SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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 JUNE 30, 2000

OR

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

COMMISSION FILE NUMBER: 001-13545

AMB PROPERTY CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

| | |
|---|---|
| MARYLAND<br>(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION) | 94-3281941<br>(I.R.S. EMPLOYER IDENTIFICATION NO.) |
| 505 MONTGOMERY ST., SAN FRANCISCO, CALIFORNIA<br>(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) | 94111<br>(ZIP CODE) |

(415) 394-9000
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

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 [ ]

As of July 25, 2000, there were 84,088,688 shares of the Registrant's common stock, $0.01 par value per share, outstanding.

AMB PROPERTY CORPORATION

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# PART I

## ITEM 1. FINANCIAL STATEMENTS

### AMB PROPERTY CORPORATION

### CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2000 AND DECEMBER 31, 1999
(UNAUDITED, DOLLARS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

ASSETS

<TABLE>
<CAPTION>

| <S> | JUNE 30, 2000 <C> | DECEMBER 31, 1999 <C> |
|---|---|---|
| Investments in real estate: | | |
| Land and improvements | $ 778,043 | $ 714,916 |
| Buildings and improvements | 2,578,648 | 2,349,221 |
| Construction in progress | 208,053 | 185,315 |
| Total investments in properties | 3,564,744 | 3,249,452 |
| Accumulated depreciation and amortization | (142,037) | (103,558) |
| Net investments in properties | 3,422,707 | 3,145,894 |
| Investment in unconsolidated joint ventures | 77,959 | 66,357 |
| Properties held for divestiture, net | 235,359 | 181,201 |
| Net investments in real estate | 3,736,025 | 3,393,452 |
| Cash and cash equivalents | 14,743 | 33,312 |
| Restricted cash and cash equivalents | 6,931 | 103,707 |
| Other assets | 95,322 | 91,079 |
| Total assets | $3,853,021 | $3,621,550 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Debt: | | |
| Secured debt | $ 751,091 | $ 707,037 |
| Alliance Fund I credit facility | 51,000 | 80,000 |
| Unsecured senior debt securities | 400,000 | 400,000 |
| Unsecured credit facility | 176,000 | 83,000 |
| Total debt | 1,378,091 | 1,270,037 |
| Other liabilities | 136,168 | 89,371 |
| Total liabilities | 1,514,259 | 1,359,408 |
| Commitments and contingencies (note 11) | | |
| Minority interests | 559,962 | 432,883 |
| Stockholders' equity: | | |
| Series A preferred stock, cumulative, redeemable, $0.01 par value, 100,000,000 shares authorized, 4,000,000 shares issued and outstanding, $100,000 liquidation preference | 96,100 | 96,100 |
| Common stock, $0.01 par value, 500,000,000 shares authorized, 83,868,693 and 85,133,041 issued and outstanding | 839 | 851 |
| Additional paid-in capital | 1,630,060 | 1,656,226 |
| Retained earnings | 41,840 | 47,089 |
| Accumulated other comprehensive income | 9,961 | 28,993 |
| Total stockholders' equity | 1,778,800 | 1,829,259 |
| Total liabilities and stockholders' equity | $3,853,021 | $3,621,550 |

==========     ==========

</TABLE>

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



AMB PROPERTY CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2000 AND 1999
(UNAUDITED, DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

<TABLE>
<CAPTION>

| | FOR THE THREE MONTHS ENDED JUNE 30, | | FOR THE SIX MONTHS ENDED JUNE 30, | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| <S> | <C> | <C> | <C> | <C> |
| REVENUES | | | | |
| Rental revenues..................... | $ 110,597 | $ 113,530 | $ 218,863 | $ 221,187 |
| Equity in earnings of unconsolidated joint ventures.................. | 1,317 | 1,177 | 2,559 | 2,328 |
| Investment management and other income.......................... | 1,565 | 670 | 2,380 | 1,434 |
| Total revenues............. | 113,479 | 115,377 | 223,802 | 224,949 |
| OPERATING EXPENSES | | | | |
| Property operating expenses......... | 11,586 | 13,588 | 23,063 | 25,957 |
| Real estate taxes................... | 13,502 | 14,767 | 26,998 | 29,802 |
| Interest, including amortization.... | 20,002 | 23,591 | 40,344 | 46,558 |
| Depreciation and amortization....... | 22,631 | 15,178 | 41,823 | 33,602 |
| General and administrative.......... | 5,984 | 6,807 | 11,335 | 13,009 |
| Total operating expenses.... | 73,705 | 73,931 | 143,563 | 148,928 |
| Income from operations before minority interests............ | 39,774 | 41,446 | 80,239 | 76,021 |
| Minority interests' share of net income.......................... | (10,183) | (8,145) | (19,593) | (14,706) |
| Net income before gain from divestiture of real estate................... | 29,591 | 33,301 | 60,646 | 61,315 |
| Gain from divestiture of real estate.......................... | 416 | 11,525 | 405 | 11,525 |
| Net income before extraordinary items....... | 30,007 | 44,826 | 61,051 | 72,840 |
| Extraordinary items................ | -- | (1,509) | -- | (1,509) |
| Net income................. | 30,007 | 43,317 | 61,051 | 71,331 |
| Series A preferred stock dividends....................... | (2,125) | (2,125) | (4,250) | (4,250) |
| Net income available to common stockholders....... | $ 27,882 | $ 41,192 | $ 56,801 | $ 67,081 |
| BASIC INCOME PER COMMON SHARE | | | | |
| Before extraordinary items.......... | $ 0.33 | $ 0.50 | $ 0.68 | $ 0.80 |
| Extraordinary items................. | -- | (0.02) | -- | (0.02) |
| Net income available to common stockholders....... | $ 0.33 | $ 0.48 | $ 0.68 | $ 0.78 |
| DILUTED INCOME PER COMMON SHARE | | | | |
| Before extraordinary items.......... | $ 0.33 | $ 0.50 | $ 0.68 | $ 0.80 |
| Extraordinary items................. | -- | (0.02) | -- | (0.02) |
| Net income available to common stockholders....... | $ 0.33 | $ 0.48 | $ 0.68 | $ 0.78 |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING | | | | |
| Basic............................... | 83,848,883 | 86,286,613 | 83,849,020 | 86,143,859 |
| Diluted............................. | 84,125,277 | 86,468,820 | 83,994,238 | 86,244,750 |

</TABLE>

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

AMB PROPERTY CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2000 AND 1999
(UNAUDITED, DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

| | FOR THE SIX MONTHS ENDED JUNE 30, | |
|---|---|---|
| | 2000 | 1999 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | $ 61,051 | $ 71,331 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 41,823 | 33,602 |
| Straight-line rents | (5,343) | (5,523) |
| Amortization of debt premiums and financing costs | (2,781) | (1,413) |
| Minority interests' share of net income | 19,593 | 14,706 |
| Gain on divestitures of real estate | (405) | (11,525) |
| Non-cash portion of extraordinary items | -- | (1,372) |
| Equity in (earnings)/loss of AMB Investment Management | 1,292 | (720) |
| Equity in (earnings) of unconsolidated joint ventures | (2,559) | (2,328) |
| Changes in assets and liabilities: | | |
| Other assets | (8,068) | 3,724 |
| Other liabilities | 15,766 | 16,381 |
| Net cash provided by operating activities | 120,369 | 116,863 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Change in restricted cash and cash equivalents | 81,693 | -- |
| Cash paid for property acquisitions | (224,210) | (242,712) |
| Additions to land, building, development costs and other first generation improvements | (129,616) | (62,009) |
| Additions to second generation building improvements and lease costs | (15,986) | (12,362) |
| Additions to interest in unconsolidated joint ventures | (4,733) | -- |
| Distributions received from unconsolidated joint ventures | (4,310) | 1,705 |
| Net proceeds from divestitures of real estate | 15,083 | 214,729 |
| Net cash used in investing activities | (282,079) | (100,649) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Issuance of common stock | 269 | 549 |
| Borrowings on unsecured credit facility | 160,000 | 236,000 |
| Borrowings on Alliance Fund I credit facility | 25,000 | -- |
| Borrowings on secured debt | 45,109 | 20,992 |
| Payments on unsecured credit facility | (67,000) | (215,000) |
| Payments on Alliance Fund I credit facility | (54,000) | -- |
| Payments on secured debt | (136) | (46,817) |
| Payment of financing fees | (3,893) | (104) |
| Net proceeds from issuance of Series D preferred units | -- | 77,773 |
| Net proceeds from issuance of Series F preferred units | 19,590 | -- |
| Contributions from investors in the Alliance Fund I | 73,282 | -- |
| Dividends paid to common and preferred stockholders | (35,270) | (63,786) |
| Distributions to minority interests, including preferred units | (19,810) | (10,828) |
| Net cash provided (used) by financing activities | 143,141 | (1,221) |
| Net increase (decrease) in cash and cash equivalents | (18,569) | 14,993 |
| Cash and cash equivalents at beginning of period | 33,312 | 25,137 |
| Cash and cash equivalents at end of period | $ 14,743 | $ 40,130 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| Cash paid for interest | $ 45,536 | $ 47,108 |
| Non-cash transactions: | | |
| Acquisitions of properties | $ 228,103 | $ 314,726 |
| Assumption of debt | (3,893) | (57,480) |
| Minority interest's contribution, including units issued | -- | (14,534) |
| Net cash paid | $ 224,210 | $ 242,712 |

</TABLE>

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

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2000
(UNAUDITED, DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

| | SERIES A PREFERRED STOCK | COMMON STOCK NUMBER OF SHARES | COMMON STOCK AMOUNT | ADDITIONAL PAID-IN CAPITAL | RETAINED EARNINGS | ACCUMULATED OTHER COMPREHENSIVE INCOME | TOTAL |
|---|---|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| BALANCE AT DECEMBER 31, 1999 | $96,100 | 85,133,041 | $851 | $1,656,226 | $ 47,089 | $ 28,993 | $1,829,259 |
| Comprehensive income: | | | | | | | |
| Net income | 4,250 | -- | -- | -- | 56,801 | -- | |
| Unrealized loss on securities | -- | -- | -- | -- | -- | (19,032) | |
| Total comprehensive income | | | | | | | 42,019 |
| Issuance of restricted stock, net | -- | 156,675 | 2 | 3,164 | -- | -- | 3,166 |
| Exercise of stock options | -- | 44,903 | -- | 950 | -- | -- | 950 |
| Cancellation of common stock | -- | (1,465,926) | (14) | (29,304) | -- | -- | (29,318) |
| Deferred compensation | -- | -- | -- | (3,166) | -- | -- | (3,166) |
| Deferred compensation amortization | -- | -- | -- | 596 | -- | -- | 596 |
| Reallocation of limited partners' interests in Operating Partnership and other | -- | -- | -- | 1,594 | -- | -- | 1,594 |
| Dividends | (4,250) | -- | -- | -- | (62,050) | -- | (66,300) |
| BALANCE AT JUNE 30, 2000 | $96,100 | 83,868,693 | $839 | $1,630,060 | $ 41,840 | $ 9,961 | $1,778,800 |

</TABLE>

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



AMB PROPERTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2000
(UNAUDITED)

## 1. ORGANIZATION AND BASIS OF PRESENTATION

AMB Property Corporation, a Maryland corporation (the "Company"), commenced operations as a fully integrated real estate company effective with the completion of its initial public offering on November 26, 1997. The Company elected to be taxed as a real estate investment trust under Sections 856 through 860 of the Internal Revenue Code of 1986, commencing with its taxable year ended December 31, 1997, and believes its current organization and method of operation will enable it to maintain its status as a real estate investment trust. The Company, through its controlling interest in its subsidiary, AMB Property, L.P., a Delaware limited partnership (the "Operating Partnership"), is engaged in the acquisition, ownership, operation, management, renovation, expansion and development of industrial buildings in target markets nationwide. Unless the context otherwise requires, the "Company" means AMB Property Corporation, the Operating Partnership and its other controlled subsidiaries.

As of June 30, 2000, the Company owned an approximate 93.4% general partner interest in the Operating Partnership, excluding preferred units. The remaining approximate 6.6% limited partner interest is owned by non-affiliated investors and certain current and former directors and officers of the Company. For local law purposes, certain properties are owned through limited partnerships and limited liability companies. The ownership of such properties through such

entities does not materially affect the Company's overall ownership of the interests in the properties. As the sole general partner of the Operating Partnership, the Company has the full, exclusive and complete responsibility and discretion in the day-to-day management and control of the Operating Partnership. Net operating results of the Operating Partnership are allocated after preferred unit distributions based on the respective partners' ownership interests.

Through the Operating Partnership, the Company enters into co-investment joint ventures with institutional investors. These co-investment joint ventures provide the Company with an additional source of capital to fund certain acquisitions and development and renovation projects. As of June 30, 2000, the Company had investments in two co-investment joint ventures, including AMB Institutional Alliance Fund I, L.P. ("Alliance Fund I"), which are consolidated for financial reporting purposes. The Company generally owns 20 - 50% of the equity interests in these joint ventures and maintains control over the joint ventures' operations, financing and investment decisions.

Prior to the Company's initial public offering in November 1997, the Company's predecessor provided real estate investment advisory services to institutional investors. In connection with the initial public offering, AMB Investment Management, Inc., a Maryland corporation ("AMB Investment Management"), was formed to continue the investment management business of providing real estate investment services on a fee basis to clients. The Operating Partnership purchased 100% of AMB Investment Management's non-voting preferred stock (representing a 95% economic interest therein). Certain current and former executive officers of the Company and a former executive officer of AMB Investment Management collectively purchased 100% of AMB Investment Management's voting common stock (representing a 5% economic interest therein). The Operating Partnership also owns 100% of the non-voting preferred stock of Headlands Realty Corporation, a Maryland corporation, (representing a 95% economic interest therein). Certain current and former executive officers of the Company and a director of Headlands Realty Corporation collectively own 100% of the voting common stock of Headlands Realty Corporation (representing a 5% economic interest therein). Headlands Realty Corporation invests in properties and interests in entities that engage in the management, leasing and development of properties and similar activities. The Operating Partnership accounts for its investment in AMB Investment Management and Headlands Realty Corporation using the equity method of accounting.

As of June 30, 2000, the Company owned 780 industrial buildings and nine retail centers, located in 25 markets throughout the United States. The Company's strategy is to become a leading provider of High Throughput Distribution, or HTD, properties located near key passenger and cargo airports, highway systems





and ports in major metropolitan areas, such as Atlanta, Chicago, Dallas/Fort Worth, Northern New Jersey/ New York City, the San Francisco Bay Area and Southern California. As of June 30, 2000, the industrial buildings, principally warehouse distribution buildings, encompassed approximately 69.2 million rentable square feet and were 97.0% leased to over 2,400 tenants. As of June 30, 2000, the retail centers, principally grocer-anchored community shopping centers, encompassed approximately 1.6 million rentable square feet and were 90.2% leased to over 200 tenants.

## 2. INTERIM FINANCIAL STATEMENTS

The consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and note disclosures normally included in the annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted.

The consolidated financial statements for prior periods have been reclassified to conform to current classifications with no effect on results of operations. General and administrative expenses on the Consolidated Statements of Operations includes internal asset management costs of $2.1 million and $2.5 million for the three months ended June 30, 2000 and 1999, respectively, and $4.5 million and $4.6 million for the six months ended June 30, 2000 and 1999, respectively. Prior to the third quarter of 1999, these costs were classified as property operating expenses.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments, of a normal recurring nature, necessary for a fair presentation of the Company's consolidated financial position and results of operations for the interim periods.

The interim results of the three and six months ended June 30, 2000 and 1999, are not necessarily indicative of the future results. These financial

statements should be read in conjunction with the financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 1999.

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

3. REAL ESTATE ACQUISITION AND DEVELOPMENT ACTIVITY

During the second quarter of 2000, the Company invested $193.6 million in operating properties, consisting of 52 industrial buildings aggregating approximately 2.4 million square feet, including the investment of $75.9 million in operating properties, consisting of 25 industrial buildings aggregating approximately 0.9 million square feet, by the Alliance Fund I. Year to date, the Company has invested $228.1 million in operating properties, consisting of 58 industrial buildings aggregating approximately 3.0 million square feet.

