Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2002

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 **(State or Other Jurisdiction of Incorporation or Organization)**	**94-3281941** **(I.R.S. Employer Identification No.)**
Pier 1, Bay 1, San Francisco, California **(Address of Principal Executive Offices)**	**94111** **(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 ☒ No ☐.

As of April 24, 2002, there were 83,705,208 shares of the Registrant’s common stock, $0.01 par value per share, outstanding.

TABLE OF CONTENTS

AMB PROPERTY CORPORATION

INDEX

PART I

Item 1. *Financial Statements*

AMB PROPERTY CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS
As of March 31, 2002 and December 31, 2001
(unaudited, dollars in thousands, except share amounts)

ASSETS

	March 31, 2002	December 31, 2001
Investments in real estate:		
Land	$1,076,791	$1,064,422
Buildings and improvements	3,333,018	3,285,110
Construction in progress	157,142	181,179
Total investments in properties	4,566,951	4,530,711
Accumulated depreciation and amortization	(289,701)	(265,653)
Net investments in properties	4,277,250	4,265,058
Investment in unconsolidated joint ventures	71,137	71,097
Properties held for divestiture, net	139,370	157,174
Net investments in real estate	4,487,757	4,493,329
Cash and cash equivalents	86,829	73,071
Restricted cash	12,663	8,661
Mortgages receivable	87,214	87,214
Accounts receivable	75,399	70,794
Other assets	31,261	27,824
Total assets	$4,781,123	$4,760,893
LIABILITIES AND STOCKHOLDERS' EQUITY		
Debt:		
Secured debt	$1,229,433	$1,220,164
Unsecured senior debt securities	800,000	780,000
Alliance Fund II credit facility	116,000	123,500
Unsecured credit facility	—	12,000
Total debt	2,145,433	2,135,664
Dividends payable	41,429	4,960
Other liabilities	114,139	133,641
Total liabilities	2,301,001	2,274,265
Commitments and contingencies (Note 12)		
Minority interests	731,415	734,286
Stockholders' equity:		
Series A preferred stock, cumulative, redeemable, $.01 par value, 100,000,000 shares authorized, 4,000,000 issued and outstanding, $100,000 liquidation preference	96,100	96,100
Common stock $.01 par value, 500,000,000 shares authorized, 84,064,371 and 83,821,829 issued and outstanding	841	838
Additional paid-in capital	1,630,222	1,627,764
Retained earnings	21,544	27,640
Total stockholders' equity	1,748,707	1,752,342
Total liabilities and stockholders' equity	$4,781,123	$4,760,893

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

Table of Contents

AMB PROPERTY CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the three months ended March 31, 2002 and 2001
(unaudited, dollars in thousands, except share and per share amounts)

	For the Three Months Ended March 31, 2002	2001
Revenues		
Rental revenues	$ 152,241	$ 135,801
Equity in earnings of unconsolidated joint ventures	1,483	1,474
Investment management income	2,588	2,420
Interest and other income	2,850	5,139
Total revenues	159,162	144,834
Expenses		
Property operating expenses	18,480	16,339
Real estate taxes	18,589	16,581
Interest, including amortization	35,851	31,552
Depreciation and amortization	29,675	26,854
General and administrative	9,945	8,183
Loss on investments in other companies	—	4,655
Total expenses	112,540	104,164
Income before minority interests and gains from disposition of real estate	46,622	40,670
Minority interests’ share of income	(15,623)	(12,997)
Gains/(losses) from dispositions of real estate, net of minority interests	(288)	16,767
Net income before extraordinary items	30,711	44,440
Extraordinary items (early debt extinguishments)	(216)	—
Net income	30,495	44,440
Series A preferred stock dividends	(2,125)	(2,125)
Net income available to common stockholders	$ 28,370	$ 42,315
Basic Income Per Common Share		
Before extraordinary items	$ 0.34	$ 0.50
Extraordinary items	—	—
Net income available to common stockholders	$ 0.33	$ 0.50
Diluted Income Per Common Share		
Before extraordinary items	$ 0.33	$ 0.50
Extraordinary items	—	—
Net income available to common stockholders	$ 0.33	$ 0.50
Weighted Average Common Shares Outstanding		
Basic	83,319,047	83,895,993
Diluted	84,781,872	84,720,917

