markets;
- the development of new distribution space in our target markets in excess of net new demand for such space;
- our ability to attract institutional partners in our institutional capital management business on terms that we find acceptable;
- our ability to acquire properties that meet our quantitative and qualitative criteria and whether we can successfully integrate such acquisitions; and
- our ability to locate development opportunities and to successfully develop such properties on time and within budget and then to successfully lease such properties.

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

We also expect the following key trends to positively affect our industry:

- the continued restructuring of corporate supply chains which may impact local demand for distribution space as companies relocate their operations consistent with their particular requirements or needs;
- the growth or continuing importance of industrial markets located near seaports, airports and major intermodal facilities; and
- continuing advancements in technology and information systems which enhance companies abilities to control their investment in inventories.

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

For the financing of our capital needs, we are not aware of any material trends or uncertainties, favorable or unfavorable, other than national economic conditions affecting real estate generally, that we anticipate will have a material impact on either capital resources or the revenues or income to be derived from the operation of real estate properties. Our financing needs will depend largely on our ability to acquire properties as the majority of our cash generated from operations will be used for payment of distributions and to finance other activities. We expect the funding of additional cash needs to come from existing cash balances, new borrowings and proceeds from the sale or contribution of assets. In addition, we recently filed a registration statement relating to a potential public offering of common stock and may engage in additional future offerings of common stock or other securities, although we have no current expectation of doing so in the near term.

Recent Developments

Potential Public Offering of Common Stock

On October 19, 2006, we filed a registration statement on Form S-11 with the Securities and Exchange Commission, or the SEC, in connection with our proposed sale of up to $175.0 million of common stock, or the Potential Offering. We intend to apply to have our common stock listed on the New York Stock Exchange, or the NYSE, in connection with the Potential Offering. Currently, no public market exists for our shares and therefore the Potential Offering will be our first listed public offering.

Internalization

On July 21, 2006, we entered into a contribution agreement with our operating partnership and Dividend Capital Advisors Group LLC, or DCAG, the parent company of our Former Advisor. On October 10, 2006, pursuant to the contribution agreement, our operating partnership acquired our Former Advisor from DCAG for an aggregate of 15,111,111 units of limited partnership interest in our operating partnership, or OP Units, which included the modification of a special series of units of limited partnership interest in our operating partnership, or the Special Units (which are described in Note 8 to our consolidated financial statements), held by DCAG into 7,111,111 OP Units. We refer to this transaction as the Internalization. Prior to the internalization, our day-to-day operations were managed by our Former Advisor, under the supervision of our board of directors pursuant to the terms and conditions of an advisory agreement with our Former Advisor. In connection with the Internalization, our Former Advisor became a wholly-owned subsidiary of our operating partnership, and certain employees of, or consultants to, our Former Advisor or its affiliates became our employees. As a result of these transactions, we have become a self-administered and self-advised REIT.

Additionally, upon consummation of the Internalization, Phil Hawkins became our Chief Executive Officer and a director, Stuart Brown became our Chief Financial Officer and Jim Cochran became our President. Simultaneously, Evan Zucker resigned as our Chief Executive Officer, President, Secretary and director and James Mulvihill resigned as our Chief Financial Officer and Treasurer, but remains a director.

In connection with the Internalization, our stockholders approved an amendment and restatement of our charter that will become effective upon the closing of the Potential Offering discussed above. The purpose of this amendment is to conform our charter more closely with the charters of other companies that qualify as REITs for U.S. federal income tax purposes and whose securities are publicly traded and listed on the NYSE. In addition, we adopted, and our stockholders approved, our 2006 Long-Term Incentive Plan and our 2006 Incentive Compensation Plan. These plans were established by our board of directors, which worked with its legal advisors and with employment compensation consultants to survey and study the market compensation ranges of our competitors, were approved by our stockholders and are designed to help us to attract, retain and motivate highly qualified individuals and more directly align the interests of our management with those of our stockholders.