The Company also initiated five new development projects and three new renovation projects during the second quarter, which will aggregate approximately 1.8 million square feet and have a total estimated cost of $74.3 million upon completion. Five development projects and one renovation project, aggregating approximately 1.4 million square feet, were completed during the quarter, at a total cost of $66.2 million. As of June 30, 2000, the Company had 23 industrial projects, which will total approximately 5.7 million square feet and have an aggregate estimated investment of $341.9 million upon completion, in its development pipeline





and two retail projects (excluding two development projects held for divestiture), which will total approximately 0.2 million square feet and have an aggregate estimated investment of $34.8 million upon completion, in its development pipeline. As of June 30, 2000, $218.5 million had been funded and approximately $158.2 million was estimated to be required to complete projects currently under construction or for which the Company has committed to complete.

4. PROPERTY DIVESTITURES AND PROPERTIES HELD FOR DIVESTITURE

Property Divestitures. In June 2000, the Company divested itself of two industrial buildings located in Denver, Colorado, aggregating approximately 0.1 million square feet, for an aggregate price of $2.8 million. The divestitures during the second quarter resulted in an aggregate net gain of $0.4 million. To date, the Company has divested itself of six industrial buildings, aggregating approximately 0.4 million square feet, for an aggregate price of $15.7 million, with a resulting net gain of $0.4 million.

Properties Held for Divestiture. The Company has decided to divest itself of six retail centers, two industrial buildings, and one land parcel, which are not in its core markets or which do not meet its strategic objectives. The divestitures of the properties are subject to negotiation of acceptable terms and other customary conditions. As of June 30, 2000, the net carrying value of the properties held for divestiture was $235.4 million.

The following summarizes the condensed results of operations of the properties held for divestiture at June 30, 2000 for the three and six months ended June 30, 2000 and 1999 (dollars in thousands):

PROPERTIES HELD FOR DIVESTITURE

<TABLE>
<CAPTION>

| | THREE MONTHS ENDED JUNE 30, | |
|---|---|---|
| | 2000 | 1999 |
| <S> | <C> | <C> |
| Income | $ 6,054 | $ 6,438 |
| Property operating expenses | 1,864 | 2,035 |
| Net operating income | $ 4,190 | $ 4,403 |

</TABLE>

<TABLE>
<CAPTION>

SIX MONTHS ENDED

| | JUNE 30, 2000 | JUNE 30, 1999 |
|---|---|---|
| Income | $12,494 | $12,844 |
| Property operating expenses | 3,680 | 3,874 |
| Net operating income | $ 8,814 | $ 8,970 |





5. DEBT

As of June 30, 2000 and December 31, 1999, debt consisted of the following (dollars in thousands):

| | JUNE 30, 2000 | DECEMBER 31, 1999 |
|---|---|---|
| Secured debt, varying interest rates from 4.0% to 10.4% due May 2000 to January 2014 | $ 740,141 | $ 696,931 |
| Alliance Fund I credit facility, variable interest at LIBOR plus 87.5 basis points (weighted average interest rate of 7.5% at June 30, 2000), due April 2001 | 51,000 | 80,000 |
| Unsecured senior debt securities, weighted average interest rate of 7.2%, due June 2008, June 2015 and June 2018 | 400,000 | 400,000 |
| Unsecured credit facility, variable interest at LIBOR plus 75 basis points (weighted average interest rate of 7.5% at June 30, 2000), due May 2003 | 176,000 | 83,000 |
| Subtotal | 1,367,141 | 1,259,931 |
| Unamortized premiums | 10,950 | 10,106 |
| Total consolidated debt | $1,378,091 | $1,270,037 |

Secured debt generally requires monthly principal and interest payments. The secured debt is secured by deeds of trust on certain properties. As of June 30, 2000, the total gross investment book value of those properties secured by debt was $1.6 billion. All of the secured debt bears interest at fixed rates, except for two loans with an aggregate principal amount of $18.4 million, which bear interest at variable rates. The secured debt has various financial and non-financial covenants. Management believes that the Company was in material compliance with these covenants at June 30, 2000. Additionally, certain of the secured debt is cross-collateralized.

The Alliance Fund I has a $80.0 million unsecured credit facility. The debt is secured by the unfunded capital commitments of the third party investors in AMB Institutional Alliance REIT I, Inc. (the "Alliance REIT"), a limited partner in the Alliance Fund I. Alliance REIT is also the guarantor. The debt bears interest at LIBOR plus 87.5 basis points and matures in April 2001. See Note 6 for a discussion of the Alliance REIT and the Alliance Fund I.

Interest on the senior debt securities is payable semiannually in each June and December commencing December 1998. The 2015 notes are putable and callable in June 2005. The senior debt securities are subject to various financial and non-financial covenants. Management believes that the Company was in material compliance with these covenants at June 30, 2000.

On May 24, 2000, the Operating Partnership entered into a new $500 million unsecured revolving credit agreement which replaced its previous $500 million credit facility that was to mature in November 2000. The Company is a guarantor of the Operating Partnership's obligations under the credit facility. The new credit facility is with Morgan Guaranty Trust Company of New York, as administrative agent, Bank of America, N.A., as syndication agent, The Chase Manhattan Bank, as document agent, J.P. Morgan Securities Inc. and Banc of America Securities, LLC, as joint lead arrangers and joint bookmanagers, and a syndicate of 12 other banks. The new credit facility matures in May 2003, has a one-year extension option and is subject to a 15 basis point fee annual facility fee. The credit facility has various financial and non-financial covenants.

Management believes that the Company and the Operating Partnership were in material compliance with these covenants at June 30, 2000. The Operating Partnership has the ability to increase available borrowings up to $700 million by adding additional banks to the facility or obtaining the agreement of existing banks to




increase their commitments. The rate on the borrowings will generally be LIBOR plus, based on the current credit rating of the Operating Partnership's long-term debt, 75 basis points.

Capitalized interest related to construction projects for the three and six months ended June 30, 2000 and 1999 was $4.2 million, $2.9 million, $7.2 million and $5.5 million, respectively.

The scheduled maturities of the Company's total debt, excluding unamortized debt premiums, as of June 30, 2000, were (dollars in thousands):

<TABLE>
<CAPTION>

| | SECURED DEBT | UNSECURED SENIOR DEBT SECURITIES | UNSECURED CREDIT FACILITY | ALLIANCE FUND I CREDIT FACILITY | TOTAL |
|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> |
| 2000 (six months)........... | $ 23,810 | $ -- | $ -- | $ -- | $ 23,810 |
| 2001........................ | 38,116 | -- | -- | 51,000 | 89,116 |
| 2002........................ | 67,382 | -- | -- | -- | 67,382 |
| 2003........................ | 75,442 | -- | 176,000 | -- | 251,442 |
| 2004........................ | 90,528 | -- | -- | -- | 90,528 |
| 2005........................ | 70,114 | 100,000 | -- | -- | 170,114 |
| 2006........................ | 135,616 | -- | -- | -- | 135,616 |
| 2007........................ | 48,246 | -- | -- | -- | 48,246 |
| 2008........................ | 130,990 | 175,000 | -- | -- | 305,990 |
| 2009........................ | 1,811 | -- | -- | -- | 1,811 |
| 2010........................ | 53,467 | -- | -- | -- | 53,467 |
| Thereafter.................. | 4,619 | 125,000 | -- | -- | 129,619 |
| | $740,141 | $400,000 | $176,000 | $51,000 | $1,367,141 |

</TABLE>

6. MINORITY INTERESTS IN CONSOLIDATED JOINT VENTURES

Minority interests in the Company represent the limited partnership interests in the Operating Partnership and interests held by certain third parties (some of which are separate account co-investors that are Institutional Alliance Partners) in 26 real estate joint ventures, through which 38 properties are held, that are consolidated for financial reporting purposes. Such investments are consolidated because (i) the Company owns a majority interest or (ii) the Company exercises significant control over major operating decisions such as approval of budgets, selection of property managers and changes in financing.

The Operating Partnership, together with one of the Company's other affiliates, owns, as of June 30, 2000, approximately 22% of the partnership interests in the Alliance Fund I. The Alliance Fund I is a co-investment partnership between the Company and the Alliance REIT, which has 15 institutional investors and stockholders, and is engaged in the acquisition, ownership, operation, management, renovation, expansion and development of primarily industrial buildings in target markets nationwide. As of June 30, 2000, the Alliance Fund I had equity commitments from third party investors totaling $169.0 million, which, when combined with anticipated debt financings and the Company's investment, creates a total committed capitalization of approximately $410.0 million.




The following table distinguishes the minority interest liability as of the quarter ended June 30, 2000 and minority interests' share of net income and for the three and six months ended June 30, 2000 (dollars in thousands):

<TABLE>

<CAPTION>

| | MINORITY INTEREST LIABILITY AS OF JUNE 30, 2000 | MINORITY INTEREST SHARE OF NET INCOME | |
|---|---|---|---|
| | | THREE MONTHS ENDED JUNE 30, 2000 | SIX MONTHS ENDED JUNE 30, 2000 |
| <S> | <C> | <C> | <C> |
| Joint venture partners | $ 20,131 | $ 721 | $ 1,350 |
| Separate account co-investors | 51,124 | 737 | 1,596 |
| Alliance REIT's interest in Alliance Fund I | 91,053 | 848 | 1,217 |
| Limited Partners in the Operating Partnership | 121,421 | 1,915 | 3,858 |
| Series B preferred units (liquidation preference of $65,000) | 62,319 | 1,402 | 2,804 |
| Series C preferred units (liquidation preference of $110,000) | 105,847 | 2,406 | 4,812 |
| Series D preferred units (liquidation preference of $79,767) | 77,688 | 1,545 | 3,090 |
| Series E preferred units (liquidation preference of $11,022) | 10,789 | 214 | 428 |
| Series F preferred units (liquidation preference of $19,872) | 19,590 | 395 | 438 |
| Total | $559,962 | $10,183 | $19,593 |

</TABLE>

7. INVESTMENT IN UNCONSOLIDATED JOINT VENTURES

The Company has a 56.1% and a 50.0% non-controlling limited partnership interest in two separate unconsolidated equity investment joint ventures, which were purchased in June 1998 and September 1999, respectively. One of the joint ventures owns an aggregate of 36 industrial buildings totaling approximately 4.0 million square feet. The other joint venture is a development project. For the three and six months ended June 30, 2000, the Company's share of net operating income was $2.1 million and $4.1 million, respectively, and, as of June 30, 2000, the Company's share of the unconsolidated joint ventures' debt was $24.2 million, with a weighted average interest rate of 6.9% and a weighted average maturity of 6.2 years.

8. STOCKHOLDERS' EQUITY

At the time of the Company's initial public offering, 4,237,750 shares of common stock, known as performance shares, were placed in escrow by certain of the Company's investors, which were subject to advisory agreements with the Company's predecessor that included incentive fee provisions. On January 7, 2000, 2,771,824 shares of common stock were released from escrow to these investors and 1,465,926 shares of common stock were returned to the Company and cancelled. The cancelled shares of common stock represent indirect interests in the Operating Partnership that were reallocated from the Company (thereby decreasing the number of shares of common stock outstanding) to other unitholders who had an ownership interest in our predecessor, including certain of the Company's executive officers, (thereby increasing the number of limited partnership units owned by partners other than the Company). The total number of outstanding partnership units did not change as a result of this reallocation. This reallocation did not change the amount of fully diluted shares of common stock and limited partnership units outstanding.





On March 22, 2000, AMB Property II, L.P., one of the Company's subsidiaries, issued and sold 397,439 7.95% Series F Cumulative Redeemable Preferred Limited Partnership Units at a price of $50.00 per unit in a private placement. Distributions are cumulative from the date of issuance and payable quarterly in arrears at a rate per unit equal to $3.975 per annum. The Series F Preferred Units are redeemable by AMB Property II, L.P. on or after March 22, 2005, subject to certain conditions, for cash at a redemption price equal to $50.00 per unit, plus accumulated and unpaid distributions thereon, if any, to the redemption date. The Series F Preferred Units are exchangeable, at specified times and subject to certain conditions, on a one-for-one basis, for shares of the Company's Series F Preferred Stock. AMB Property II, L.P. loaned the net proceeds of $19.6 million to the Operating Partnership. The Operating Partnership used the funds to partially repay borrowings under the Company's unsecured credit facility and for general corporate purposes. The loan bears interest at a rate of 7.0% per annum and is payable upon demand.

The following table sets forth the dividend payments and distributions that

were declared on May 24, 2000:

| SECURITY | PAYING ENTITY | RECORD DATE | PAYMENT PERIOD | DIVIDEND PAYMENT DATE | SECOND QUARTER AMOUNT | YEAR-TO-DATE AMOUNT |
|---|---|---|---|---|---|---|
| Common Stock................ | Company | 7/05/00 | Quarter ended 6/30/00 | 7/17/00 | $0.3700 | $0.7400 |
| OP units.................... | Operating Partnership | 7/05/00 | Quarter ended 6/30/00 | 7/17/00 | $0.3700 | $0.7400 |
| Series A preferred stock.... | Company | 7/05/00 | 3 months ended 7/14/00 | 7/17/00 | $0.5313 | $1.0626 |
| Series A preferred units.... | Operating Partnership | 7/05/00 | 3 months ended 7/14/00 | 7/17/00 | $0.5313 | $1.0626 |
| Series B preferred units.... | Operating Partnership | 7/05/00 | 3 months ended 7/14/00 | 7/17/00 | $1.0781 | $2.1562 |
| Series C preferred units.... | AMB Property II, L.P. | 7/05/00 | 3 months ended 7/14/00 | 7/17/00 | $1.0938 | $2.1876 |
| Series D preferred units.... | AMB Property II, L.P. | 6/15/00 | 3 months ended 6/24/00 | 6/26/00 | $0.9688 | $1.9376 |
| Series E preferred units.... | AMB Property II, L.P. | 7/05/00 | 3 months ended 7/14/00 | 7/17/00 | $0.9688 | $1.9376 |
| Series F preferred units.... | AMB Property II, L.P. | 7/05/00 | 3 months ended 7/14/00 | 7/17/00 | $0.9938 | $1.1030 |

9. INCOME PER SHARE

The Company's only dilutive securities outstanding for the three and six months ended June 30, 2000 and 1999 were stock options granted under its stock incentive plan. The effect of the stock options was to increase weighted average shares outstanding by 276,394 and 182,207 shares for the three months ended June 30, 2000 and 1999, respectively, and 145,218 shares and 100,891 shares for the six months ended June 30, 2000 and 1999, respectively. Such dilution was computed using the treasury stock method.





10. SEGMENT INFORMATION

The Company has two reportable segments: industrial properties and retail properties. The industrial properties consist primarily of warehouse distribution facilities suitable for single or multiple tenants and are typically comprised of multiple buildings that are leased to tenants engaged in various types of businesses. The retail properties are generally leased to one or more anchor tenants, such as grocery and drug stores, and various retail businesses. The accounting policies of the segments are the same as those described in the Company's Annual Report on Form 10-K for the year ended December 31, 1999. The Company evaluates performance based upon property net operating income of the combined properties in each segment. The Company's properties are managed separately because each segment requires different operating, pricing and leasing strategies. Significant information used by the Company for the reportable segments is as follows (dollars in thousands):

| | INDUSTRIAL PROPERTIES | RETAIL PROPERTIES | TOTAL PROPERTIES |
|---|---|---|---|
| FOR THE THREE MONTHS ENDED JUNE 30: | | | |
| Rental revenues(1): | | | |
| 2000................................................ | $ 103,735 | $ 6,862 | $ 110,597 |
| 1999................................................ | 87,161 | 26,369 | 113,530 |
| Property net operating income(1, 2): | | | |
| 2000................................................ | 80,766 | 4,743 | 85,509 |
| 1999................................................ | 65,524 | 19,651 | 85,175 |
| FOR THE SIX MONTHS ENDED JUNE 30: | | | |
| Rental revenues(1): | | | |
| 2000................................................ | $ 204,769 | $14,094 | $ 218,863 |
| 1999................................................ | 164,760 | 56,427 | 221,187 |
| Property net operating income(1, 2): | | | |
| 2000................................................ | 158,859 | 9,943 | 168,802 |
| 1999................................................ | 125,157 | 40,271 | 165,428 |
| Investment in properties(3): | | | |
| As of: | | | |
| June 30, 2000...................................... | 3,530,417 | 34,327 | 3,564,744 |
| December 31, 1999.................................. | 3,177,283 | 72,169 | 3,249,452 |

- ---------------
(1) Includes straight-line rents of $2.2 million and $2.8 million for the three months ended June 30, 2000 and 1999, respectively, and $5.3 million and $5.5 million for the six months ended June 30, 2000 and 1999, respectively.