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

AMB PROPERTY CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three months ended March 31, 2002 and 2001
(unaudited, dollars in thousands)

	2002	2001
Cash Flows from Operating Activities		
Net income	$ 30,495	$ 44,440
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	29,675	26,854
Loss on investments in other companies	—	4,655
Straight-line rents	(3,961)	(1,325)
Amortization of debt premiums and financing costs	(152)	451
Deferred compensation amortization	667	304
Minority interests	15,623	12,997
(Gains)/losses from dispositions of real estate	288	(16,767)
Non-cash portion of extraordinary items	(330)	—
Equity in loss of AMB Investment Management	—	(149)
Equity in earnings of unconsolidated joint ventures	(1,483)	(1,474)
Changes in assets and liabilities:		
Accounts receivable and other assets	(3,076)	(24,005)
Accounts payable and other liabilities	(19,502)	30,570
Net cash provided by operating activities	48,244	76,551
Cash Flows from Investing Activities		
Change in restricted cash and cash equivalents	(4,002)	(61,528)
Cash paid for property acquisitions	(30,486)	(90,320)
Additions to buildings, development costs, and other first generation improvements	(13,991)	(25,967)
Additions to second generation building improvements and lease costs	(11,223)	(7,426)
Additions to interests in unconsolidated joint ventures	—	(4,584)
Distributions received from unconsolidated joint ventures	1,433	1,173
Net proceeds from divestiture of real estate	36,923	30,295
Net cash used in investing activities	(21,346)	(158,357)
Cash Flows from Financing Activities		
Issuance of common stock	868	1,020
Borrowings on secured debt	41,166	81,074
Payments on secured debt	(33,979)	(6,092)
Borrowings on unsecured credit facility	—	119,000
Payments on unsecured credit facility	(12,000)	(241,000)
Borrowings on Alliance Fund II credit facility	23,500	—
Payments on Alliance Fund II credit facility	(31,000)	—
Payment of financing fees	(1,662)	(624)
Net proceeds from issuances of senior debt securities	19,883	74,563
Net proceeds from issuances of preferred units	—	24,863
Contributions from co-investment partners	—	125,000
Dividends paid to common and preferred stockholders	(2,125)	(2,125)
Distributions to minority interests, including preferred units	(17,791)	(15,604)
Net cash provided by/(used in) financing activities	(13,140)	160,075
Net increase in cash and cash equivalents	13,758	78,269
Cash and cash equivalents at beginning of period	73,071	20,358
Cash and cash equivalents at end of period	$ 86,829	$ 98,627
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest, net of amounts capitalized	$ 20,328	$ 35,033
Non-cash transactions:		
Acquisition of properties	$ 34,063	$ 90,320
Assumption of debt	(3,577)	—
Net cash paid	$ 30,486	$ 90,320

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

AMB PROPERTY CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
For the three months ended March 31, 2002
(unaudited, dollars in thousands)

	Series A Preferred Stock	Common Stock Number of Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Total
Balance as of December 31, 2001	$96,100	83,821,829	$ 838	$1,627,764	$ 27,640	$1,752,342
Comprehensive income:						
Net income	2,125	—	—	—	28,370	
Total comprehensive income	—	—	—	—	—	30,495
Issuance of restricted stock, net	—	165,640	2	4,473	—	4,475
Exercise of stock options	—	40,791	1	867	—	868
Conversion of Operating Partnership units	—	36,111	—	926	—	926
Deferred compensation	—	—	—	(4,475)	—	(4,475)
Deferred compensation amortization	—	—	—	667	—	667
Reallocation of limited partners' interest in Operating Partnership	—	—	—	—	—	—
Dividends	(2,125)	—	—	—	(34,466)	(36,591)
Balance as of March 31, 2002	$96,100	84,064,371	$ 841	$1,630,222	$ 21,544	$1,748,707

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

AMB PROPERTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2002
(unaudited)

1. Organization and Formation of the Company

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 (“REIT”) under Sections 856 through 860 of the Internal Revenue Code of 1986 (the “Code”), 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 primarily in eight hub markets and gateway cities. Unless the context otherwise requires, the “Company” means AMB Property Corporation, the Operating Partnership, and its other controlled subsidiaries.