SCLA Joint Venture

In July 2005, we entered into a joint venture agreement, which was amended and restated in October 2006, with Stirling Airports International, LLC, or Stirling, to be the master developer of up to 4,350 acres in Victorville, California, part of the Inland Empire submarket of the Southern California industrial real estate market. We refer to this joint venture as the SCLA joint venture. While our exact interest in the joint venture will depend on the amount of capital we contribute and the timing of contributions and distributions, the SCLA joint venture contemplates an equal sharing between us and Stirling of residual profits after all priority distributions. The development project resulted from the closure of George Air Force Base in 1992 and is known as Southern California Logistics Airport, or SCLA. SCLA is controlled by two development authorities: the Southern California Logistics Airport Authority and the Southern California Logistics Rail Authority, which we refer to collectively as the Authorities. SCLA is part of the approximately 60,000 acre Victor Valley Economic Development Authority. Stirling entered into two master development agreements to be the exclusive developer of SCLA for the next 13 years (including extensions) and assigned to the SCLA joint venture its rights related to the 4,350 acres designated primarily for industrial development.

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Results of Operations

Summary

As of September 30, 2006, we owned 374 consolidated operating properties located in 24 markets throughout the United States. We acquired 131 of these properties after September 30, 2005. In addition, in February 2006, we contributed six of our properties, three of which were purchased before September 30, 2005, into a joint venture with an institutional partner. See Note 2 to the consolidated financial statements for additional information regarding our dispositions. Additionally, subsequent to September 30, 2005, one development property was completed and became an operating property. The net effect of such activities is the addition of 126 properties, or 18.7 million rentable square feet, to our operating portfolio since September 30, 2005. As a result of these additional 126 properties, the revenues and expenses from our operations for the three and nine months ended September 30, 2006 reflect a significant increase compared to the revenues and expenses from our operations for the three and nine months ended September 30, 2005. The following table illustrates the changes in our portfolio as of September 30, 2006 compared to September 30, 2005, respectively.

	As of September 30,							
	2006				2005			
Target Markets	**Number of Buildings**	**Historical Cost (in thousands)**	**Rentable Square Feet**	**Occu-pancy (1)**	**Number of Buildings**	**Historical Cost (in thousands)**	**Rentable Square Feet**	**Occu-pancy (1)**
Atlanta	56	$ 304,873	6,550,271	92.6%	48	$ 261,983	5,981,602	88.2%
Baltimore/Washington D.C.	13	121,356	1,585,087	90.7%	9	68,061	1,167,144	87.7%
Central Pennsylvania	6	77,551	1,402,580	100.0%	2	30,665	650,000	100.0%
Charlotte	11	68,428	1,477,548	80.1%	3	18,136	345,956	100.0%
Chicago	14	150,362	2,877,988	94.6%	13	145,979	2,814,275	96.4%
Cincinnati	39	215,773	4,982,215	88.3%	18	131,637	3,294,142	84.0%
Columbus	15	180,367	4,401,788	94.8%	3	48,910	1,213,486	85.2%
Dallas	54	332,977	6,810,543	90.7%	48	222,972	4,701,266	91.2%
Denver	1	9,390	160,232	100.0%	1	9,009	160,232	100.0%
Houston	34	135,712	2,452,711	88.6%	33	128,428	2,349,671	86.6%
Indianapolis	8	109,185	3,326,864	95.5%	1	15,211	442,127	100.0%
Louisville	2	18,350	521,000	100.0%	2	18,352	521,000	100.0%
Memphis	10	160,255	4,333,018	94.1%	11	184,894	5,042,018	95.4%
Miami	6	65,746	727,461	92.4%	3	26,002	316,452	93.9%
Minneapolis	6	58,790	828,466	100.0%				
Nashville	5	99,034	2,712,373	91.7%	3	61,333	1,699,530	100.0%
New Jersey	10	87,794	1,189,553	96.2%	3	37,381	483,338	100.0%
Northern California	29	211,249	2,410,960	96.2%	5	35,808	474,636	100.0%
Orlando	12	78,943	1,226,231	95.2%	2	15,714	367,137	100.0%
Phoenix	15	98,557	1,734,052	95.3%	13	80,110	1,474,963	95.3%
San Antonio	2	7,953	172,050	86.9%	2	7,699	172,050	100.0%
Seattle	8	88,397	1,198,617	96.5%	8	88,013	1,198,617	100.0%
Southern California	12	102,099	1,391,534	99.8%	11	84,636	1,169,498	80.0%
Subtotal/Weighted Average Target Markets	368	2,783,141	54,473,142	92.9%	242	1,720,933	36,039,140	91.8%
Discontinued Operations:								
Boston	6	42,892	567,441	85.8%	6	41,442	570,641	67.4%
Total/Weighted Average Operating Properties	374	2,826,033	55,040,583	92.9%	248	1,762,375	36,609,781	91.5%
Properties under development	4	35,067	1,052,539	8.9%	1	24,843	139,424	0.0%
Land held for development	n/a	25,526	n/a	n/a	n/a	962	n/a	n/a
	378	**$ 2,886,626**	**56,093,122**	**91.3%**	**249**	**$ 1,788,180**	**36,749,205**	**91.1%**