(2) Property net operating income is defined as rental revenue, including reimbursements and straight-line rents, less property level operating expenses, excluding depreciation, amortization, general and administrative expenses and interest expense.

(3) Excludes net properties held for divestiture of $235.4 million and $181.2 million as of June 30, 2000 and December 31, 1999, respectively.




The Company uses property net operating income as an operating performance measure. The following is a reconciliation between total reportable segment revenue and property net operating income to consolidated revenues and net income (dollars in thousands):

| | FOR THE THREE MONTHS ENDED JUNE 30, | | FOR THE SIX MONTHS ENDED JUNE 30, | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| REVENUES | | | | |
| Total rental revenues for reportable segments | $110,597 | $113,530 | $218,863 | $221,187 |
| Investment management and other income | 2,882 | 1,847 | 4,939 | 3,762 |
| Total consolidated revenues | $113,479 | $115,377 | $223,802 | $224,949 |
| NET INCOME | | | | |
| Property net operating income for reportable segments | $ 85,509 | $ 85,175 | $168,802 | $165,428 |
| Equity in earnings of unconsolidated joint ventures | 1,317 | 1,177 | 2,559 | 2,328 |
| Investment management and other income | 1,565 | 670 | 2,380 | 1,434 |
| Less: | | | | |
| General and administrative | (5,984) | (6,807) | (11,335) | (13,009) |
| Interest expense | (20,002) | (23,591) | (40,344) | (46,558) |
| Depreciation and amortization | (22,631) | (15,178) | (41,823) | (33,602) |
| Minority interests | (10,183) | (8,145) | (19,593) | (14,706) |
| Net income before gain from divestitures of real estate | 29,591 | 33,301 | 60,646 | 61,315 |
| Gain from divestiture of real estate | 416 | 11,525 | 405 | 11,525 |
| Net income before extraordinary items | 30,007 | 44,826 | 61,051 | 72,840 |
| Extraordinary items | -- | (1,509) | -- | (1,509) |
| Net income | $ 30,007 | $ 43,317 | $ 61,051 | $ 71,331 |

11. COMMITMENTS AND CONTINGENCIES

Litigation

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

Environmental Matters

The Company follows the policy of monitoring its properties for the presence of hazardous or toxic substances. The Company is not aware of any environmental liability that would have a material adverse effect on the Company's business, assets or results of operations; however, there can be no assurance that such a material environmental liability does not exist. The existence of any such material environmental liability would have an adverse effect on the Company's results of operations and cash flow.

General Uninsured Losses

The Company carries comprehensive liability, fire, flood, environmental, extended coverage and rental loss insurance with policy specifications, limits and deductibles that the Company believes are adequate and appropriate under the circumstances given the relative risk of loss, the cost of such coverage and industry practice. There are, however, certain types of extraordinary losses that may be either uninsurable or not economically insurable. Certain of the properties are located in areas that are subject to earthquake activity; therefore, the Company has obtained limited earthquake insurance on those properties. Should an uninsured loss occur, the Company could lose its investment in, and anticipated profits and cash flows from, a property.



ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our consolidated financial condition and results of operations in conjunction with the Notes to Consolidated Financial Statements. Statements contained in this discussion that are not historical facts may be forward-looking statements. You can identify forward-looking statements by the use of forward-looking terminology such as "believes," "expects," "may," "will," "should," "seeks," "approximately," "intends," "plans," "pro forma," "estimates, or "anticipates" or the negative of these words and phrases or similar words or phrases. You can also identify forward-looking statements by discussions of strategy, plans, or intentions. Forward-looking statements involve numerous risks and uncertainties and you should not rely upon them as predictions of future events. There is no assurance that the events or circumstances reflected in forward-looking statements will be achieved or occur. Forward-looking statements are necessarily dependent on assumptions, data, or methods that may be incorrect or imprecise and we may not be able to realize them.

The following factors, among others, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements:

- defaults or non-renewal of leases by tenants;

- increased interest rates and operating cost;

- our failure to obtain necessary outside financing;

- difficulties in identifying properties to acquire and in effecting acquisitions;

- our failure to successfully integrate acquired properties and operations;

- our failure to divest of properties that we have contracted to sell or to timely reinvest proceeds from any such divestitures;

- risks and uncertainties affecting property development and construction (including construction delays, cost overruns, our inability to obtain necessary permits, and public opposition to these activities);

- our failure to qualify and maintain our status as a real estate investment trust under the Internal Revenue Code of 1986;

- environmental uncertainties;

- risks related to natural disasters;

- financial market fluctuations;

- changes in real estate and zoning laws; and

- increases in real property tax rates.

Our success also depends upon economic trends generally, including interest rates, income tax laws, governmental regulation, legislation, population changes, and those risk factors discussed in the section entitled "Business Risks" in this report. We caution you not to place undue reliance on forward-looking statements, which reflect our analysis only and speak only as of the date of this report or the dates indicated in the statements.

Unless the context otherwise requires, the terms "we," "us" and "our" refer to AMB Property Corporation, the operating partnership and the other controlled subsidiaries and the references to AMB Property Corporation include the operating partnership and the other controlled subsidiaries. The following marks are our registered trademarks: AMB(R); Customer Alliance Partners(R); Customer Alliance Program(R); Development Alliance Partners(R); Development Alliance

Program(R); Institutional Alliance Partners(R); Management Alliance Partners(R); Management Alliance Program(R); UPREIT Alliance Partners(R); and UPREIT Alliance Program(R). The following are our unregistered trademarks: Broker Alliance Partners(TM); Broker Alliance Program(TM); eSpace(TM); HTD(TM); High Throughput Distribution(TM); Institutional Alliance Program(TM); iSpace(TM); Strategic Alliance Partners(TM); and Strategic Alliance Programs(TM).



## THE COMPANY

AMB Property Corporation, a Maryland corporation, is one of the leading owners and operators of industrial real estate nationwide. Our investment strategy is to become a leading provider of High Throughput Distribution, or HTD, properties located near key passenger and cargo airports, highway systems and ports in major metropolitan areas, such as Atlanta, Chicago, Dallas/Fort Worth, Northern New Jersey/New York City, the San Francisco Bay Area and Southern California. Within each of our markets, we focus our investments in in-fill submarkets. In-fill submarkets are characterized by supply constraints on the availability of land for competing projects. High Throughput Distribution facilities are designed to serve the high-speed, high-value freight handling needs of today's supply chain, as opposed to functioning as long-term storage facilities. We believe that the rapid growth of the air-freight business, the outsourcing of supply chain management to third party logistics companies and e-commerce are indicative of the changes that are occurring in the supply chain and the manner in which goods are distributed. In addition, we believe that inventory levels as a percentage of final sales are falling and that goods are moving more rapidly through the supply chain. As a result, we intend to focus our investment activities primarily on industrial properties that we believe will benefit from these changes.

As of June 30, 2000, we owned and operated 780 industrial buildings and nine retail centers, totaling approximately 70.8 million rentable square feet, located in 25 markets nationwide. As of June 30, 2000, these properties were 97.0% leased. As of June 30, 2000, through our subsidiary, AMB Investment Management, we also managed 43 industrial buildings and retail centers, totaling approximately 4.4 million rentable square feet, which were 98.3% leased, on behalf of various institutional investors. In addition, we have invested in 36 industrial buildings, totaling approximately 4.0 million rentable square feet, through an unconsolidated joint venture.

As of June 30, 2000, we had six retail centers, two industrial buildings and one land parcel, which were held for divestiture. In addition, during the second quarter of 2000, we disposed of two industrial buildings, aggregating approximately 0.4 million rentable square feet, for an aggregate price of $2.8 million. Over the next few years, we intend to dispose of non-strategic assets and redeploy the resulting capital into High Throughput Distribution properties that better fit our current investment focus.

Through our subsidiary, AMB Property, L.P., a Delaware limited partnership, we are engaged in the acquisition, ownership, operation, management, renovation, expansion and development of primarily industrial properties in target markets nationwide. We refer to AMB Property, L.P. as the operating partnership. As of June 30, 2000, we owned an approximate 93.4% general partnership interest in the operating partnership, excluding preferred units. As the sole general partner of the operating partnership, we have the full, exclusive and complete responsibility and discretion in the day-to-day management and control of the operating partnership.

Through the operating partnership, we enter into co-investment joint ventures with institutional investors. These co-investment joint ventures provide us with an additional source of capital to fund certain acquisitions and developments and renovation projects. As of June 30, 2000, we had investments in two co-investment joint ventures, including Alliance Fund I., which are consolidated for financial reporting purposes. We generally own 20 - 50% of the equity interests in these joint ventures and maintains control over the joint ventures' operations, financing and investment decisions.

The operating partnership is the managing general partner of the Alliance Fund I and, together with one of our other affiliates, owns, as of June 30, 2000, approximately 22% of the partnership interests in the Alliance Fund I. The Alliance Fund I is a co-investment partnership between us and the Alliance REIT, which has 15 institutional investors as stockholders and is engaged in the acquisition, ownership, operation, management, renovation, expansion and development of primarily industrial buildings in target markets nationwide. As of June 30, 2000, the Alliance Fund I had equity commitments from third party investors totaling $169.0 million, which, when combined with anticipated debt financings and our investment, creates a total committed capitalization of approximately $410.0 million.



We are self-administered and self-managed and expect that we have qualified and will continue to qualify as a real estate investment trust for federal income tax purposes beginning with the year ending December 31, 1997. As a

self-administered and self-managed real estate investment trust, our own employees perform our administrative and management functions, rather than our relying on an outside manager for these services. The principal executive office of AMB Property Corporation and the operating partnership is located at 505 Montgomery St., San Francisco, CA 94111, and our telephone number is (415) 394-9000. We also maintain a regional office in Boston, Massachusetts.

## ACQUISITION AND DEVELOPMENT ACTIVITY

During the second quarter of 2000, we invested $193.6 million in operating properties, consisting of 52 industrial buildings aggregating approximately 2.4 million square feet, including the investment of $75.9 million in operating properties, consisting of 25 industrial buildings aggregating approximately 0.9 million square feet, by the Alliance Fund I. Year to date, we have invested $228.1 million in operating properties, consisting of 58 industrial buildings aggregating approximately 3.0 million square feet.

We also initiated five new development projects and three new renovation projects during the second quarter, which will aggregate approximately 1.8 million square feet and have a total estimated cost of $74.3 million upon completion. Five development projects and one renovation project, aggregating approximately 1.4 million square feet, were completed during the quarter, at a total cost of $66.2 million. As of June 30, 2000, we had 23 industrial projects, which will total approximately 5.7 million square feet and have a total estimated investment of $341.9 million upon completion, in our development pipeline and two retail projects (excluding two development projects held for divestiture), which will total approximately 0.2 million square feet and have a total estimated investment of $34.8 million upon completion, in its development pipeline. As of June 30, 2000, $218.5 million had been funded and approximately $158.2 million was estimated to be required to complete projects currently under construction or for which we have committed to complete.

## STRATEGIC ALLIANCE PROGRAMS

Our Strategic Alliance Programs are designed to build value by creating mutually beneficial relationships. We believe that our strategy of forming strategic alliances with local and regional real estate experts improves our operating efficiency and flexibility, strengthens customer satisfaction and retention and provides us with growth opportunities. Additionally, our strategic alliances with institutional investors enhance our access to private capital and our ability to finance transactions with a goal of increasing our return on invested capital.

Our six Strategic Alliance Programs can be grouped into two categories:

- Operating Alliances, which allow us to form relationships with local or regional real estate experts, thereby becoming their ally rather than their competitor; and

- Investment Alliances, which allow us to establish relationships with a variety of capital sources.

## OPERATING ALLIANCES

Broker Alliance Program: Through our Broker Alliance Program, we work closely with top local leasing companies in each of our markets, whose brokers provide us with access to high quality customers and local market knowledge.

Customer Alliance Program: Through our Customer Alliance Program, we are building long-term working relationships with major customers. We are committed to working with our customers, particularly our larger customers with multi-site requirements, to satisfy their real estate needs as efficiently as possible.

Development Alliance Program: Our strategy for the Development Alliance Program is to form alliances with local development firms to jointly acquire, renovate and develop properties to serve our customers' needs.

Management Alliance Program: Our strategy for the Management Alliance Program is to develop close relationships with, and outsource property management to, local property management firms that we believe to



be among the best in each of our markets. Our alliances with local property management firms increase our flexibility, reduce our overhead expenses and improve our customer service. In addition, these alliances provide us with local market information related to customer activity and investment opportunities.

## INVESTMENT ALLIANCES

Institutional Alliance Program: Our strategy for the Institutional Alliance Program is to form alliances with institutional investors, which provide us with access to private capital and a source of incremental fee income and investment returns. This program allows our Institutional Alliance Partners the opportunity to co-invest with us and to receive professional investment management of their real estate assets.

UPREIT Alliance Program: Through our UPREIT Alliance Program, we issue from time to time limited partnership units in the operating partnership to certain property owners in exchange for properties, thus providing additional growth for the portfolio.

RESULTS OF OPERATIONS

The analysis below includes changes attributable to acquisitions, development activity and divestitures and the changes resulting from properties that we owned during both the current and prior year reporting periods, excluding development properties prior to being stabilized (90% leased). We refer to these properties as the same store properties. For the comparison between the three and six months ended June 30, 2000 and 1999, the same store properties consisted of properties aggregating approximately 54.5 million square feet. The properties acquired in 1999 consisted of 154 buildings, aggregating approximately 8.4 million square feet, and the properties acquired during the first half of 2000 consisted of 58 buildings, aggregating 3.0 million square feet. In 1999, property divestitures consisted of 30 retail centers and 15 industrial buildings, aggregating approximately 6.6 million square feet, and property divestitures during the first half of 2000 consisted of six industrial buildings, aggregating approximately 0.4 million square feet. Our future financial condition and results of operations, including rental revenues, may be impacted by the acquisition of additional properties and dispositions. Our future revenues and expenses may vary materially from their historical rates.