As of March 31, 2002, the Company owned an approximate 94.4% general partner interest in the Operating Partnership, excluding preferred units. The remaining 5.6% 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 interests in the properties. As the sole general partner of the Operating Partnership, the Company has 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 March 31, 2002, the Company had investments in five co-investment joint ventures, which are consolidated for financial reporting purposes.

AMB Capital Partners, LLC, a Delaware limited liability company (“AMB Capital Partners”), the successor-in-interest to AMB Investment Management, Inc. (“AMB Investment Management”), provides real estate investment services to clients on a fee basis. Headlands Realty Corporation, a Maryland corporation, conducts a variety of businesses that include incremental income programs, such as the Company’s CustomerAssist Program and development projects available for sale to third parties. On December 31, 2001, AMB Investment Management was reorganized through a series of related transactions into AMB Capital Partners. The Operating Partnership is the managing member of AMB Capital Partners. On May 31, 2001, the Operating Partnership acquired 100% of the common stock of AMB Investment Management and Headlands Realty Corporation from current and former executive officers of the Company, a former executive officer of AMB Investment Management, and a director of Headlands Realty Corporation, thereby acquiring 100% of both entities’ capital stock. The Operating Partnership began consolidating its investments in AMB Investment Management and Headlands Realty Corporation on May 31, 2001. Prior to May 31, 2001, the Operating Partnership reflected its investment using the equity method. The impact of consolidating AMB Investment Management and Headlands Realty Corporation was not material.

As of March 31, 2002, the Company owned 914 industrial buildings and seven retail centers, located in 26 markets throughout the United States. The Company’s strategy is to become a leading provider of High Throughput Distribution, or HTD, properties in supply-constrained, in fill submarkets located near key international passenger and cargo airports, highway systems, and sea ports in major metropolitan areas, such as Atlanta, Chicago, Dallas/ Fort Worth, Northern New Jersey/ New York City, the San Francisco Bay Area, Southern California, Miami, and Seattle. As of March 31, 2002, the industrial buildings, principally warehouse distribution buildings, encompassed approximately 82.3 million rentable square feet and were 94.4% leased to over 2,900 customers. As of March 31, 2002, the retail centers, principally grocer-anchored community shopping centers, encompassed approximately 1.1 million rentable square feet and were 87.2% leased to more than 120 customers.

As of March 31, 2002, through AMB Capital Partners, the Company also managed industrial buildings and retail centers, totaling approximately 2.6 million rentable square feet on behalf of various clients. In addition, the Company has invested in industrial buildings, totaling approximately 4.9 million rentable square feet, through unconsolidated joint ventures.

2. Interim Financial Statements

The condensed 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 accounting principles generally accepted in the Unites States have been condensed or omitted.

In the opinion of management, the accompanying unaudited condensed 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 for the three months ended March 31, 2002 and 2001, are not necessarily indicative of 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, 2001.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

Investments in other companies were accounted for on a cost basis and realized gains and losses were included in current earnings. During the three months ended March 31, 2001, the Company recognized a loss on its investment in Webvan Group, Inc. totaling $4.7 million. The Company had previously recognized gains and losses on its investment in Webvan Group, Inc. as a component of other comprehensive income.

In June and August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards Nos. 143, *Accounting for Asset Retirement Obligations,* and 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Under FASB Statement No. 143, the fair value of a liability for an asset retirement obligation must be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. FASB Statement No. 144 retains FASB Statement No. 121's, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of,* fundamental provisions for the: (1) recognition and measurement of impairment of long-lived assets to be held and used; and (2) measurement of long-lived assets to be disposed of by sale. The Company does not believe that either FASB Statement No. 143 or No. 144 will have a material impact on its financial position or results of operations. FASB Statement No. 143 is effective for fiscal years beginning after June 15, 2002, and FASB Statement No. 144 was effective for fiscal years beginning after December 15, 2001.

AMB PROPERTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

March 31, 2002
(unaudited)

3. Real Estate Acquisition and Development Activity

During the quarter ended March 31, 2002, the Company invested $35.0 million in eight industrial buildings aggregating approximately 0.7 million square feet, all of which was through two of the Company's co-investment joint ventures.