Total/Weighted Average-
Consolidated Properties

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(1) The total vacant square footage as of September 30, 2006, and 2005, was 4,883,711 and 3,269,012, respectively. Of the vacant space as of September 30, 2006 and 2005, we had 41,365 and 457,041 rentable square feet, respectively, under master lease agreements with various sellers whereby the sellers are obligated to pay monthly rent until the earlier of the expiration of the master lease agreement or commencement of rent from a new tenant. The total percentage of operating rentable square feet leased, including space covered by master leases, was 92.9% and 92.7% as of September 30, 2006, and 2005, respectively. For financial reporting purposes under United States generally accepted accounting standards, or GAAP, rental and expense recovery payments under master lease agreements are reflected as a reduction of the basis of the underlying property rather than rental revenues.

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In addition to the significant increase in property operating activity for the three and nine months ended September 30, 2006 compared to the three and nine months ended September 30, 2005 resulting from the aforementioned acquisition and development activities, the following describes other significant differences between the periods that are a result of our continued growth:

- We have increased our debt by issuing or assuming an additional $601.6 million of debt since September 30, 2005. This has resulted in higher interest expense of approximately $28.4 million, or 155.8% in the nine months ended September 30, 2006 compared to the same period in 2005.

- Asset management fees paid to our Former Advisor of 0.75% per annum of the undepreciated cost of our properties were higher by $7.3 million in the nine months ended September 30, 2006 compared to the same period in 2005 as a result of the additional 128 properties being subject to these fees during the 2006 period.

- In February 2006, in connection with the above referenced disposition, we recorded a gain on the disposition of the real estate interests resulting in an increase to net income of approximately $4.0 million.

- In June 2006, we recorded a gain relating to the completion of an expansion that had been contributed to the above referenced joint venture with the institutional partner resulting in an increase to net income of approximately $4.1 million.

- During the three months ended June 30, 2005, a tenant terminated its lease early and paid an early lease termination fee of approximately $3.7 million.

During the nine months ended September 30, 2006, we recognized net loss of approximately $9.9 million, compared to net loss of approximately $8.0 million for the same period in 2005. The components of the increase in operating activities are reflected in the changes in rental revenues, rental expenses and real estate taxes, other income and other expenses as more fully described below.

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Three months ended September 30, 2006 compared to the three months ended September 30, 2005

The following table illustrates the changes in rental revenues, rental expenses and real estate taxes, property net operating income, other income and other expenses for the three months ended September 30, 2006 compared to the three months ended September 30, 2005. Our same store properties include all properties that we owned during both the current and prior year reporting periods for which the operations have been stabilized and consolidated for the entire period presented. The same store assets for the three months ended September 30, 2006 include 124 buildings totaling 22.8 million rentable square feet. A discussion of these changes follows the table (in thousands).

	Three Months Ended September 30,		
	2006	**2005**	**$ Change**
Rental Revenues			
Same store	$ 23,413	$ 23,888	$ (475)
2006 acquisitions and dispositions	19,970	874	19,096
2005 acquisitions	18,063	11,145	6,918
Development	120		120
Revenues related to early lease terminations, net	295	27	268
Total rental revenues	61,861	35,934	25,927
Rental Expenses and Real Estate Taxes			
Same store	5,959	5,470	489
2006 acquisitions and dispositions	4,824	213	4,611
2005 acquisitions	4,240	2,582	1,658
Development	36		36
Total rental expenses and real estate taxes	15,059	8,265	6,794
Property Net Operating Income (1)			
Same store	17,454	18,418	(964)
2006 acquisitions and dispositions	15,146	661	14,485
2005 acquisitions	13,823	8,563	5,260
Development	84		84
Revenues related to early lease terminations, net	295	27	268
Total property net operating income	46,802	27,669	19,133
Other Income			
Institutional capital management and other fees	220		220
Loss on disposition of real estate assets	(490)		(490)
Gain on development activities	8		8
Interest income and other	482	629	(147)
Total other income	220	629	(409)
Other Expenses			
Real estate depreciation and amortization	30,232	21,062	9,170
General and administrative expenses	1,757	865	892
Asset management fees, related party	5,092	2,937	2,155
Equity in losses of unconsolidated joint ventures, net	72		72
Interest expense	20,517	9,708	10,809
Total other expenses	57,670	34,572	23,098
Minority interests	295	259	36

Income (loss) from discontinued operations	188	(183)	371
Net loss	$ (10,165)	$ (6,198)	$ (3,967)

(1) For a discussion as to why we view net operating income to be an appropriate supplemental performance measure, and a reconciliation of our net operating income for the three months ended September 30, 2006 and 2005 to our reported net income from continuing operations for the three months ended September 30, 2006 and 2005, see Note 13 to our consolidated financial statements for additional information.