THREE MONTHS ENDED JUNE 30, 2000 COMPARED TO THE THREE MONTHS ENDED JUNE 30, 1999 (DOLLARS IN MILLIONS):

| RENTAL REVENUES | 2000 | 1999 | $ CHANGE | % CHANGE |
|---|---|---|---|---|
| Same store | $ 82.5 | $ 78.0 | $ 4.5 | 5.8% |
| 1999 acquisitions | 20.1 | 11.1 | 9.0 | 81.1% |
| 2000 acquisitions | 3.8 | -- | 3.8 | -- |
| Developments | 1.8 | 0.8 | 1.0 | 125.0% |
| Divestitures | 0.2 | 20.8 | (20.6) | (99.0)% |
| Straight-line rents | 2.2 | 2.8 | (0.6) | (21.4)% |
| Total | $110.6 | $113.5 | $ (2.9) | (2.6)% |

The growth in rental revenues in same store properties resulted primarily from the incremental effect of cash rental rate increases and changes in occupancy and reimbursement of expenses. During the three months ended June 30, 2000, the same store properties increase in base rents (cash basis) was 22.2% on 3.3 million square feet leased.

| INVESTMENT MANAGEMENT AND OTHER INCOME | 2000 | 1999 | $ CHANGE | % CHANGE |
|---|---|---|---|---|
| Equity earnings in unconsolidated joint ventures | $1.3 | $1.2 | $0.1 | 8.3% |
| Investment management and other income | 1.6 | 0.6 | 1.0 | 166.7% |
| Total | $2.9 | $1.8 | $1.1 | 61.1% |



The $1.0 million increase in investment management and other income was due to increased acquisition fees and interest income.

| PROPERTY OPERATING EXPENSES AND REAL ESTATE TAXES | 2000 | 1999 | $ CHANGE | % CHANGE |
|---|---|---|---|---|
| Rental expenses | $11.6 | $13.5 | $(1.9) | (14.1)% |
| Real estate taxes | 13.5 | 14.8 | (1.3) | (8.8)% |
| Property operating expenses | $25.1 | $28.3 | $(3.2) | (11.3)% |
| Same store | $18.3 | $18.6 | $(0.3) | (1.6)% |
| 1999 acquisitions | 5.3 | 2.8 | 2.5 | 89.3% |
| 2000 acquisitions | 1.0 | -- | 1.0 | -- |
| Developments | 0.4 | 0.3 | 0.1 | 33.3% |
| Divestitures | 0.1 | 6.6 | (6.5) | (98.5)% |

| | | | | |
|---|---|---|---|---|
| Total | $25.1 | $28.3 | $(3.2) | (11.3)% |
| | ===== | ===== | ===== | ===== |

</TABLE>

Internal asset management costs of $2.5 million for the three months ended June 30, 1999, have been reclassified from property operating expenses to general and administrative expenses to conform with current year presentation. The decrease in same store properties' operating expenses primarily relates to decreases in insurance of $0.3 million.

<TABLE>
<CAPTION>

| OTHER EXPENSES | 2000 | 1999 | $ CHANGE | % CHANGE |
|---|---|---|---|---|
| Interest expense | $20.0 | $23.6 | $(3.6) | (15.3)% |
| Depreciation expense | 22.6 | 15.2 | 7.4 | 48.7% |
| General and administrative expense | 6.0 | 6.8 | (0.8) | (11.8)% |
| Total | $48.6 | $45.6 | $ 3.0 | 6.6% |

</TABLE>

Internal asset management costs of $2.5 million for the three months ended June 30, 1999, have been reclassified from property operating expenses to general and administrative expenses to conform with current year presentation. The decrease in interest expense was primarily due to the decrease in our unsecured credit facility balance and the increase in interest capitalized. The increase in depreciation expense was primarily due to lower than normal depreciation expense in 1999. Under the required accounting for assets held for sale, we discontinued depreciation of a substantial portion of our retail portfolio after we committed to dispose of a portion of the portfolio in March 1999. The decrease in general and administrative expenses was due to timing differences.

SIX MONTHS ENDED JUNE 30, 2000 COMPARED TO THE SIX MONTHS ENDED JUNE 30, 1999 (DOLLARS IN MILLIONS):

<TABLE>
<CAPTION>

| RENTAL REVENUES | 2000 | 1999 | $ CHANGE | % CHANGE |
|---|---|---|---|---|
| Same store | $163.5 | $155.1 | $ 8.4 | 5.4% |
| 1999 acquisitions | 39.5 | 14.4 | 25.1 | 174.3% |
| 2000 acquisitions | 4.2 | -- | 4.2 | -- |
| Developments | 3.6 | 1.8 | 1.8 | 100.0% |
| Divestitures | 2.8 | 44.4 | (41.6) | (93.7)% |
| Straight-line rents | 5.3 | 5.5 | (0.2) | (3.6)% |
| Total | $218.9 | $221.2 | $ (2.3) | (1.0)% |

</TABLE>



The growth in rental revenues in same store properties resulted primarily from the incremental effect of cash rental rate increases and changes in occupancy and reimbursement of expenses. During the six months ended June 30, 2000, the same store properties increase in base rents (cash basis) was 18.1% on 6.1 million square feet leased.

<TABLE>
<CAPTION>

| INVESTMENT MANAGEMENT AND OTHER INCOME | 2000 | 1999 | $ CHANGE | % CHANGE |
|---|---|---|---|---|
| Equity earnings in unconsolidated joint ventures | $2.5 | $2.3 | $0.2 | 8.7% |
| Investment management and other income | 2.4 | 1.5 | 0.9 | 60.0% |
| Total | $4.9 | $3.8 | $1.1 | 28.9% |

</TABLE>

The $0.9 million increase in investment management and other income was due to increased acquisition fees and interest income.

<TABLE>
<CAPTION>

| PROPERTY OPERATING EXPENSES AND REAL ESTATE TAXES | 2000 | 1999 | $ CHANGE | % CHANGE |
|---|---|---|---|---|
| Rental expenses | $23.1 | $26.0 | $ (2.9) | (11.2)% |
| Real estate taxes | 27.0 | 29.8 | (2.8) | (9.4)% |

| | | | | |
|---|---|---|---|---|
| Property operating expenses | $50.1 | $55.8 | $ (5.7) | (10.2)% |
| Same store | $37.2 | $37.6 | $ (0.4) | (1.1)% |
| 1999 acquisitions | 10.5 | 3.8 | 6.7 | 176.3% |
| 2000 acquisitions | 1.1 | -- | 1.1 | -- |
| Developments | 1.0 | 0.6 | 0.4 | 66.7% |
| Divestitures | 0.3 | 13.8 | (13.5) | (97.8)% |
| Total | $50.1 | $55.8 | $ (5.7) | (10.2)% |

</TABLE>

Internal asset management costs of $4.6 million for the six months ended June 30, 1999, have been reclassified from property operating expenses to general and administrative expenses to conform with current year presentation. The decrease in same store properties operating expenses primarily relates to decreases in insurance costs of $0.8 million.

<TABLE>
<CAPTION>

| OTHER EXPENSES | 2000 | 1999 | $ CHANGE | % CHANGE |
|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> |
| Interest expense | $40.4 | $46.6 | $(6.2) | (13.3)% |
| Depreciation expense | 41.8 | 33.6 | 8.2 | 24.4% |
| General and administrative expense | 11.3 | 13.0 | (1.7) | (13.1)% |
| Total | $93.5 | $93.2 | $ 0.3 | 0.3% |

</TABLE>

Internal asset management costs of $4.6 million for the six months ended June 30, 1999, have been reclassified from property operating expenses to general and administrative expenses to conform with current year presentation. The decrease in interest expense was primarily due to the decrease in our unsecured credit facility balance and the increase in interest capitalized. The increase in depreciation expense was primarily due to lower than normal depreciation expense in 1999. Under the required accounting for assets held for sale, we discontinued depreciation of a substantial portion of our retail portfolio after we committed to dispose of a portion of the portfolio in March 1999. The decrease in general and administrative expenses was due to timing differences.

## LIQUIDITY AND CAPITAL RESOURCES

We currently expect that our principal sources of working capital and funding for acquisitions, development, expansion, and renovation of properties will include cash flow from operations, borrowings under our unsecured credit facility, other forms of secured or unsecured financing, proceeds from equity or debt offerings by us or the operating partnership (including issuances of limited partnership units in the operating partnership or its subsidiaries) and net proceeds from divestitures of properties. We believe that our sources of working capital and our ability to access private and public debt and equity capital are adequate for us to meet our liquidity requirements for the foreseeable future.



### CAPITAL RESOURCES

Property Divestitures. In June 2000, we divested ourselves of two industrial buildings, located in Denver, Colorado aggregating approximately 0.1 million square feet, for an aggregate price of $2.8 million. This divestiture during the second quarter resulted in an aggregate net gain of $0.4 million. To date, we have divested ourselves of six industrial buildings, aggregating approximately 0.4 million square feet, for an aggregate price of $15.7 million, with a resulting net gain of $0.4 million.

Credit Facilities. On May 24, 2000, the operating partnership, entered into a new $500 million unsecured revolving credit agreement, which replaced its previous $500 million credit facility that was to mature in November 2000. We are a guarantor of the operating partnership's obligations under the credit facility. The new credit facility is with Morgan Guaranty Trust Company of New York, as administrative agent, Bank of America, N.A., as syndication agent, The Chase Manhattan Bank, as document agent, J.P. Morgan Securities Inc. and Banc of America Securities, LLC, as joint lead arrangers and joint bookmanagers, and a syndicate of 12 other banks. The new credit facility matures in May 2003 and has a one-year extension option. The operating partnership has the ability to increase available borrowings up to $700 million by adding additional banks to the facility or obtaining the agreement of existing banks to increase its commitments. The rate on the borrowings will generally be LIBOR plus, based on the current credit rating of the operating partnership's long-term debt, 75 basis points. In addition, there is a 15 basis point annual facility fee. We use our unsecured credit facility principally for acquisitions and for general

working capital requirements. Borrowing under our credit facility bear interest at LIBOR plus 75 basis points. As of June 30, 2000, the outstanding balance on our unsecured credit facility was $176.0 million and it bore interest at a weighted average rate of 7.5%. Monthly debt service payments on our credit facility are interest only. The total amount available under our credit facility fluctuates based upon the borrowing base, as defined in the agreement governing the credit facility. At June 30, 2000, the remaining amount available under our unsecured credit facility was $324.0 million.

In addition, we have an $80.0 million unsecured credit facility held through our investment in the Alliance Fund I. The debt is secured by the unfunded capital commitments of the third party investors in the Alliance REIT I, a limited partner of the Alliance Fund I. The debt bears interest at LIBOR plus 87.5 basis points and matures in April 2001. As of June 30, 2000, the outstanding balance on this credit facility was $51.0 million which bore interest at a weighted average rate of 7.5%. At June 30, 2000, the remaining amount available under this credit facility was $29.0 million.

Debt and Equity Activities. At the time of our initial public offering, 4,237,750 shares of common stock, known as performance shares, were placed in escrow by certain of our investors, which were subject to advisory agreements with our predecessor that included incentive fee provisions. On January 7, 2000, 2,771,824 shares of common stock were released from escrow to these investors and 1,465,926 shares of common stock were returned to us and cancelled. The cancelled shares of common stock represent indirect interests in the operating partnership that were reallocated from us (thereby decreasing the number of shares of common stock outstanding) to other unitholders who had an ownership interest in our predecessor, including certain of our executive officers, (thereby increasing the number of limited partnership units owned by partners other than us). The total number of outstanding partnership units did not change as a result of this reallocation. This reallocation did not change the amount of fully diluted shares of common stock and limited partnership units outstanding.

On March 22, 2000, AMB Property II, L.P., one of our subsidiaries, issued and sold 397,439 7.95% Series F Cumulative Redeemable Preferred Limited Partnership Units at a price of $50.00 per unit in a private placement. Distributions are cumulative from the date of issuance and payable quarterly in arrears at a rate per unit equal to $3.975 per annum. The Series F Preferred Units are redeemable by AMB Property II, L.P. on or after March 22, 2005, subject to certain conditions, for cash at a redemption price equal to $50.00 per unit, plus accumulated and unpaid distributions thereon, if any, to the redemption date. The Series F Preferred Units are exchangeable, at specified times and subject to certain conditions, on a one-for-one basis, for shares of our Series F Preferred Stock. AMB Property II, L.P. loaned the net proceeds of $19.6 million to the operating partnership. The operating partnership used the funds to partially repay



borrowings under our unsecured credit facility and for general corporate purposes. The loan bears interest at a rate of 7.0% per annum and is payable upon demand.

Market Capitalization. As of June 30, 2000, the aggregate principal amount of our secured debt was $740.1 million, excluding unamortized debt premiums of $11.0 million. The secured debt bears interest at rates varying from 4.0% to 10.4% per annum (with a weighted average rate of 7.9%) and final maturity dates ranging from May 2000 to January 2014. All of the secured debt bears interest at fixed rates, except for two loans with an aggregate principal amount of $18.4 million as of June 30, 2000, which bear interest at variable rates.

In order to maintain financial flexibility and facilitate the rapid deployment of capital through market cycles, we presently intend to operate with a debt-to-total market capitalization ratio of approximately 45% or less. Additionally, we presently manage our capitalization in order to maintain an investment grade rating on our senior unsecured debt. In spite of these policies, our organizational documents do not contain any limitation on the amount of indebtedness that we may incur. Accordingly, our board of directors could alter or eliminate these policies.

The tables below summarize our debt maturities and capitalization as of June 30, 2000 (dollars in thousands, except for share and per share amounts):

DEBT

<TABLE>
<CAPTION>

| | INDUSTRIAL SECURED DEBT(2) | RETAIL SECURED DEBT(2) | UNSECURED SENIOR DEBT SECURITIES | UNSECURED CREDIT FACILITY | ALLIANCE FUND I CREDIT FACILITY | TOTAL DEBT |
|---|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| 2000 (6 months)............ | $ 16,161 | $ 7,649 | $ -- | $ -- | $ -- | $ 23,810 |
| 2001....................... | 13,635 | 24,481 | -- | -- | 51,000 | 89,116 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 2002 | 44,869 | 22,513 | -- | -- | -- | 67,382 |
| 2003 | 74,916 | 526 | -- | 176,000 | -- | 251,442 |
| 2004 | 89,958 | 570 | -- | -- | -- | 90,528 |
| 2005 | 69,496 | 618 | 100,000 | -- | -- | 170,114 |
| 2006 | 134,946 | 670 | -- | -- | -- | 135,616 |
| 2007 | 47,519 | 727 | -- | -- | -- | 48,246 |
| 2008 | 123,231 | 7,759 | 175,000 | -- | -- | 305,990 |
| 2009 | 1,493 | 318 | -- | -- | -- | 1,811 |
| 2010 | 53,122 | 345 | -- | -- | -- | 53,467 |
| Thereafter | 3,356 | 1,263 | 125,000 | -- | -- | 129,619 |
| Subtotal | 672,702 | 67,439 | 400,000 | 176,000 | 51,000 | 1,367,141 |
| Unamortized premiums | 10,206 | 744 | -- | -- | -- | 10,950 |
| Total consolidated debt | 682,908 | 68,183 | 400,000 | 176,000 | 51,000 | 1,378,091 |
| Our share of unconsolidated joint venture debt | 24,249 | -- | -- | -- | -- | 24,249 |
| Total debt | 707,157 | 68,183 | 400,000 | 176,000 | 51,000 | 1,402,340 |
| Joint venture partners' share of consolidated joint venture debt | (90,376) | (16,526) | -- | -- | (39,780) | (146,682) |
| Our share of total debt | $616,781 | $ 51,657 | $400,000 | $176,000 | $ 11,220 | $1,255,658 |
| Weighed average interest rate | 7.9%(1) | 7.8% | 7.2% | 7.5% | 7.5% | 7.6% |
| Weighed average maturity (in years) | 6.0(1) | 3.1 | 10.4 | 2.9 | 0.8 | 6.8 |

</TABLE>

- ---------------

(1) Does not include unconsolidated joint venture debt. The weighted average interest and weighted average maturity for the two unconsolidated joint venture debts were 6.9% and 6.2 years, respectively.

(2) All of the secured debt bears interest at fixed rates, except for two loans with an aggregate principal amount of $18.4 million, which bear interest at variable rates.



