

I. EXECUTIVE SUMMARY

A. Investment Description

The proposed investment, Nandina Distribution Center, is a to-be-constructed, two building (one-cross-docked), 1.2 million square foot distribution property. It is located on 53.4 acres in Moreno Valley, California, a strong location in the Inland Empire East. The purchase price is \$85.8 million (\$72.53/sf). An additional \$7.1 million is projected for first generation leasing costs for a total investment of \$92.9 million or \$78.52/sf.

XYZ INVESTMENTS will be acquiring a 100% fee simple interest in the property through a two-stage acquisition. The first stage of the acquisition will consist of two payments totaling \$40.9 million (\$34.58/sf (buildable)) for the purchase of the land. The second stage will consist of a single payment of \$44.9 million (\$37.95/sf) for the improvements upon substantial completion.

XYZ INVESTMENTS will deposit \$4.0 million into a refundable escrow account by August 13th. Upon completion of Due Diligence Period, September 6th, XYZ INVESTMENTS will release \$2.0 million to First Industrial as the first of two payments for the land. On December 10th, XYZ INVESTMENTS will complete the \$40.9 million purchase of the land by paying an additional \$36.9 million and releasing the remaining escrow of \$2.0 million to First Industrial.

The remaining \$44.9 million (\$37.95/sf), less any holdbacks, will be funded upon substantial completion of the improvements in April 2008.

First Industrial will be responsible for construction and all risks associated with construction including delays and cost overruns. Construction is expected to commence in August 2007 and be completed eight months later, approximately April 2008.

The analysis provides for an 11.5-year holding period that is comprised of an 18-month development period (including lease up) and a 10-year holding period following stabilization.

B. Intentionally Omitted

C. Investment Returns

It is anticipated that the property will generate an unlevered, initial stabilized yield of 5.44% and an 11.5-year unlevered return of 7.12%.

The development period return, which covers an 18 month period during the construction and lease-up, is projected to be 14.0%.

The stabilized period return for the 10-year period, beginning with stabilization, is projected to be 6.22%.

XYZ INVESTMENTS return expectations are based on average expected returns across the country. The Inland Empire is considered one of the best current and longer term distribution markets in the country with growth and fundamentals far superior to other industrial markets. Consequently, while the estimated proforma returns may be lower than XYZ INVESTMENTS average return expectations, the forecasted growth and strength of the Inland Empire market should provide superior risk adjusted returns over the long-term hold of this investment.

D. Exit Strategy

Nandina Distribution Center will be an institutional quality asset that is in a well-located market, the Inland Empire, one of the fastest growing, supply constrained areas in the United States. There are few institutional

quality, stabilized distribution properties offered for sale in the Inland Empire. As a result, when a property like Nandina is offered for sale, we anticipate a high level of interest from both institutional and private capital.

E. Conclusions

Positives

- **Significant Economic Driver** - Close proximity to the Ports of Long Beach and Los Angeles, which are among the busiest ports in the world. The combined ports handle 70% of all Asian imports and 43% of all US imports. Port traffic is expected to grow by 30% during the next three years. Port traffic is one of the most significant drivers of demand for distribution space.
- **Shift in Demand from Inland Empire West** - The Inland Empire, which contains more than 340 million square feet of distribution space, has a vacancy rate of just 3.7%. The Inland Empire West contains 224 million square feet and a vacancy rate of 1.8%. As a result of the limited land available for development, and few large blocks of space available for distribution, users are shifting from the Inland Empire West to the Inland Empire East, and even further East in the desert.
- **New Institutional Product** - Nandina will be new product, with the most up-to-date features to satisfy the latest needs of distribution tenants, including cross-docks and additional trailer storage.
- **Growing Population** - The Inland Empire's economic expansion has been accompanied by strong population growth. By the end of 2004, the population had grown to over 4 million, which reflects a 150% population increase in less than 25 years. This growth in population has increased demand for residential and commercial space while driving up the price and limiting availability for development of future distribution properties.
- **Staged Investment Structure Mitigates Risk** - XYZ INVESTMENTS will acquire the land from First Industrial for \$40.9 million (\$34.57/sf) in December 2007, with \$2.0 million paid to First Industrial, as a non-refundable "deposit", at the end of the Inspection Period, September 6, 2007. First Industrial will be contractually required to have completed a significant portion of the improvement construction prior to XYZ INVESTMENTS' purchase of the land. The value of the improvements to be completed prior to the purchase of the land has not been determined, but is expected to be approximately \$13 million. There will be substantial penalties to First Industrial, including potential forfeiture of completed improvements, should it not be meeting a to-be-established development and payment schedule. Thus, First Industrial will be properly incentivized to deliver the Property on time and on budget.
- **XYZ INVESTMENTS' Existing Portfolio Feeder Opportunities** - The opportunity to add larger sized and cross docked buildings will complement XYZ INVESTMENTS' existing industrial/distribution investments in this market, which are smaller in building size, and may provide growth opportunities for existing tenants within XYZ INVESTMENTS' Southern California distribution portfolio.