During the quarter ended March 31, 2002, the Company completed industrial developments valued at $11.4 million, aggregating approximately 0.2 million square feet. The Company also initiated a new industrial development project valued at $6.0 million aggregating approximately 0.2 million square feet.

During the quarter ended March 31, 2001, the Company invested $93.4 million in operating properties, consisting of 14 industrial buildings aggregating approximately 1.8 million square feet, which included the investment of $42.5 million in operating properties, consisting of eight industrial buildings aggregating approximately 0.9 million square feet for two of the Company's joint ventures.

During the quarter ended March 31, 2001, the Company also contributed $427.3 million in operating properties, consisting of 94 industrial buildings aggregating approximately 8.8 million square feet, to two of its co-investment joint ventures. The Company recognized a gain of $16.8 million on the contributions.

As of March 31, 2002, the Company had in its development pipeline: (1) 12 industrial projects, which will total approximately 3.1 million square feet and have an aggregate estimated investment by the Company and, in certain instances, the Company's co-investors of $147.6 million upon completion and (2) two development projects available for sale, which will total approximately 0.6 million square feet and have an aggregate estimated investment of $49.6 million upon completion. As of March 31, 2002, the Company and its Development Alliance Partners have funded an aggregate of $130.8 million and will need to fund an estimated additional $66.4 million in order to complete current and planned projects.

4. Property Divestitures and Properties Held for Divestiture

Property Divestitures. During the quarter ended March 31, 2002, the Company divested itself of one industrial and one retail building, aggregating approximately 0.3 million square feet, for an aggregate price of $38.5 million, with a resulting net loss of $0.3 million, which is net of minority interests' share. Both of the buildings disposed were classified as held for sale as of December 31, 2001.

Properties Held for Divestiture. As of March 31, 2002, the Company had decided to divest itself of six retail centers and four industrial properties, 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. Properties held for divestiture are stated at the lower of cost or estimated fair value less costs to sell.

The following summarizes the condensed results of operations of the properties held for divestiture (dollars in thousands):

	Three Months Ended March 31,	
	2002	2001
Properties Held for Divestiture at March 31, 2002		
Income	$ 5,098	$ 4,429
Property operating expenses	1,772	1,585
Interest expense	914	986
Net income	$ 2,412	$ 1,858

AMB PROPERTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

March 31, 2002
(unaudited)

5. Mortgages Receivable

In September 2000, the Company sold a retail center located in Los Angeles, California. As of March 31, 2002, the Company carried a 9.5% mortgage note in the principal amount of $74.0 million on the retail center. The maturity date of the mortgage note was extended to September 30, 2002. During 2001, the Company renegotiated this mortgage and received a $5.0 million pay-down on the principal balance and increased the interest rate to 9.5% from 8.75%. The Company has a first lien against the retail center as collateral for the mortgage note and believes that the underlying estimated fair value of the retail center is equal to or greater than the carrying value of the mortgage note.

Through a wholly-owned subsidiary, the Company also holds a mortgage loan receivable on AMB Pier One, LLC, an unconsolidated joint venture. The note bears interest at 13.0% and matures in May 2026. As of March 31, 2002, the outstanding balance on the note was $13.2 million.

6. Debt

As of March 31, 2002, and December 31, 2001, debt consisted of the following (dollars in thousands):

	March 31, 2002	December 31, 2001
Company secured debt, varying interest rates from 3.7% to 10.4%, due October 2002 to April 2014 (weighted average interest rate of 8.0% at March 31, 2002)	$ 436,959	$ 453,954
Joint venture secured debt, varying interest rates from 3.5% to 10.4%, due July 2002 to June 2023 (weighted average interest rate of 7.1% at March 31, 2002)	787,133	759,374
Unsecured senior debt securities, varying interest rates from 5.9% to 8.0%, (weighted average interest rate of 7.2%), due June 2005 to June 2018	800,000	780,000
Unsecured credit facility, variable interest at LIBOR plus 75 basis points, due May 2003	—	12,000
Alliance Fund II credit facility, variable interest at LIBOR plus 87.5 basis points (weighted average interest rate of 2.8% at March 31, 2002), due August 2003	116,000	123,500
Total before premiums	2,140,092	2,128,828
Unamortized premiums	5,341	6,836
Total consolidated debt	$2,145,433	$2,135,664