MARKET EQUITY

<TABLE>
<CAPTION>

| SECURITY | SHARES/UNITS OUTSTANDING | MARKET PRICE | MARKET VALUE |
|---|---|---|---|
| Common stock | 83,868,693 | $22.81 | $1,913,255 |
| Common limited partnership units | 5,973,615 | 22.81 | 136,273 |
| Total | 89,842,308 | | $2,049,528 |

</TABLE>

PREFERRED STOCK AND UNITS

<TABLE>
<CAPTION>

| SECURITY | DIVIDEND RATE | LIQUIDATION PREFERENCE | REDEMPTION PROVISIONS |
|---|---|---|---|
| Series A preferred stock | 8.50% | $100,000 | July 2003 |
| Series B preferred units | 8.63% | 65,000 | November 2003 |
| Series C preferred units | 8.75% | 110,000 | November 2003 |
| Series D preferred units | 7.75% | 79,767 | May 2004 |
| Series E preferred units | 7.75% | 11,022 | August 2004 |
| Series F preferred units | 7.95% | 19,872 | March 2005 |
| Weighted Average/Total | 8.40% | $385,661 | |

</TABLE>

CAPITALIZATION RATIOS

<TABLE>
<S> <C>

| | |
|---|---|
| Total debt-to-total market capitalization | 36.5% |
| Our share of total debt-to-total market capitalization | 34.0% |
| Total debt plus preferred-to-total market capitalization | 46.6% |
| Our share of total debt plus preferred-to-total market capitalization | 44.5% |
| Our share of total debt-to-total book capitalization | 37.8% |

</TABLE>

LIQUIDITY

As of June 30, 2000, we had approximately $21.7 million in cash, restricted cash and cash equivalents and $353.0 million of additional available borrowings under our credit facilities. We intend to use cash from operations, borrowings under our credit facilities, other forms of secured and unsecured financing, proceeds from any future debt or equity offerings by us or the operating partnership (including issuances of limited partnership units in the operating partnership or its subsidiaries), and proceeds from divestitures of properties to fund acquisitions, development activities and capital expenditures and to provide for general working capital requirements.

The following table sets forth the dividend payments and distributions that were declared on May 24, 2000:

<TABLE>
<CAPTION>

| SECURITY | PAYING ENTITY | RECORD DATE | PAYMENT PERIOD | DIVIDEND PAYMENT DATE | SECOND QUARTER AMOUNT | YEAR TO DATE AMOUNT |
|---|---|---|---|---|---|---|
| Common Stock | Company | 7/05/00 | Quarter ended 6/30/00 | 7/17/00 | $0.3700 | $0.7400 |
| OP Units | Operating Partnership | 7/05/00 | Quarter ended 6/30/00 | 7/17/00 | $0.3700 | $0.7400 |
| Series A Preferred Stock | Company | 7/05/00 | 3 months ended 7/14/00 | 7/17/00 | $0.5313 | $1.0626 |
| Series A Preferred Units | Operating Partnership | 7/05/00 | 3 months ended 7/14/00 | 7/17/00 | $0.5313 | $1.0626 |
| Series B Preferred Units | Operating Partnership | 7/05/00 | 3 months ended 7/14/00 | 7/17/00 | $1.0781 | $2.1562 |
| Series C Preferred Units | AMB Property II, L.P. | 7/05/00 | 3 months ended 7/14/00 | 7/17/00 | $1.0938 | 2.1876 |
| Series D Preferred Units | AMB Property II, L.P. | 6/15/00 | 3 months ended 6/24/00 | 6/25/00 | $0.9688 | $1.9376 |
| Series E Preferred Units | AMB Property II, L.P. | 7/05/00 | 3 months ended 7/14/00 | 7/17/00 | $0.9688 | $1.9376 |
| Series F Preferred Units | AMB Property II, L.P. | 7/05/00 | 3 months ended 7/14/00 | 7/17/00 | $0.9938 | $1.1030 |

</TABLE>



The anticipated size of our distributions, using only cash from operations, will not allow us to retire all of our debt as it comes due. Therefore, we intend to also repay maturing debt with net proceeds from future debt or equity financings. However, we may not be able to obtain future financings on favorable terms or at all.

CAPITAL COMMITMENTS

In addition to recurring capital expenditures and costs to renew or re-tenant space, as of June 30, 2000, we are developing 23 projects representing a total estimated investment of $341.9 million upon completion. Of this total, $218.5 million had been funded as of June 30, 2000, and approximately $158.2 million is estimated to be required to complete current and planned projects. We expect to fund these expenditures with cash from operations, borrowings under our credit facilities, debt or equity issuances, and net proceeds from property divestitures. We have no other material capital commitments.

During the period from January 1, 2000 to June 30, 2000, we invested:

- $228.1 million in 58 operating industrial buildings, aggregating approximately 3.0 million rentable square feet, and

- $63.6 million in 12 new development and renovation projects (with a total cost upon completion estimated to be $145.0 million), aggregating approximately 3.0 million square feet upon completion.

We funded these acquisitions and initiated development and renovation projects through borrowings under our credit facilities, cash, debt and equity issuances, and net proceeds from property divestitures.



FUNDS FROM OPERATIONS

We believe that funds from operations, or FFO, as defined by the National Association of Real Estate Investment Trusts, is an appropriate measure of performance for an equity real estate investment trust. While funds from operations is a relevant and widely used measure of operating performance of real estate investment trusts, it does not represent cash flow from operations or net income as defined by U.S. generally accepted accounting principles and it

should not be considered as an alternative to those indicators in evaluating liquidity or operating performance. Further, funds from operations as disclosed by other real estate investment trusts may not be comparable.

The following table reflects the calculation of funds from operations for the three and six months ended June 30, 2000 and 1999 (dollars in thousands, except share and per share data):

| | FOR THE THREE MONTHS ENDED JUNE 30, | | FOR THE SIX MONTHS ENDED JUNE 30, | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Income from operations before minority interests | $ 39,774 | $ 41,446 | $ 80,239 | $ 76,021 |
| Real estate related depreciation and amortization: | | | | |
| Total depreciation and amortization | 22,631 | 15,178 | 41,823 | 33,602 |
| Furniture, fixtures, and equipment depreciation and ground lease amortization | (231) | (250) | (634) | (364) |
| FFO attributable to minority interests(1)(2): | | | | |
| Separate account co-investors | (1,283) | (1,161) | (2,547) | (2,635) |
| Alliance Fund I | (478) | -- | (1,234) | -- |
| Other joint venture partners | (920) | (558) | (1,526) | (1,109) |
| Adjustments to derive FFO in unconsolidated joint venture(3): | | | | |
| Our share of net income | (1,317) | (1,177) | (2,559) | (2,328) |
| Our share of FFO | 1,811 | 1,671 | 3,547 | 3,316 |
| Series A preferred stock dividends | (2,125) | (2,125) | (4,250) | (4,250) |
| Series B, C, D, E & F preferred unit distributions | (5,962) | (4,667) | (11,572) | (8,475) |
| FFO(1) | $ 51,900 | $ 48,357 | $ 101,287 | $ 93,778 |
| FFO per common share and unit: | | | | |
| Basic | $ 0.58 | $ 0.53 | $ 1.13 | $ 1.03 |
| Diluted | $ 0.58 | $ 0.53 | $ 1.13 | $ 1.03 |
| Weighted average common shares and units: | | | | |
| Basic | 89,822,498 | 90,861,822 | 89,758,199 | 90,655,675 |
| Diluted(4) | 90,098,892 | 91,044,028 | 89,903,417 | 90,756,567 |

- ---------------

(1) Funds from operations, or FFO, is defined as income from operations before minority interest, gains or losses from sale of real estate and extraordinary items plus real estate depreciation and adjustment to derive our pro rata share of the funds from operations of unconsolidated joint ventures, less minority interests' pro rata share of the funds from operations of consolidated joint ventures and perpetual preferred stock dividends. In accordance with NAREIT White Paper on funds from operations, we include the effects of straight-line rents in funds from operations. Further, we do not adjust funds from operations to eliminate the effects of non-recurring charges.

(2) Represents FFO attributable to minority interest in consolidated joint ventures for the period presented, which has been computed as minority interests' share of net income plus minority interests' share of real estate-related depreciation and amortization of the consolidated joint ventures for such period. These minority interests are not convertible into shares of common stock.

(3) Represents our pro rata share of FFO in unconsolidated joint ventures for the period presented, which has been computed as our share of net income plus our share of real estate-related depreciation and amortization of the unconsolidated joint ventures for such period.

(4) Includes the dilutive effect of stock options.



OPERATING AND LEASING STATISTICS SUMMARY

The following summarizes key operating and leasing statistics for the all of our industrial and retail properties as of and for the period ended June 30, 2000.

<TABLE>
<CAPTION>

| | INDUSTRIAL | RETAIL | TOTAL |
|---|---|---|---|
| Square feet owned(1) | 69,159,884 | 1,607,135 | 70,767,019 |
| Occupancy percentage | 97.0% | 90.2% | 96.8% |
| Lease expirations as percentage of total square feet (next 12 months) | 15.8% | 9.1% | 15.6% |
| Weighted average lease term | 6 years | 14 years | 6 years |
| Tenant retention: | | | |
| Quarter (3.5 million sq. ft. expired) | 58.3% | 100.0% | 58.4% |
| Year-to-date (5.9 million SF expired) | 59.4% | 35.3% | 59.1% |
| Rent increases on lease commencements: | | | |
| Quarter (3.3 million sq. ft. leased) | 22.1% | 25.6% | 22.2% |
| Year-to-date (6.1 million sq. ft. leased) | 18.5% | 12.5% | 18.1% |
| Same store cash basis NOI growth(2): | | | |
| Quarter | 8.8% | (2.4)% | 8.2% |
| Year-to-date | 7.9% | 1.3% | 7.5% |
| Second generation tenant improvements and leasing commissions per sq. ft.(3): | | | |
| Quarter: | | | |
| Renewals | $ 1.79 | $ 0.00 | $ 1.73 |
| Re-tenanted | 2.05 | 0.00 | 1.98 |
| Weighted average | $ 1.94 | $ 0.00 | $ 1.88 |
| Year-to-date: | | | |
| Renewals | $ 1.19 | $ 0.00 | $ 1.18 |
| Re-tenanted | 1.90 | 0.00 | 1.87 |
| Weighted average | $ 1.61 | $ 0.00 | $ 1.58 |
| Recurring capital expenditures(4) | | | |
| Quarter | $ 8,986 | $ 11 | $ 8,997 |
| Year-to-date | $ 15,972 | $ 16 | $ 15,988 |

</TABLE>

- ---------------

(1) In addition to owned square feet as of June 30, 2000, we managed, through our subsidiary, AMB Investment Management, approximately 3.7 million, 0.6 million, and 0.1 million additional square feet of industrial, retail and other properties, respectively. We also have an investment in approximately 4.0 million square feet of industrial properties through our investments in the unconsolidated joint ventures.

(2) Consists of industrial buildings and retail centers aggregating approximately 53.7 million and approximately 0.8 million square feet, respectively, that have been owned by us prior to January 1, 1999 and excludes development properties prior to stabilization.

(3) Consists of all second generation leases renewing or re-tenanting with lease terms greater than one year.

(4) Includes second generation leasing costs and building improvements.



The following summarizes key same store properties' operating statistics for our industrial and retail properties as of and for the period ending June 30, 2000:

<TABLE>
<CAPTION>

| | INDUSTRIAL | RETAIL | TOTAL |
|---|---|---|---|
| Square feet in same store pool(1) | 53,722,443 | 791,291 | 54,513,734 |
| % of total square feet | 77.7% | 49.2% | 77.0% |
| Occupancy percentage at period end: | | | |
| June 30, 2000 | 97.6% | 94.5% | 97.6% |
| June 30, 1999 | 96.2% | 97.4% | 96.2% |
| Tenant retention: | | | |
| Quarter (3.0 million SF expired) | 50.2% | 100.0% | 50.4% |
| Year-to-date (5.0 million SF expired) | 57.7% | 35.3% | 57.4% |
| Rent increases on lease commencements: | | | |
| Quarter (2.5 million SF leased) | 21.2% | 25.6% | 21.3% |
| Year-to-date (5.0 million SF leased) | 17.4% | 12.5% | 17.2% |
| Cash basis NOI growth % increase (decrease): | | | |
| Quarter: | | | |
| Revenues | 6.5% | (5.8)% | 5.8% |
| Expenses | (1.1)% | (13.7)% | (2.1)% |
| Net operating income | 8.8% | (2.4)% | 8.2% |

| | | | |
|---|---|---|---|
| Year-to-date: | | | |
| Revenues.................................... | 5.9% | (2.0)% | 5.4% |
| Expenses.................................... | (0.5)% | (9.8)% | (1.2)% |
| Net operating income........................ | 7.9% | 1.3% | 7.5% |

</TABLE>

- ---------------

(1) Consists of industrial buildings and retail centers owned prior to January 1, 1999 and excludes development properties prior to stabilization.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risk includes: 1) the rising interest rates in connection with our unsecured credit facilities and other variable rate borrowings; and 2) our ability to incur more debt without stockholder approval, thereby increasing our debt service obligations, which could adversely affect our cash flows. See "Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources -- Capital Resources -- Market Capitalization."



PART II

ITEM 1. LEGAL PROCEEDINGS

As of June 30, 2000, there were no pending legal proceedings to which we are a party or of which any of our properties is the subject, the adverse determination of which we anticipate would have a material adverse effect upon our financial condition and results of operations.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company held its Annual Meeting of Stockholders on May 5, 2000. The stockholders voted to elect nine directors to the Company's Board of Directors to serve until the next annual meeting of stockholders and until their successors are duly elected and qualified.

The stockholders' votes with respect to the election of directors were as follows:

<TABLE>
<CAPTION>

| | VOTES | | | |
|---|---|---|---|---|
| | FOR | AGAINST OR WITHHELD | VOTES ABSTAINED | BROKER NON-VOTES |
| Douglas D. Abbey.............................. | 62,932,780 | 986,422 | -- | -- |
| Hamid R. Moghadam............................. | 62,932,080 | 987,122 | -- | -- |
| T. Robert Burke............................... | 62,932,780 | 986,422 | -- | -- |
| Daniel H. Case, III........................... | 62,499,980 | 1,419,222 | -- | -- |
| David A. Cole................................. | 62,467,080 | 1,452,122 | -- | -- |
| Lynn M. Sedway................................ | 62,498,280 | 1,420,922 | -- | -- |
| Jeffrey L. Skelton, Ph.D...................... | 62,932,780 | 986,422 | -- | -- |
| Thomas W. Tusher.............................. | 62,931,920 | 987,912 | -- | -- |
| Caryl B. Welborn, Esq......................... | 62,932,480 | 986,722 | -- | -- |

</TABLE>

ITEM 5. OTHER INFORMATION

BUSINESS RISKS

Our operations involve various risks that could have adverse consequences to us. These risks include, among others:

GENERAL REAL ESTATE RISKS

THERE ARE FACTORS OUTSIDE OF OUR CONTROL THAT AFFECT THE PERFORMANCE AND VALUE OF OUR PROPERTIES

Real property investments are subject to varying degrees of risk. The yields available from equity investments in real estate depend on the amount of income earned and capital appreciation generated by the related properties as well as the expenses incurred in connection with the properties. If our properties do not generate income sufficient to meet operating expenses,

including debt service and capital expenditures, our ability to pay distributions to our stockholders could be adversely affected. Income from, and the value of, our properties may be adversely affected by the general economic climate, local conditions such as oversupply of industrial space or a reduction in demand for industrial space, the attractiveness of our properties to potential customers, competition from other properties, our ability to provide adequate maintenance and insurance and an increase in operating costs. In addition, revenues from properties and real estate values are also affected by



factors such as the cost of compliance with regulations, the potential for liability under applicable laws (including changes in tax laws), interest rate levels and the availability of financing. Our income would be adversely affected if a significant number of customers were unable to pay rent or if we were unable to rent our industrial space on favorable terms. Certain significant expenditures associated with an investment in real estate (such as mortgage payments, real estate taxes and maintenance costs) generally do not decline when circumstances cause a reduction in income from the property.

WE MAY BE UNABLE TO RENEW LEASES OR RELET SPACE AS LEASES EXPIRE

We are subject to the risks that leases may not be renewed, space may not be relet, or the terms of renewal or reletting (including the cost of required renovations) may be less favorable than current lease terms. Leases on a total of 24.0% of the leased square footage of our properties as of June 30, 2000 will expire on or prior to December 31, 2001, with leases on 8.2% of the leased square footage of our properties as of June 30, 2000 expiring during the six months ending December 31, 2000. In addition, numerous properties compete with our properties in attracting customers to lease space, particularly with respect to retail centers. The number of competitive commercial properties in a particular area could have a material adverse effect on our ability to lease space in our properties and on the rents that we are able to charge. Our financial condition, results of operations, cash flow and our ability to pay distributions on, and the market price of, our stock could be adversely affected if we are unable to promptly relet or renew the leases for all or a substantial portion of expiring leases, if the rental rates upon renewal or reletting is significantly lower than expected, or if our reserves for these purposes prove inadequate.