Negatives or Potential Risks

- **Historical Strength of Inland Empire West** - The project is located in the Inland Empire East market, which has historically not been as popular as the Inland Empire West. However, this is changing as the West has been largely built out. The Inland Empire East has become more of an option due to its increased inventory, available space and lower rents than the West
- **Supply** - The project is located in an area with available land and space which may slow lease-up time or slow near term rent growth. While the supply is significant, we have identified a substantial amount of this comparable land, planned development and current construction and have incorporated this information into our assumptions and pricing.
- **Market, including Asian and Chinese Import Traffic** - Macro events such as economic slowdown (sub-prime problems), significant changes to trade policy or regulation with China, or geopolitical change pertaining to China and the Asian rim could cause decrease in port traffic and corresponding decline in distribution space demand and value. However, based on strong economic forecasts and the large interdependence between China and the US, it is likely trade will continue to grow and along with it the increased demand for distribution space like Nandina.

F. Recommendation

Staff recommends that XYZ INVESTMENTS invest \$92.9 million, comprised of \$40.9 million for the land, \$44.9 million for improvements and an estimated \$7.1 million for lease up costs, plus reasonable due diligence and closing costs, for Nandina Distribution Center.

G. Financial Model Assumptions Analysis and Justification

Below is a summary of the financial assumptions used in our financial model. A detailed analysis of the modeling assumptions is located in the Financial Exhibit.

Rentable Square Footage:	1,182,918
Monthly Market Rental Rate (9/1/2007)	
100,000 to 300,000 sf:	\$0.40/sf
301,000 to 400,000 sf:	\$0.39/sf
400,001 to 500,000 sf:	\$0.37/sf
Lease Up Dates	
450,000 sf tenant:	August 2008
206,799 sf tenant:	August 2008
206,799 sf tenant:	November 2008
319,320 sf tenant:	February 2009
Growth Rates (10 year CAGR)	
Rent:	3.4% (4.0% the first four years, thereafter 3.0%)
Expenses:	3.0%
Real Estate Taxes:	2.0%
Total Vacancy:	5.0% average during stabilized period
Operating Expenses (Year 1):	\$1.59/sf
Capital Reserves:	\$0.15/sf
Residual Sale Assumptions:	
Development Period:	5.0% capitalization rate on stabilized NOI less 2.0% vacancy factor (Feb 2009), less 1.0% cost of sale
Holding Period:	6.0% capitalization rate applied to one year forward NOI less 2.0% vacancy factor, less 1.0% cost of sale

H. Scenario Analysis

Staff has completed a scenario analysis of the potential upside and downside scenarios. Lease up timing, rents and rental growth were adjusted to reflect potential changes in the rental market due to supply additions during the next several years. Below is a table which shows the results of the analysis.

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Variable	Optimistic	Base	Pessimistic
Rent by Tenant			
206,799 sf	\$0.41	\$0.40	\$0.36
319,320 sf	\$0.40	\$0.39	\$0.35
450,000 sf	\$0.38	\$0.37	\$0.33
Lease-Up Dates			
450,000 sf	Jun-08	Aug-08	Feb-09
206,799 sf	Jun-08	Aug-08	Feb-09
206,799 sf	Aug-08	Oct-08	Apr-09
319,320 sf	Dec-08	Feb-09	Aug-09
Market Rental Growth			
Year 1	4.0%	4.0%	3.0%
Year 2	4.0%	4.0%	3.0%
Year 3	6.0%	4.0%	3.0%
Year 4	6.0%	4.0%	3.0%
Year 5	6.0%	3.0%	3.0%
Year 6	5.0%	3.0%	3.0%
Year 7	4.0%	3.0%	3.0%
Year 8 and thereafter	3.0%	3.0%	3.0%
Avg. Growth	4.4%	3.4%	3.0%
Returns			
Stabilized Yield	5.6%	5.4%	5.1%
3 Year Stabilized Yield	5.7%	5.6%	5.1%
Projected IRR	8.5%	7.1%	5.2%
Exit Values			
Reversion Value	\$135,769,194	\$120,755,283	\$104,536,311
Reversion Value/SF	\$115	\$102	\$88

FIRST INDUSTRIAL REALTY TRUST

NANDINA Distribution Center

Moreno Valley, California



CB Richard Ellis

CONCEPTUAL SITE PLAN

Job # 5367 HPA
November 08, 2006