Rental Revenues

Rental revenues increased by approximately $25.9 million for the three months ended September 30, 2006 compared to the same period in 2005, primarily as a result of the rental revenues generated from the additional 128 operating properties acquired subsequent to September 30, 2005. Same store rental revenues decreased by approximately $0.5 million, or 2%, for the three months ended September 30, 2006 as compared to the same period in 2005 due to lower occupancy.

Rental Expenses and Real Estate Taxes

Rental expenses and real estate taxes increased by approximately $6.8 million for the three months ended September 30, 2006 compared to the same period in 2005, primarily as a result of the additional operating properties acquired subsequent to September 30, 2005 and higher property taxes. Same store rental expenses and real estate taxes increased by approximately $0.5 million for the three months ended September 30, 2006 compared to the same period in 2005, primarily due to an increase in property taxes of approximately $0.4 million during the three months ended September 30, 2006 as compared to the same period in 2005.

Other Income

Other income decreased by approximately $0.4 million for the three months ended September 30, 2006 as compared to the same period in 2005, primarily as a result of the loss recognized on disposition of real estate assets. This loss represented an adjustment to the gain recognized during 2006 related to the contribution of certain properties to the joint venture with the institutional partner.

Other Expenses

Real estate depreciation and amortization increased by approximately $9.2 million for the three months ended September 30, 2006 as compared to the same period in 2005, primarily due to the additional properties acquired subsequent to September 30, 2005. The increase in asset management fees payable to our Former Advisor of approximately $2.2 million was attributable to the aforementioned additional properties, all of which were subject to the 0.75% asset management fee referenced above. The increase in interest expense of approximately $10.8 million is primarily attributable to higher average outstanding debt balances and higher financing obligation balances that were outstanding during the three months ended September 30, 2006 as compared to the same period in 2005.

Nine months ended September 30, 2006 compared to the nine months ended September 30, 2005

The following table illustrates the changes in rental revenues, rental expenses and real estate taxes, property net operating income, other income and other expenses for the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005. Our same store properties include all properties that we owned during both the current and prior year reporting periods for which the operations have been stabilized and consolidated for the entire period presented. The same store assets for the nine months ended September 30, 2006 include 100 buildings totaling 16.1 million rentable square feet. A discussion of these changes follows the table (in thousands).

	Nine Months Ended September 30,		$
	2006	2005	Change
Rental Revenues			
Same store	$ 50,970	$ 51,791	$ (821)
2006 acquisitions and dispositions	31,481	2,151	29,330
2005 acquisitions	74,730	23,607	51,123
Development	229		229
Revenues related to early lease terminations, net	670	3,791	(3,121)
Total rental revenues	158,080	81,340	76,740
Rental Expenses and Real Estate Taxes			
Same store	12,915	12,921	(6)
2006 acquisitions and dispositions	6,815	368	6,447
2005 acquisitions	16,773	4,592	12,181
Development	89		89
Total rental expenses and real estate taxes	36,592	17,881	18,711
Property Net Operating Income (1)			
Same store	38,055	38,870	(815)
2006 acquisitions and dispositions	24,666	1,783	22,883
2005 acquisitions	57,957	19,015	38,942
Development	140		140
Revenues related to early lease terminations, net	670	3,791	(3,121)
Total property net operating income	121,488	63,459	58,029
Other Income			
Institutional capital management and other fees	398		398
Gain on disposition of real estate assets	3,476		3,476
Gain on development activities	4,074		4,074
Interest income and other	5,004	2,216	2,788
Total other income	12,952	2,216	10,736
Other Expenses			
Real estate depreciation and amortization	81,196	47,430	33,766
General and administrative expenses	3,939	2,294	1,645
Asset management fees, related party	12,907	5,640	7,267
Equity in losses of unconsolidated joint ventures, net	254		254
Interest expense	46,687	18,253	28,434
Total other expenses	144,983	73,617	71,366
Minority interests	562	256	&nbs