REAL ESTATE INVESTMENTS ARE ILLIQUID

Because real estate investments are relatively illiquid, our ability to vary our portfolio promptly in response to economic or other conditions is limited. The limitations in the Internal Revenue Code and related regulations on a real estate investment trust holding property for sale may affect our ability to sell properties without adversely affecting distributions to our stockholders. The relative illiquidity of our holdings, Internal Revenue Code prohibitions and related regulations could impede our ability to respond to adverse changes in the performance of our investments and could adversely affect our financial condition, results of operations, cash flow and our ability to pay distributions on, and the market price of, our stock.

A SIGNIFICANT NUMBER OF OUR PROPERTIES ARE LOCATED IN CALIFORNIA

Our properties located in California as of June 30, 2000 represented approximately 22.4% of the aggregate square footage of our properties as of June 30, 2000 and 28.4% of our annualized base rent. Annualized base rent means the monthly contractual amount under existing leases at June 30, 2000 multiplied by 12. This amount excludes expense reimbursements and rental abatements. Our revenue from, and the value of, our properties located in California may be affected by a number of factors, including local real estate conditions (such as oversupply of or reduced demand for industrial properties) and the local economic climate. Business layoffs, downsizing, industry slowdowns, changing demographics and other factors may adversely impact the local economic climate. A downturn in either the California economy or in California real estate conditions could adversely affect our financial condition, results of operations, cash flow and our ability to pay distributions on, and the market price of, our stock. Certain of our properties are also subject to possible loss from seismic activity.

OUR PROPERTIES ARE CURRENTLY CONCENTRATED IN THE INDUSTRIAL SECTOR

Our properties are currently concentrated predominantly in the industrial real estate sector. Our concentration in a certain property type may expose us to the risk of economic downturns in this sector to a greater extent than if our portfolio also included other property types. As a result of such concentration, economic downturns in the industrial real estate sector could have an adverse effect on our financial condition, results of operations, cash flow and ability to pay distributions on, and the market price of, our stock.



SOME POTENTIAL LOSSES ARE NOT COVERED BY INSURANCE

We carry comprehensive liability, fire, extended coverage and rental loss

insurance covering all of our properties, with policy specifications and insured limits which we believe are adequate and appropriate under the circumstances given relative risk of loss, the cost of such coverage and industry practice. There are, however, certain losses that are not generally insured because it is not economically feasible to insure against them, including losses due to riots or acts of war. Certain losses such as losses due to floods or seismic activity may be insured subject to certain limitations including large deductibles or co-payments and policy limits. If an uninsured loss or a loss in excess of insured limits occurs with respect to one or more of our properties, we could lose the capital we invested in the properties, as well as the anticipated future revenue from the properties and, in the case of debt which is with recourse to us, we would remain obligated for any mortgage debt or other financial obligations related to the properties. Moreover, as the general partner of the operating partnership, we will generally be liable for all of the operating partnership's unsatisfied obligations other than non-recourse obligations. Any such liability could adversely affect our financial condition, results of operations, cash flow and ability to pay distributions on, and the market price of, our stock.

A number of our properties are located in areas that are known to be subject to earthquake activity, including California where, as of June 30, 2000, 212 industrial buildings aggregating approximately 15.5 million rentable square feet (representing 21.8% of our properties based on aggregate square footage and 26.6% based on annualized base rent) and one retail center aggregating approximately 0.4 million rentable square feet (representing 0.6% of our properties based on aggregate square footage and 1.9% based on annualized base rent) are located. We carry replacement cost earthquake insurance on all of our properties located in areas historically subject to seismic activity, subject to coverage limitations and deductibles which we believe are commercially reasonable. This insurance coverage also applies to the properties managed by AMB Investment Management, with a single aggregate policy limit and deductible applicable to those properties and our properties. The operating partnership owns 100% of the non-voting preferred stock of AMB Investment Management. Through an annual analysis prepared by outside consultants, we evaluate our earthquake insurance coverage in light of current industry practice and determine the appropriate amount of earthquake insurance to carry. We may incur material losses in excess of insurance proceeds and we may not be able to continue to obtain insurance at commercially reasonable rates.

WE ARE SUBJECT TO RISKS AND LIABILITIES IN CONNECTION WITH PROPERTIES OWNED THROUGH JOINT VENTURES, LIMITED LIABILITY COMPANIES AND PARTNERSHIPS

As of June 30, 2000 we had ownership interests in 26 joint ventures, limited liability companies or partnerships with third parties, as well as interests in two unconsolidated entities. As of June 30, 2000 we owned 38 (excluding the two unconsolidated joint ventures) of our properties through these entities. We may make additional investments through these ventures in the future and presently plan to do so with clients of AMB Investment Management, Inc. and certain Development Alliance Partners, who share certain approval rights over major decisions. Partnership, limited liability company or joint venture investments may involve risks such as the following:

- our partners, co-members or joint venturers might become bankrupt (in which event we and any other remaining general partners, members or joint venturers would generally remain liable for the liabilities of the partnership, limited liability company or joint venture);

- our partners, co-members or joint venturers might at any time have economic or other business interests or goals which are inconsistent with our business interests or goals;

- our partners, co-members or joint venturers may be in a position to take action contrary to our instructions, requests, policies or objectives, including our current policy with respect to maintaining our qualification as a real estate investment trust; and

- agreements governing joint ventures, limited liability companies and partnerships often contain restrictions on the transfer of a joint venturer's, member's or partner's interest or "buy-sell" or other



provisions, which may result in a purchase or sale of the interest at a disadvantageous time or on disadvantageous terms.

We will, however, generally seek to maintain sufficient control of our partnerships, limited liability companies and joint ventures to permit us to achieve our business objectives. Our organizational documents do not limit the amount of available funds that we may invest in partnerships, limited liability companies or joint ventures. The occurrence of one or more of the events described above could have an adverse effect on our financial condition, results of operations, cash flow and ability to pay distributions on, and the market price of, our stock.

WE MAY BE UNABLE TO CONSUMMATE ACQUISITIONS ON ADVANTAGEOUS TERMS

We intend to continue to acquire primarily industrial properties. Acquisitions of properties entail risks that investments will fail to perform in accordance with expectations. Estimates of the costs of improvements necessary for us to bring an acquired property up to market standards may prove inaccurate. In addition, there are general investment risks associated with any new real estate investment. Further, we anticipate significant competition for attractive investment opportunities from other major real estate investors with significant capital including both publicly traded real estate investment trusts and private institutional investment funds. We expect that future acquisitions will be financed through a combination of borrowings under our unsecured credit facility, proceeds from equity or debt offerings by us or the operating partnership (including issuances of limited partnership units by the operating partnership or its subsidiaries), and proceeds from property divestitures, which could have an adverse effect on our cash flow. We may not be able to acquire additional properties. Our inability to finance any future acquisitions on favorable terms or the failure of acquisitions to conform with our expectations or investment criteria, or our failure to timely reinvest the proceeds from property divestitures could adversely affect our financial condition, results of operations, cash flow and ability to pay distributions on, and the market price of, our stock.

WE MAY BE UNABLE TO COMPLETE RENOVATION AND DEVELOPMENT ON ADVANTAGEOUS TERMS

The real estate development business, including the renovation and rehabilitation of existing properties, involves significant risks. These risks include the following:

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

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

- new or renovated properties may perform below anticipated levels, producing cash flow below budgeted amounts;

- substantial renovation as well as new development activities, regardless of whether or not they are ultimately successful, typically require a substantial portion of management's time and attention which could divert management's time from our day-to-day operations; and

- activities that we finance through construction loans involve the risk that, upon completion of construction, we may not be able to obtain permanent financing or we may not be able to obtain permanent financing on advantageous terms.

These risks could have an adverse effect on our financial condition, results of operations, cash flow and ability to pay distributions on, and the market price of, our stock.

WE MAY BE UNABLE TO COMPLETE DIVESTITURES ON ADVANTAGEOUS TERMS

We intend to dispose of properties from time to time that do not conform with our current investment strategy or that we have otherwise determined should be divested, including, as of June 30, 2000 six retail centers, two industrial properties, and one land parcel, which are held for divestiture. Our ability to dispose of



properties on advantageous terms is dependent upon factors beyond our control, including competition from other owners (including other real estate investment trusts) that are attempting to dispose of industrial and retail properties and the availability of financing on attractive terms for potential buyers of our properties. Our inability to dispose of properties on favorable terms or our inability to redeploy the proceeds of property divestitures in accordance with our investment strategy could adversely our financial condition, results of operations, cash flow and ability to pay distributions on, and the market price of, our stock.

DEBT FINANCING

WE COULD INCUR MORE DEBT

We operate with a policy of incurring debt, either directly or through our subsidiaries, only if upon such incurrence our debt-to-total market capitalization ratio would be approximately 45% or less. The aggregate amount of indebtedness that we may incur under our policy varies directly with the valuation of our capital stock and the number of shares of capital stock outstanding. Accordingly, we would be able to incur additional indebtedness under our policy as a result of increases in the market price per share of our common stock or other outstanding classes of capital stock, and future issuance

of shares of our capital stock. In spite of this policy, our organizational documents do not contain any limitation on the amount of indebtedness that we may incur. Accordingly, our board of directors could alter or eliminate this policy. If we change this policy, we could become more highly leveraged, resulting in an increase in debt service that could adversely affect our financial condition, results of operations, cash flow and ability to pay distributions on, and the market price of, our stock.

SCHEDULED DEBT PAYMENTS COULD ADVERSELY AFFECT OUR FINANCIAL CONDITION

We are subject to risks normally associated with debt financing, including the risks that cash flow will be insufficient to make distributions to our stockholders, that we will be unable to refinance existing indebtedness on our properties (which in all cases will not have been fully amortized at maturity) and that the terms of refinancing will not be as favorable as the terms of existing indebtedness.

As of June 30, 2000 we had total debt outstanding of approximately $1.4 billion including:

- $740.1 million of secured indebtedness (excluding unamortized debt premiums) with an average maturity of six years and a weighted average interest rate of 7.9%;

- $51.0 million outstanding under the unsecured credit facility related to the Alliance Fund I, with a maturity date of April 2001 and a weighted average interest rate of 7.5%;

- $176.0 million outstanding under our unsecured $500.0 million credit facility with a maturity date of May 2003 and a weighted average interest rate of 7.5%; and

- $400.0 million aggregate principal amount of unsecured senior debt securities with maturities in 2005, 2008, and 2018 and a weighted average interest rate of 7.2%.

We are a guarantor of the operating partnership's obligations with respect to the senior debt securities referenced above. If we are unable to refinance or extend principal payments due at maturity or pay them with proceeds of other capital transactions, we expect that our cash flow will not be sufficient in all years to pay distributions to our stockholders and to repay all such maturing debt. Furthermore, if prevailing interest rates or other factors at the time of refinancing (such as the reluctance of lenders to make commercial real estate loans) result in higher interest rates upon refinancing, the interest expense relating to that refinanced indebtedness would increase. This increased interest expense would adversely affect our financial condition, results of operations, cash flow and ability to pay distributions on, and the market price of, our stock. In addition, if we mortgage one or more of our properties to secure payment of indebtedness and we are unable to meet mortgage payments, the property could be foreclosed upon or transferred to the mortgagee with a consequent loss of income and asset value. A foreclosure on one or more of our properties could adversely affect our financial condition, results of operations, cash flow and ability to pay distributions on, and the market price of, our stock.



RISING INTEREST RATES COULD ADVERSELY AFFECT OUR CASH FLOW

As of June 30, 2000 we had approximately $176.0 million and $51.0 million outstanding under our unsecured credit facility and the unsecured credit facility related to the Alliance Fund I, respectively. In addition, we may incur other variable rate indebtedness in the future. Increases in interest rates on this indebtedness could increase our interest expense, which would adversely affect our financial condition, results of operations, cash flow and ability to pay distributions on, and the market price of, our stock. Accordingly, we may in the future engage in transactions to limit our exposure to rising interest rates.

WE ARE DEPENDENT ON EXTERNAL SOURCES OF CAPITAL

In order to qualify as a real estate investment trust under the Internal Revenue Code, we are required each year to distribute to our stockholders at least 95% of our real estate investment trust taxable income (determined without regard to the dividends-paid deduction and by excluding any net capital gain). Because of this distribution requirement, we may not be able to fund all future capital needs, including capital needs in connection with acquisitions, from cash retained from operations. As a result, to fund capital needs, we rely on third party sources of capital, which we may not be able to obtain on favorable terms or at all. Our access to third party sources of capital depends upon a number of factors, including general market conditions and the market's perception of our growth potential and our current and potential future earnings and cash distributions and the market price of the shares of our capital stock. Additional debt financing may substantially increase our leverage.

WE COULD DEFAULT ON CROSS-COLLATERALIZED AND CROSS-DEFAULTED DEBT

As of June 30, 2000 we had 19 non-recourse secured loans, which are cross-collateralized by 21 properties. As of June 30, 2000 we had approximately $245.8 million (not including unamortized debt premium) outstanding on these loans. If we default on any of these loans, we will be required to repay the aggregate of all indebtedness, together with applicable prepayment charges, to avoid foreclosure on all the cross-collateralized properties within the applicable pool. Foreclosure on our properties, or our inability to refinance our loans on favorable terms, could adversely impact our financial condition, results of operations, cash flow and ability to pay distributions on, and the market price of, our stock. In addition, our credit facilities and the senior debt securities of the operating partnership contain certain cross-default provisions which are triggered in the event that our other material indebtedness is in default. These cross-default provisions may require us to repay or restructure the credit facilities and the senior debt securities in addition to any mortgage or other debt which is in default, which could adversely affect our financial condition, results of operations, cash flow and ability to pay distributions on, and the market price of, our stock.

CONTINGENT OR UNKNOWN LIABILITIES COULD ADVERSELY AFFECT OUR FINANCIAL CONDITION

Our predecessors have been in existence for varying lengths of time up to 17 years. At the time of our formation we acquired the assets of these entities subject to all of their potential existing liabilities. There may be current liabilities or future liabilities arising from prior activities that we are not aware of and therefore are not disclosed in this report. We assumed these liabilities as the surviving entity in the various merger and contribution transactions that occurred at the time of our formation. Existing liabilities for indebtedness generally were taken into account in connection with the allocation of the operating partnership's limited partnership units or shares of our common stock in the formation transactions, but no other liabilities were taken into account for these purposes. We do not have recourse against our predecessors or any of their respective stockholders or partners or against any individual account investors with respect to any unknown liabilities. Unknown liabilities might include the following:

- liabilities for clean-up or remediation of undisclosed environmental conditions;

- claims of customers, vendors or other persons dealing with our predecessors prior to the formation transactions that had not been asserted prior to the formation transactions;

- accrued but unpaid liabilities incurred in the ordinary course of business;



- tax liabilities; and

- claims for indemnification by the officers and directors of our predecessors and others indemnified by these entities.

Certain customers may claim that the formation transactions gave rise to a right to purchase the premises that they occupy. We do not believe any such claims would be material and, to date, no such claims have been filed. See "-- Government Regulations -- We Could Encounter Costly Environmental Problems" below regarding the possibility of undisclosed environmental conditions potentially affecting the value of our properties. Undisclosed material liabilities in connection with the acquisition of properties, entities and interests in properties or entities could adversely affect our financial condition, results of operations, cash flow and ability to pay distributions on, and the market price of, our stock.