Secured debt generally requires monthly principal and interest payments. The secured debt is secured by deeds of trust on certain properties. As of March 31, 2002, and December 31, 2001, the total gross investment book value of those properties securing the debt was $2.5 billion and $2.3 billion, respectively, including $1.3 billion and $1.2 billion, respectively, in consolidated joint ventures. All of the secured debt bears interest at fixed rates, except for seven loans with an aggregate principal amount of $71.2 million as of March 31, 2002, which bear interest at variable rates (weighted average interest rate of 3.7% as of March 31, 2002). The secured debt has various financial and non-financial covenants. Management believes that the Company and the Operating Partnership were in material compliance with these covenants as of March 31, 2002. As of March 31, 2002, the Company had 23 non-recourse secured loans, which are cross collateralized by 50 properties. As of March 31, 2002, the Company had $572.1 million (not including unamortized debt premiums) outstanding on these loans.

AMB PROPERTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

March 31, 2002
(unaudited)

Interest on the senior debt securities is payable semi-annually. 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 March 31, 2002.

In August 2000, the Operating Partnership commenced a medium-term note program for the issuance of up to $400.0 million in principal amount of medium-term notes, which are guaranteed by the Company. As of March 31, 2002, the Operating Partnership had issued $400.0 million of medium-term notes under this program. On January 14, 2002, the Operating Partnership issued and sold the remaining $20.0 million of the notes under this program to Lehman Brothers, Inc., as principal. The Company has guaranteed the notes, which mature on January 17, 2007, and bear interest at 5.90% per annum. The Operating Partnership used the net proceeds of $19.9 million for general corporate purposes, to partially repay indebtedness, and to acquire and develop additional properties.

In May 2000, the Operating Partnership entered into a $500.0 million unsecured revolving credit agreement. The Company guarantees the Operating Partnership's obligations under the credit facility. The credit facility matures in May 2003, has a one-year extension option, and is subject to a 15 basis point annual facility fee based on the Company's credit rating. 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 March 31, 2002. The Operating Partnership has the ability to increase available borrowings to $700.0 million by adding additional banks to the facility or obtaining the agreement of existing banks to increase their commitments. Monthly debt service payments on the credit facility are interest only. The total amount available under the credit facility fluctuates based upon the borrowing base, as defined in the agreement governing the credit facility. As of March 31, 2002, there was no outstanding balance on the credit facility and the amount available under the credit facility was $500.0 million (excluding the additional $200.0 million of potential additional capacity).

In July 2001, AMB Institutional Alliance Fund II, L.P. ("Alliance Fund II") obtained a $150.0 million credit facility from Bank of America, N.A. Borrowings currently bear interest at LIBOR plus 87.5 basis points. The credit facility is secured by the unfunded capital commitments of the third party investors in AMB Institutional Alliance REIT II, Inc. ("Alliance REIT II") and the Alliance Fund II. As of March 31, 2002, the outstanding balance was $116.0 million and the remaining amount available was $34.0 million. 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 March 31, 2002.

During the quarter ended March 31, 2002, the Operating Partnership retired $28.8 million of secured debt. The Operating Partnership recognized a net extraordinary loss of $0.2 million related to the early debt retirement.

AMB PROPERTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

March 31, 2002
(unaudited)

As of March 31, 2002, the scheduled maturities of the Company's total debt, excluding unamortized debt premiums, were as follows (dollars in thousands):

	Company Secured Debt	Joint Venture Debt	Unsecured Senior Debt Securities	Credit Facilities	Total
2002	$ 17,767	$ 28,621	$ —	$ —	$ 46,388
2003	76,151	37,528	—	116,000	229,679
2004	72,426	52,030	—	—	124,456
2005	62,338	38,449	250,000	—	350,787
2006	86,466	74,888	25,000	—	186,354
2007	25,618	32,395	75,000	—	133,013
2008	33,619	148,119	175,000	—	356,738
2009	5,176	32,958	—	—	38,134
2010	52,780	93,595	75,000	—	221,375
2011	1,311	167,878	75,000	—	244,189
Thereafter	3,307	80,672	125,000	—	208,979
	$436,959	$787,133	$800,000	$116,000	$2,140,092

7. Minority Interests

Minority interests in the Company represent the limited partnership interests in the Operating Partnership and interests held by certain third parties in several real estate joint ventures, aggregating approximately 29.0 million square feet, which are consolidated for financial reporting purposes. Such investments are consolidated because: (1) the Company owns a majority interest; or (2) the Company exercises significant control over major operating decisions such as approval of budgets, selection of property managers, and changes in financing.