CONFLICTS OF INTEREST

SOME OF OUR EXECUTIVE OFFICERS ARE INVOLVED IN OTHER REAL ESTATE ACTIVITIES AND INVESTMENTS

Some of our executive officers own interests in real estate-related businesses and investments. These interests include minority ownership of AMB Institutional Housing Partners, a residential housing finance company, and ownership of AMB Development, Inc. and AMB Development, L.P., developers which own property that we believe is not suitable for ownership by us. AMB Development, Inc. and AMB Development, L.P. have agreed not to initiate any new development projects following our initial public offering in November 1997. These entities have also agreed that they will not make any further investments in industrial properties other than those currently under development at the time of our initial public offering. AMB Institutional Housing Partners, AMB Development, Inc. and AMB Development, L.P. continue to use the name "AMB" pursuant to royalty-free license arrangements. The continued involvement in other real estate-related activities by some of our executive officers and directors could divert management's attention from our day-to-day operations. Most of our executive officers have entered into non-competition agreements with

us pursuant to which they have agreed not to engage in any activities, directly or indirectly, in respect of commercial real estate, and not to make any investment in respect of industrial real estate, other than through ownership of not more than 5% of the outstanding shares of a public company engaged in such activities or through the existing investments referred to in this report. State law may limit our ability to enforce these agreements.

We could also, in the future, subject to the unanimous approval of the disinterested members of the board of directors with respect to such transaction, acquire property from executive officers, enter into leases with executive officers, and/or engage in other related activities in which the interests pursued by the executive officers may not be in the best interests of our stockholders.

CERTAIN OF OUR EXECUTIVE OFFICERS AND DIRECTORS MAY HAVE CONFLICTS OF INTEREST WITH US IN CONNECTION WITH OTHER PROPERTIES THAT THEY OWN OR CONTROL

As of June 30, 2000 AMB Development, L.P. owns interests in 11 retail development projects in the U.S., 10 of which consist of a single free-standing Walgreens drugstore and one of which consists of a free-standing Walgreens drugstore, a ground lease to McDonald's, and a 14,000 square foot retail center. In addition, Messrs. Abbey, Moghadam and Burke, each a founder and director, own less than 1% interests in two partnerships that own office buildings in various markets; these interests have negligible value. Luis A. Belmonte, an executive officer, owns less than a 10% interest, representing an estimated value of $75,000, in a limited partnership which owns an office building located in Oakland, California.

In addition, several of our executive officers individually own:

- less than 1% interests in the stocks of certain publicly-traded real estate investment trusts;

- certain interests in and rights to developed and undeveloped real property located outside the United States; and

- certain other de minimis holdings in equity securities of real estate companies.



Thomas W. Tusher, a member of our board of directors, is a limited partner in a partnership in which Messrs. Abbey, Moghadam and Burke are general partners and which owns a 75% interest in an office building. Mr. Tusher owns a 20% interest in the partnership, valued at approximately $1.2 million. Messrs. Abbey, Moghadam and Burke each have a 26.7% interest in the partnership, each valued at approximately $1.6 million.

We believe that the properties and activities set forth above generally do not directly compete with any of our properties. However, it is possible that a property in which an executive officer or director, or an affiliate of an executive officer or director, has an interest may compete with us in the future if we were to invest in a property similar in type and in close proximity to that property. In addition, the continued involvement by our executive officers and directors in these properties could divert management's attention from our day-to-day operations. Our policy prohibits us from acquiring any properties from our executive officers or their affiliates without the approval of the disinterested members of our board of directors with respect to that transaction.

OUR ROLE AS GENERAL PARTNER OF THE OPERATING PARTNERSHIP MAY CONFLICT WITH THE INTERESTS OF STOCKHOLDERS

As the general partner of the operating partnership, we have fiduciary obligations to the operating partnership's limited partners, the discharge of which may conflict with the interests of our stockholders. In addition, those persons holding limited partnership units will have the right to vote as a class on certain amendments to the partnership agreement of the operating partnership and individually to approve certain amendments that would adversely affect their rights. The limited partners may exercise these voting rights in a manner that conflicts with the interests of our stockholders. In addition, under the terms of the operating partnership's partnership agreement, holders of limited partnership units will have certain approval rights with respect to certain transactions that affect all stockholders but which they may not exercise in a manner which reflects the interests of all stockholders.

OUR DIRECTORS, EXECUTIVE OFFICERS AND SIGNIFICANT STOCKHOLDERS COULD ACT IN A MANNER THAT IS NOT IN THE BEST INTEREST OF ALL STOCKHOLDERS

As of July 25, 2000, our two largest stockholders, Cohen & Steers Capital Management, Inc. (with respect to various client accounts for which Cohen & Steers Capital Management, Inc. serves as investment advisor), and Capital Research and Management Company (with respect to various client accounts for which Capital Research and Management Company serves as investment advisor) beneficially owned approximately 10.3% of our outstanding common stock. In

addition, our executive officers and directors beneficially owned approximately 5.4% of our outstanding common stock as of July 25, 2000 and will have influence on our management and operation and, as stockholders, will have influence on the outcome of any matters submitted to a vote of our stockholders. This influence might be exercised in a manner that is inconsistent with the interests of other stockholders. Although there is no understanding or arrangement for these directors, officers and stockholders and their affiliates to act in concert, these parties would be in a position to exercise significant influence over our affairs if they choose to do so.

WE COULD INVEST IN REAL ESTATE MORTGAGES

We may invest in mortgages, and may do so as a strategy for ultimately acquiring the underlying property. In general, investments in mortgages include the risks that borrowers may not be able to make debt service payments or pay principal when due, that the value of the mortgaged property may be less than the principal amount of the mortgage note secured by the property and that interest rates payable on the mortgages may be lower than our cost of funds to acquire these mortgages. In any of these events, our funds from operations and our ability to make distributions on, and the market price of, our stock could be adversely affected. Funds from operations means income (loss) from operations before disposal of real estate properties, minority interests and extraordinary items plus our pro rata share of the funds from operations of the unconsolidated joint ventures, depreciation and amortization, excluding depreciation of furniture, fixtures and equipment less funds from operations attributable to minority interests in consolidated joint ventures which are not convertible into shares of common stock.



GOVERNMENT REGULATIONS

Many laws and governmental regulations are applicable to our properties and changes in these laws and regulations, or their interpretation by agencies and the courts, occur frequently.

COSTS OF COMPLIANCE WITH AMERICANS WITH DISABILITIES ACT

Under the Americans with Disabilities Act, places of public accommodation must meet certain federal requirements related to access and use by disabled persons. Compliance with the Americans with Disabilities Act might require us to remove structural barriers to handicapped access in certain public areas where such removal is "readily achievable." If we fail to comply with the Americans with Disabilities Act, we might be required to pay fines to the government or damages to private litigants. The impact of application of the Americans with Disabilities Act to our properties, including the extent and timing of required renovations, is uncertain. If we are required to make unanticipated expenditures to comply with the Americans with Disabilities Act, our cash flow and the amounts available for distributions to our stockholders may be adversely affected.

WE COULD ENCOUNTER ENVIRONMENTAL PROBLEMS

Federal, state and local laws and regulations relating to the protection of the environment impose liability on a current or previous owner or operator of real estate for contamination resulting from the presence or discharge of hazardous or toxic substances or petroleum products at the property. A current or previous owner may be required to investigate and clean up contamination at or migrating from a site. These laws typically impose liability and clean-up responsibility without regard to whether the owner or operator knew of or caused the presence of the contaminants. Even if more than one person may have been responsible for the contamination, each person covered by the environmental laws may be held responsible for all of the clean-up costs incurred. In addition, third parties may sue the owner or operator of a site for damages based on personal injury, property damage and/or other costs, including investigation and clean-up costs, resulting from environmental contamination present at or emanating from that site.

Environmental laws also govern the presence, maintenance and removal of asbestos. These laws require that owners or operators of buildings containing asbestos properly manage and maintain the asbestos, that they adequately inform or train those who may come into contact with asbestos and that they undertake special precautions, including removal or other abatement in the event that asbestos is disturbed during renovation or demolition of a building. These laws may impose fines and penalties on building owners or operators for failure to comply with these requirements and may allow third parties to seek recovery from owners or operators for personal injury associated with exposure to asbestos fibers. Some of our properties may contain asbestos-containing building materials.

Some of our properties are leased or have been leased, in part, to owners and operators of businesses that use, store or otherwise handle petroleum products or other hazardous or toxic substances. These operations create a potential for the release of petroleum products or other hazardous or toxic substances. Some of our properties are adjacent to or near other properties that

have contained or currently contain petroleum products or other hazardous or toxic substances. In addition, certain of our properties are on, or are adjacent to or near other properties upon which others, including former owners or tenants of the properties, have engaged or may in the future engage in activities that may release petroleum products or other hazardous or toxic substances. From time to time, we may acquire properties, or interests in properties, with known adverse environmental conditions where we believe that the environmental liabilities associated with these conditions are quantifiable and the acquisition will yield a superior risk-adjusted return. We have formed a limited liability company with AIG Global Real Estate Investment Corp. to acquire, develop, manage and operate environmentally impaired properties in target markets nationwide. The operating partnership is the managing member of this venture. Each of AIG and the operating partnership has committed $50 million to this venture. This venture currently intends to invest primarily in industrial properties located near major airports, ports and in-fill areas with known and quantifiable environmental issues, as well as, to a more limited extent, well-located, value-added retail properties. Environmental issues for each property are evaluated and quantified prior to acquisition. The



costs of environmental investigation, clean-up and monitoring are underwritten into the cost of the acquisition and appropriate environmental insurance is obtained for the property. In connection with certain divested properties, we have agreed to remain responsible for, and to bear the cost of, remediating or monitoring certain environmental conditions on the properties.

All of our properties were subject to a Phase I or similar environmental assessments by independent environmental consultants at the time of acquisition. Phase I assessments are intended to discover and evaluate information regarding the environmental condition of the surveyed property and surrounding properties and include an historical review, a public records review, an investigation of the surveyed site and surrounding properties, and preparation and issuance of a written report. We may perform additional Phase II testing if recommended by the independent environmental consultant. Phase II testing may include the collection and laboratory analysis of soil and groundwater samples, completion of surveys for asbestos-containing building materials, and any other testing that the consultant considers prudent in order to test for the presence of hazardous materials.

None of the environmental assessments of our properties has revealed any environmental liability that we believe would have a material adverse effect on our financial condition or results of operations taken as a whole, and we are not aware of any such material environmental liability. Nonetheless, it is possible that the assessments do not reveal all environmental liabilities and that there are material environmental liabilities of which we are unaware or that known environmental conditions may give rise to liabilities that are materially greater than anticipated. Moreover, future laws, ordinances or regulations may impose material environmental liability and the current environmental condition of our properties may be affected by tenants, by the condition of land, by operations in the vicinity of the properties (such as releases from underground storage tanks), or by third parties unrelated to us. If the costs of compliance with environmental laws and regulations now existing or adopted in the future exceed our budgets for these items, our financial condition, results of operations, cash flow and ability to pay distributions on, and the market price of, our stock could be adversely affected.

OUR FINANCIAL CONDITION COULD BE ADVERSELY AFFECTED IF WE FAIL TO COMPLY WITH OTHER REGULATIONS

Our properties are also subject to various federal, state and local regulatory requirements such as state and local fire and life safety requirements. If we fail to comply with these requirements, we might incur fines by governmental authorities or be required to pay awards of damages to private litigants. We believe that our properties are currently in substantial compliance with all such regulatory requirements. However, these requirements may change or new requirements may be imposed which could require significant unanticipated expenditures by us. Any such unanticipated expenditures could have an adverse effect on our financial condition, results of operations, cash flow and ability to pay distributions on, and the market price of, our stock.

FEDERAL INCOME TAX RISKS

OUR FAILURE TO QUALIFY AS A REAL ESTATE INVESTMENT TRUST WOULD HAVE SERIOUS ADVERSE CONSEQUENCES TO STOCKHOLDERS

We elected to be taxed as a real estate investment trust under Sections 856 through 860 of the Internal Revenue Code commencing with our taxable year ended December 31, 1997. We currently intend to operate so as to qualify as a real estate investment trust under the Internal Revenue Code and believe that our current organization and method of operation comply with the rules and regulations promulgated under the Internal Revenue Code to enable us to continue to qualify as a real estate investment trust. However, it is possible that we have been organized or have operated in a manner which would not allow us to qualify as a real estate investment trust, or that our future operations could

cause us to fail to qualify. Qualification as a real estate investment trust requires us to satisfy numerous requirements (some on an annual and quarterly basis) established under highly technical and complex Internal Revenue Code provisions for which there are only limited judicial and administrative interpretations, and involves the determination of various factual matters and circumstances not entirely within our control. For example, in order to qualify as a real estate investment trust, we must derive at least 95% of our gross income in any year from qualifying sources. In addition, we



must pay dividends to stockholders aggregating annually at least 95% of our real estate investment trust taxable income (determined without regard to the dividends paid deduction and by excluding capital gains) and must satisfy specified asset tests on a quarterly basis. These provisions and the applicable treasury regulations are more complicated in our case because we hold our assets in partnership form. Legislation, new regulations, administrative interpretations or court decisions could significantly change the tax laws with respect to qualification as a real estate investment trust or the federal income tax consequences of such qualification. However, we are not aware of any pending tax legislation that would adversely affect our ability to operate as a real estate investment trust. In connection with certain property acquisitions, we acquired partnership interests and may have inadvertently acquired the voting securities of shell corporations in violation of the 10% asset test at March 31, 1999. However, while no assurance can be given, based on the advice of counsel in the relevant jurisdiction and other factors, we do not believe that we have in fact violated this test or that we would lose our status as a real estate investment trust as a result of this matter.

If we fail to qualify as a real estate investment trust in any taxable year, we will be required to pay federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates. Unless we are entitled to relief under certain statutory provisions, we would be disqualified from treatment as a real estate investment trust for the four taxable years following the year during which we lost qualification. If we lose our real estate investment trust status, our net earnings available for investment or distribution to stockholders would be significantly reduced for each of the years involved. In addition, we would no longer be required to make distributions to stockholders.

WE MAY INVEST IN HIGHLY SPECULATIVE EARLY-STAGE COMPANIES WHICH MAY JEOPARDIZE OUR STATUS AS A REAL ESTATE INVESTMENT TRUST

We believe that our investments in highly speculative early-stage companies have been structured so that we currently qualify as a real estate investment trust under the Internal Revenue Code. However, if the value of these investments, either individually or in the aggregate, appreciates significantly, these investments may adversely affect our ability to continue to qualify as a real estate investment trust, unless we are able to restructure or dispose of our holdings on a timely basis. As of June 30, 2000, we had invested approximately $14.0 million in early-stage companies. One of these investments, in an initial amount of $5.0 million, has appreciated to a market value in excess of $15.6 million at June 30, 2000, if it were freely tradable. See "-- Our Failure to Qualify as a Real Estate Investment Trust Would Have Serious Adverse Consequences to Stockholders" and "-- We May Invest in Highly Speculative Early-Stage Companies in which We May Lose Our Entire Investment."

WE PAY SOME TAXES

Even if we qualify as a real estate investment trust, we will be required to pay certain state and local taxes on our income and property. In addition, we will be required to pay federal and state income tax on the net taxable income, if any, from the activities conducted through AMB Investment Management and Headlands Realty Corporation (which we discuss below under "-- AMB Investment Management and Headlands Realty Corporation").

CERTAIN PROPERTY TRANSFERS MAY GENERATE PROHIBITED TRANSACTION INCOME

From time to time, we may transfer or otherwise dispose of some of our properties. Under the Internal Revenue Code, any gain resulting from transfers of properties we hold as inventory or primarily for sale to customers in the ordinary course of business would be treated as income from a prohibited transaction. We would be required to pay a 100% penalty tax on that income. Since we acquire properties for investment purposes, we believe that any transfer or disposal of property by us would not be deemed by the Internal Revenue Service to be a prohibited transaction with any resulting gain allocable to us being subject to a 100% penalty tax. However, whether property is held for investment purposes is a question of fact that depends on all the facts and circumstances surrounding the particular transaction. The Internal Revenue Service may contend that certain transfers or disposals of properties by us are prohibited transactions. While we believe that the Internal Revenue Service would not prevail in any such dispute, if the Internal Revenue Service



successfully argued that a transfer or disposition of property constituted a

prohibited transaction we would be required to pay a 100% penalty tax on any gain allocable to us from the prohibited transaction. In addition, any income from a prohibited transaction may adversely affect our ability to satisfy the income tests for qualifications as a real estate investment trust for federal income tax purposes.

WE ARE DEPENDENT ON OUR KEY PERSONNEL

We depend on the efforts of our executive officers. While we believe that we could find suitable replacements for these key personnel, the loss of their services or the limitation of their availability could adversely affect our financial condition, results of operations, cash flow and ability to pay distributions on, and the market price of, our stock. We do not have employment agreements with any of our executive officers.

WE MAY BE UNABLE TO MANAGE OUR GROWTH

Our business has grown rapidly and continues to grow through property acquisitions and developments. If we fail to effectively manage our growth, our financial condition, results of operations, cash flow and ability to pay distributions on, and the market price of, our stock could be adversely affected.

WE MAY INVEST IN HIGHLY SPECULATIVE EARLY-STAGE COMPANIES IN WHICH WE MAY LOSE OUR ENTIRE INVESTMENT

From time to time, we may invest in highly speculative early-stage companies that we believe will enhance our understanding of changes occurring in the movement of goods, which may, in turn, sharpen our real estate investment focus, create real estate provider relationships with growth companies and provide the potential for significant returns on invested capital. We currently expect that each of these investments will generally be in the amount of $10.0 million or less. As a result, we believe that the amounts of our investments in early-stage companies are immaterial, both individually and in the aggregate. However, these investments are highly speculative and it is possible that we may lose our entire investment in an early-stage company.

AMB INVESTMENT MANAGEMENT, INC. AND HEADLANDS REALTY CORPORATION

WE DO NOT CONTROL THE ACTIVITIES OF AMB INVESTMENT MANAGEMENT, INC. AND HEADLANDS REALTY CORPORATION

The operating partnership owns 100% of the non-voting preferred stock of AMB Investment Management, Inc. and Headlands Realty Corporation (representing approximately 95% of the economic interest in each entity). Some of our current and former executive officers and a former executive officer of AMB Investment Management, Inc. own all of the outstanding voting common stock of AMB Investment Management, Inc. (representing approximately 5% of the economic interest in AMB Investment Management, Inc.). Some of our current and former executive officers and a director of Headlands Realty Corporation own all of the outstanding voting common stock of Headlands Realty Corporation (representing approximately 5% of the economic interest in Headlands Realty Corporation). The ownership structure of AMB Investment Management, Inc. and Headlands Realty Corporation permits us to share in the income of those corporations while allowing us to maintain our status as a real estate investment trust. We receive substantially all of the economic benefit of the businesses carried on by AMB Investment Management, Inc. and Headlands Realty Corporation through the operating partnership's right to receive dividends. However, we are not able to elect the directors or officers of AMB Investment Management, Inc. and Headlands Realty Corporation and, as a result, we do not have the ability to influence their operation or to require that their boards of directors declare and pay cash dividends on the non-voting stock of AMB Investment Management, Inc. and Headlands Realty Corporation held by the operating partnership. The boards of directors and management of AMB Investment Management, Inc. and Headlands Realty Corporation might implement business policies or decisions that would not have been implemented by persons controlled by us and that may be adverse to the interests of our stockholders or that may adversely impact our financial condition, results of operations, cash flow and ability to pay distributions on, and the market price of, our stock. In addition, AMB Investment Management, Inc. and Headlands Realty Corporation are subject to tax on their income, reducing their cash available for distribution to the operating partnership.



AMB INVESTMENT MANAGEMENT, INC. MAY NOT BE ABLE TO GENERATE SUFFICIENT FEES

Fees earned by AMB Investment Management, Inc. depend on various factors affecting the ability to attract and retain investment management clients and the overall returns achieved on managed assets. These factors are beyond our control. AMB Investment Management, Inc.'s failure to attract investment management clients or achieve sufficient overall returns on managed assets could reduce its ability to make distributions on the stock owned by the operating partnership and could also limit co-investment opportunities to the operating partnership. This would limit the operating partnership's ability to generate rental revenues from such co-investments and use the co-investment program as a

source to finance property acquisitions and leverage acquisition opportunities.

OWNERSHIP OF OUR STOCK

LIMITATIONS IN OUR CHARTER AND BYLAWS COULD PREVENT A CHANGE IN CONTROL

Certain provisions of our charter and bylaws may delay, defer or prevent a change in control or other transaction that could provide the holders of our common stock with the opportunity to realize a premium over the then-prevailing market price for the common stock. To maintain our qualification as a real estate investment trust for federal income tax purposes, not more than 50% in value of our outstanding stock may be owned, actually or constructively, by five or fewer individuals (as defined in the Internal Revenue Code to include certain entities) during the last half of a taxable year after the first taxable year for which a real estate investment trust election is made. Furthermore, after the first taxable year for which a real estate investment trust election is made, our common stock must be held by a minimum of 100 persons for at least 335 days of a 12-month taxable year (or a proportionate part of a short tax year). In addition, if we, or an owner of 10% or more of our stock, actually or constructively owns 10% or more of one of our tenants (or a tenant of any partnership in which we are a partner), the rent received by us (either directly or through any such partnership) from that tenant will not be qualifying income for purposes of the real estate investment trust gross income tests of the Internal Revenue Code. To facilitate maintenance of our qualification as a real estate investment trust for federal income tax purposes, we will prohibit the ownership, actually or by virtue of the constructive ownership provisions of the Internal Revenue Code, by any single person of more than 9.8% (by value or number of shares, whichever is more restrictive) of the issued and outstanding shares of our common stock and more than 9.8% (by value or number of shares, whichever is more restrictive) of the issued and outstanding shares of our Series A Preferred Stock, and we will also prohibit the ownership, actually or constructively, of any shares of our Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock and Series F Preferred Stock by any single person so that no such person, taking into account all of our stock so owned by such person, may own in excess of 9.8% of our issued and outstanding capital stock. We refer to this limitation as the "ownership limit." Shares acquired or held in violation of the ownership limit will be transferred to a trust for the benefit of a designated charitable beneficiary. Any person who acquires shares in violation of the ownership limit will not be entitled to any distributions on the shares or be entitled to vote the shares or receive any proceeds from the subsequent sale of the shares in excess of the lesser of the price paid for the shares or the amount realized from the sale. A transfer of shares in violation of the above limits may be void under certain circumstances. The ownership limit may have the effect of delaying, deferring or preventing a change in control and, therefore, could adversely affect our stockholders' ability to realize a premium over the then-prevailing market price for the shares of our common stock in connection with such transaction.

Our charter authorizes us to issue additional shares of common stock and Series A Preferred Stock and to issue Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock and one or more other series or classes of preferred stock and to establish the preferences, rights and other terms of any series or class of preferred stock that we issue. Although our board of directors has no intention to do so at the present time, it could establish a series or class of preferred stock that could delay, defer or prevent a transaction or a change in control that might involve a premium price for the common stock or otherwise be in the best interests of our stockholders.



Our charter and bylaws and Maryland law also contain other provisions that may delay, defer or prevent a transaction, including a change in control, that might involve payment of a premium price for the common stock or otherwise be in the best interests of our stockholders. Those provisions include the following:

- the provision in the charter that directors may be removed only for cause and only upon a two-thirds vote of stockholders, together with bylaw provisions authorizing the board of directors to fill vacant directorships;

- the provision in the charter requiring a two-thirds vote of stockholders for any amendment of the charter;

- the requirement in the bylaws that the request of the holders of 50% or more of our common stock is necessary for stockholders to call a special meeting;

- the requirement of Maryland law that stockholders may only take action by written consent with the unanimous approval of all stockholders entitled to vote on the matter in question; and

- the requirement in the bylaws of advance notice by stockholders for the nomination of directors or proposal of business to be considered at a

meeting of stockholders.

These provisions may impede various actions by stockholders without approval of our board of directors, which in turn may delay, defer or prevent a transaction involving a change of control.

WE COULD CHANGE OUR INVESTMENT AND FINANCING POLICIES WITHOUT A VOTE OF STOCKHOLDERS

Subject to our current investment policy to maintain our qualification as a real estate investment trust (unless a change is approved by our board of directors under certain circumstances), our board of directors will determine our investment and financing policies, our growth strategy and our debt, capitalization, distribution and operating policies. Although the board of directors has no present intention to revise or amend these strategies and policies, the board of directors may do so at any time without a vote of stockholders. Accordingly, stockholders will have no control over changes in our strategies and policies (other than through the election of directors), and any such changes may not serve the interests of all stockholders and could adversely affect our financial condition or results of operations, including our ability to distribute cash to stockholders.

IF WE ISSUE ADDITIONAL SECURITIES, THE INVESTMENT OF EXISTING STOCKHOLDERS WILL BE DILUTED

We have authority to issue shares of common stock or other equity or debt securities in exchange for property or otherwise. Similarly, we may cause the operating partnership to issue additional limited partnership units in exchange for property or otherwise. Existing stockholders will have no preemptive right to acquire any additional securities issued by us or the operating partnership and any issuance of additional equity securities could result in dilution of an existing stockholder's investment.

THE LARGE NUMBER OF SHARES AVAILABLE FOR FUTURE SALE COULD ADVERSELY AFFECT THE MARKET PRICE OF OUR COMMON STOCK

We cannot predict the effect, if any, that future sales of shares of our common stock, or the availability of shares of our common stock for future sale, will have on its market price. Sales of a substantial number of shares of our common stock in the public market (or upon exchange of limited partnership units in the operating partnership) or the perception that such sales (or exchanges) might occur could adversely affect the market price of our common stock.

All shares of common stock issuable upon the redemption of limited partnership units in the operating partnership will be deemed to be "restricted securities" within the meaning of Rule 144 under the Securities Act and may not be transferred unless registered under the Securities Act or an exemption from registration is available, including any exemption from registration provided under Rule 144. In general, upon satisfaction of certain conditions, Rule 144 permits the holder to sell certain amounts of restricted securities one year following the date of acquisition of the restricted securities from us and, after two years, permits unlimited



sales by persons unaffiliated with us. On November 26, 1999, 74,710,153 shares of common stock issued in our formation transactions became eligible for sale pursuant to Rule 144(k). Commencing generally on the first anniversary of the date of acquisition of common limited partnership units (or such other date agreed to by the operating partnership and the holders of the units), the operating partnership may redeem common limited partnership units at the request of the holders for cash (based on the fair market value of an equivalent number of shares of common stock at the time of redemption) or, at our option, exchange the common limited partnership units for an equal number of shares of our common stock, subject to certain antidilution adjustments. The operating partnership had issued and outstanding 5,973,615 common limited partnership units as of June 30, 2000. As of June 30, 2000, we had reserved 8,574,690 shares of common stock for issuance under our Stock Option and Incentive Plan (not including shares that we have already issued) and, as of June 30, 2000, we had granted to certain directors, officers and employees options to purchase 5,717,416 shares of common stock (excluding forfeitures and 69,915 shares that we have issued pursuant to the exercise of options). As of June 30, 2000, we had granted 305,395 restricted shares of common stock, 1,633 of which have been forfeited. In addition, we may issue additional shares of common stock and the operating partnership may issue additional limited partnership units in connection with the acquisition of properties. In connection with the issuance of common limited partnership units to other transferors of properties, and in connection with the issuance of the performance units, we have agreed to file registration statements covering the issuance of shares of common stock upon the exchange of the common limited partnership units. We have also filed a registration statement with respect to the shares of common stock issuable under our Stock Option and Incentive Plan. These registration statements and registration rights generally allow shares of common stock covered thereby, including shares of common stock issuable upon exchange of limited partnership units, including performance units, or the exercise of options or restricted shares of common stock, to be transferred or resold without restriction under the Securities Act. We may also agree to

provide registration rights to any other person who may become an owner of the operating partnership's limited partnership units.

Future sales of the shares of common stock described above could adversely affect the market price of our common stock. The existence of the operating partnership's limited partnership units, options and shares of common stock reserved for issuance upon exchange of limited partnership units, and the exercise of options and registration rights referred to above, also may adversely affect the terms upon which we are able to obtain additional capital through the sale of equity securities.

VARIOUS MARKET CONDITIONS AFFECT THE PRICE OF OUR STOCK

As with other publicly-traded equity securities, the market price of our stock will depend upon various market conditions, which may change from time to time. Among the market conditions that may affect the market price of our stock are the following:

- the extent of investor interest in us;

- the general reputation of real estate investment trusts and the attractiveness of their equity securities in comparison to other equity securities (including securities issued by other real estate-based companies);

- our financial performance; and

- general stock and bond market conditions, including changes in interest rates on fixed income securities which may lead prospective purchasers of our stock to demand a higher annual yield from future distributions. Such an increase in the required yield from distributions may adversely affect the market price of our stock.

Other factors such as governmental regulatory action and changes in tax laws could also have a significant impact on the future market price of our stock.



EARNINGS AND CASH DISTRIBUTIONS, ASSET VALUE AND MARKET INTEREST RATES AFFECT THE PRICE OF OUR STOCK

The market value of the equity securities of a real estate investment trust generally is based primarily upon the market's perception of the real estate investment trust's growth potential and its current and potential future earnings and cash distributions, and is based secondarily upon the real estate market value of the underlying assets. For that reason, shares of our stock may trade at prices that are higher or lower than the net asset value per share. To the extent we retain operating cash flow for investment purposes, working capital reserves or other purposes, these retained funds, while increasing the value of our underlying assets, may not correspondingly increase the market price of our stock. Our failure to meet the market's expectation with regard to future earnings and cash distributions likely would adversely affect the market price of our stock. Another factor that may influence the price of our stock will be the distribution yield on the stock (as a percentage of the price of the stock) relative to market interest rates. An increase in market interest rates might lead prospective purchasers of our stock to expect a higher distribution yield, which would adversely affect the market price of the stock. If the market price of our stock declines significantly, we might breach certain covenants with respect to debt obligations, which might adversely affect our liquidity and ability to make future acquisitions and our ability to pay distributions to our stockholders.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

<TABLE>
<CAPTION>

| EXHIBIT NUMBER | DESCRIPTION |
|---|---|
| <C> | <S> |
| 10.1 | Revolving Credit Agreement dated as of May 24, 2000 among AMB Property, L.P., the banks listed therein, Morgan Guaranty Trust Company of New York, as Administrative Agent, Bank of America, N.A., as Syndication Agent, the Chase Manhattan Bank, as Documentation Agent, J.P. Morgan Securities Inc. and Banc of America Securities LLC, as Joint Lead Arrangers and Joint Bookmanagers, Bank One, NA, Commerzbank Aktiengesellschaft, PNCBank National Association and Wachovia Bank, N.A., as Managing Agents and Bankers Trust Company and Dresdner Bank AG, New York and Grand Cayman Branches, as Co-Agents. (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K |

| | |
|---|---|
| | filed on June 16, 2000) |
| 10.2 | Guaranty of Payment made as of May 24, 2000 between AMB Property Corporation and Morgan Guaranty Trust Company of New York, as administrative agent for the banks listed on the signature page of the Revolving Credit Agreement (incorporated by reference to Exhibit 10.2 of the Registrant's Current report on Form 8-K filed on June 16, 2000) |
| 27.1 | Financial Data Schedule -- AMB Property Corporation. |

</TABLE>

(b) Reports on Form 8-K:

- The Registrant filed a Current Report on Form 8-K on June 16, 2000, in connection with the renewal of its Revolving Credit Agreement.



SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AMB PROPERTY CORPORATION
Registrant

Date: August 3, 2000

By: /s/ MICHAEL A. COKE
-----------------------------------
Michael A. Coke
Chief Financial Officer and
Executive Vice President
(Duly Authorized Officer and
Principal Financial Officer)

By: /s/ NINA A. TRAN
-----------------------------------
Nina A. Tran
Vice President
(Duly Authorized Officer and
Principal Accounting Officer)



EXHIBIT INDEX

<TABLE>
<CAPTION>

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|---|---|
| <C> | <S> |
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</TABLE>

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM AMB PROPERTY CORPORATION'S CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2000 (UNAUDITED) AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH CONSOLIDATED FINANCIAL STATEMENTS.

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