Through the operating partnership, the Company enters into co-investment joint ventures with institutional investors. As of March 31, 2002, the Company had investments in five co-investment joint ventures with a gross book value of $1.3 billion, which are consolidated for financial reporting purposes and which are discussed below.

The Operating Partnership, together with one of its other affiliates, owned, as of March 31, 2002, approximately 50% of AMB/ Erie. L.P., ("Erie"). Erie is a co-investment partnership between the Operating Partnership and various entities related to Erie Insurance Company, and is engaged in the acquisition, ownership, operation, management, renovation, expansion, and development of industrial buildings in target markets nationwide. As of March 31, 2002, Erie had a total capitalization of $199.0 million.

The Operating Partnership, together with one of the Company's other affiliates, owned, as of March 31, 2002, approximately 21% of the partnership interests in AMB Institutional Alliance Fund I, L.P. ("Alliance Fund I"). The Alliance Fund I is a co-investment partnership between the Operating Partnership and AMB Institutional Alliance REIT I, Inc. ("Alliance REIT I"), which includes 15 institutional investors as stockholders, and is engaged in the acquisition, ownership, operation, management, renovation, expansion, and development of industrial buildings in target markets nationwide. As of March 31, 2002, the Alliance Fund I had a total capitalization of $378.0 million. The Operating Partnership is the managing general partner of the Alliance Fund I.

AMB PROPERTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

March 31, 2002
(unaudited)

The Operating Partnership, together with one of the Company's other affiliates, formed AMB Partners II, L.P. ("Partners II") to acquire, manage, develop, and redevelop distribution facilities nationwide. On February 14, 2001, Partners II received an equity contribution from City and County of San Francisco Employees' Retirement System ("CCSFERS") of $50.0 million. As of March 31, 2002, Partners II had a total capitalization of $206.0 million. The Operating Partnership is the managing general partner of Partners II and owned, as of March 31, 2002, approximately 50% of Partners II.

The Operating Partnership, together with one of the Company's other affiliates, formed AMB-SGP, L.P. ("AMB-SGP") with a subsidiary of GIC Real Estate Pte Ltd., the real estate investment subsidiary of the Government of Singapore Investment Corporation ("GIC"), to own and operate, through a private real estate investment trust, distribution facilities nationwide. On March 23, 2001, AMB-SGP received an equity contribution from GIC of $75.0 million. As of March 31, 2002, AMB-SGP had a total capitalization of $320.0 million. The Operating Partnership is the managing general partner of AMB-SGP and owned, as of March 31, 2002, approximately 50.3% of AMB-SGP.

The Operating Partnership, together with one of the Company's other affiliates, formed the AMB Institutional Alliance Fund II, L.P. ("Alliance Fund II"), in which AMB Institutional Alliance REIT II, Inc. ("Alliance REIT II") became a partner on June 28, 2001. The Operating Partnership owned, as of March 31, 2002, 20% of the partnership interests in the Alliance Fund II. The Alliance Fund II is a co-investment partnership between the Operating Partnership, the Alliance REIT II, and a third party limited partner. The Alliance REIT II included 14 institutional investors as stockholders as of March 31, 2002. The Alliance Fund II is engaged in the acquisition, ownership, operation, management, renovation, expansion, and development of industrial buildings in target markets nationwide. As of March 31, 2002, the Alliance Fund II had a total capitalization of $244.0 million. The Operating Partnership is the managing general partner of the Alliance Fund II.

AMB PROPERTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

March 31, 2002
(unaudited)

The following table distinguishes the minority interest liability and the minority interests' share of net income (dollars in thousands):

	Liability	Share of Net Income	
	As of March 31, 2002	For the Three Months Ended March 31,?	
		2002	2001
Joint Venture Partners	$357,567	$ 7,966	$ 4,364
Limited Partners in the Operating Partnership	97,861	1,800	1,775
Series B Preferred Units (liquidation preference of $65,000)	62,319	1,402	1,402
Series J Preferred Units (liquidation preference of $40,000)	38,906	918	—
Held through AMB Property II, L.P.:			
Series C Preferred Units (liquidation preference of $110,000)	—	—	2,406
Series D Preferred Units (liquidation preference of $79,767)	77,687	1,545	1,545
Series E Preferred Units (liquidation preference of $11,022)	10,788	214	214
Series F Preferred Units (liquidation preference of $19,872)	19,597	395	395
Series G Preferred Units (liquidation preference of $1,000)	954	20	20
Series H Preferred Units (liquidation preference of $42,000)	40,915	853	853
Series I Preferred Units (liquidation preference of $25,500)	24,821	510	23
Total	$731,415	$15,623	$12,997

8. Investments in Unconsolidated Joint Ventures

The Company has non-controlling limited partnership interests in three separate unconsolidated joint ventures. The Company accounts for the joint ventures using the equity method of accounting. Under the agreements governing the joint ventures, the Company and the other party to the joint venture may be required to make additional capital contributions, and subject to certain limitations, the joint ventures may incur additional debt. The Company has a 56.1% interest in a joint venture, which owns an aggregate of 36 industrial buildings totaling approximately 4.0 million square feet. The Company also has a 50% interest in each of two other operating and development alliance joint ventures. The Company's net equity investment in these joint ventures is shown as Investment in unconsolidated joint ventures on the accompanying consolidated balance sheets. For the three months ended March 31, 2002 and 2001, the Company's share of net operating income from these joint ventures was $2.6 million and $2.8 million, respectively.

9. Stockholders' Equity

During the quarter ended March 31, 2002, the Company redeemed 36,111 common limited partnership units of the Operating Partnership for shares of its common stock. Holders of common limited partnership units of the Operating Partnership have the right, commencing generally on or after the first anniversary of the holder becoming a limited partner of the Operating Partnership (or such other date agreed to by the Operating Partnership and the applicable unit holders), to require the Operating Partnership to redeem part or all of their common units for cash (based upon the fair market value of an equivalent number of shares of common stock at the time of redemption) or the Operating Partnership may, in its sole and absolute discretion (subject to the limits on ownership and transfer of common stock set forth in the Company's charter) elect to have the Company exchange those common units for shares of the Company's common stock on a one-for-one basis, subject to adjustment in the event of stock splits, stock dividends, issuance of certain rights, certain extraordinary distributions and similar events. The Company presently anticipates that the Operating Partnership will generally elect to have it issue shares of its common stock in exchange for common units in connection with a redemption request; however, the Operating Partnership has paid cash, and may in the future pay cash, for a redemption of common units. With each redemption or exchange, the Company's percentage ownership in the Operating Partnership will increase. Common limited partners may exercise this redemption right from time to time, in whole or in part, subject to the limitations that limited partners may not exercise this right if such exercise would result in any person actually or constructively owning shares of common stock in excess of the ownership limit or any other amount specified by the board of directors, assuming common stock was issued in the exchange.

In December 2001, the Company's board of directors approved a new stock repurchase program for the repurchase of up to $100.0 million worth of common stock. The new stock repurchase program expires in December 2003 and no repurchases have been made under the new program as of March 31, 2002.

The following table sets forth the dividend and distribution declarations per share or unit for the three months ended March 31,:

		For the Three Months Ended March 31,	
Security	Paying Entity	2002	2001
Common stock	Company	$ 0.410	$ 0.395
Operating Partnership units	Operating Partnership	$ 0.410	$ 0.395
Series A preferred stock	Company	$ 0.531	$ 0.531
Series A preferred units	Operating Partnership	$ 0.531	$ 0.531
Series B preferred units	Operating Partnership	$ 1.078	$ 1.078
Series C preferred units	AMB Property II, L.P.	n/a	$ 1.094
Series D preferred units	AMB Property II, L.P.	$ 0.969	$ 0.969
Series E preferred units	AMB Property II, L.P.	$ 0.969	$ 0.969
Series F preferred units	AMB Property II, L.P.	$ 0.994	$ 0.994
Series G preferred units	AMB Property II, L.P.	$ 0.994	$ 0.994
Series H preferred units	AMB Property II, L.P.	$ 1.016	$ 1.016
Series I preferred units	AMB Property II, L.P.	$ 1.000	$ 0.044
Series J preferred units	Operating Partnership	$ 0.994	n/a

AMB PROPERTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

March 31, 2002
(unaudited)

10. Income Per Share

The Company's only dilutive securities outstanding for the three months ended March 31, 2002 and 2001 were stock options and restricted stock granted under its stock incentive plan. The effect on diluted income per share was to increase weighted average shares outstanding. Such dilution was computed using the treasury stock method.

	For the Three Months Ended March 31,	
	2002	2001
Weighted Average Common Shares		
Basic	83,319,047	83,895,993
Stock options and restricted stock	1,462,825	824,924
Diluted	84,781,872	84,720,917

11. Segment Information

The Company operates industrial and retail properties nationwide and manages its business both by property type and by market. Industrial properties consist primarily of warehouse distribution facilities suitable for single or multiple customers and are typically comprised of multiple buildings that are leased to customers engaged in various types of businesses. As of March 31, 2002, the Company operated industrial properties in eight hub and gateway markets in addition to 18 other markets nationwide. As of March 31, 2002, the Company operated retail properties in Miami, Atlanta, Chicago, the San Francisco Bay Area, Boston, and Baltimore. The Company does not separately manage its retail operations by market. Retail properties are generally leased to one or more anchor customers, such as grocery and drug stores, and various retail businesses. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based upon property net operating income of the combined properties in each segment. The Company's geographic markets for industrial properties are managed separately because each market requires different operating, pricing, and leasing strategies.

AMB PROPERTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

March 31, 2002
(unaudited)

Within the hub and gateway market categorization, the Company operates in eight major U.S. markets. The other industrial markets category captures all of the Company's other smaller markets nationwide. Summary information for the reportable segments is as follows (dollars in thousands):

	Rental Revenues(1)	
	For the Three Months Ended March 31,	
	2002	2001
Industrial Hub & Gateway Markets:		
Atlanta	$ 7,314	$ 9,088
Chicago	11,886	11,592
Dallas/ Ft. Worth	6,621	8,185
No. New Jersey/ New York	10,832	10,965
San Francisco Bay Area	30,002	24,111
Southern California	18,650	15,055
Miami	8,296	8,727
Seattle	5,492	6,345
Total hub & gateway markets	99,093	93,988
Total other industrial markets	43,752	33,452
Total retail markets	5,435	7,036
Total properties	$148,280	$134,476

(1) Excludes straight-line rents of $4.0 million and $1.3 million for the three months ended March 31, 2002 and 2001, respectively.

	Property NOI(1)(2)		Total Gross Investment(3)	
	For the Three Months Ended March 31,			
	2002	2001	March 31, 2002	December 31, 2001
Industrial Hub & Gateway Markets:				
Atlanta	$ 5,880	$ 5,814	$ 277,090	$ 271,663
Chicago	8,332	6,756	343,494	330,127
Dallas/ Fort Worth	4,839	4,607	191,204	171,263
Northern New Jersey/ New York	7,263	7,580	403,160	406,077
San Francisco Bay Area	25,293	20,230	808,354	806,528
Southern California	14,713	11,750	707,675	694,602
Miami	6,232	6,634	290,304	288,046
Seattle	4,376	4,544	196,966	193,154
Total hub & gateway markets	76,928	67,915	3,218,247	3,161,460
Total other industrial markets	30,731	29,154	1,316,439	1,321,959
Total industrial markets	107,659	97,069	4,534,686	4,483,419
Total retail markets	3,552	4,487	32,265	47,292
Total properties	$111,211	$101,556	$4,566,951	$4,530,711

(1) Excludes straight-line rents of $4.0 million and $1.3 million for the three months ended March 31, 2002 and 2001, respectively.

(2) Property net operating income is defined as rental revenue, including reimbursements and excluding 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 $139.4 million as of March 31, 2002, and $157.2 million as of December 31, 2001.

Table of Contents

The Company uses property net operating income as an operating performance measure. The following table reconciles total reportable segment revenue and property net operating income to rental revenues and income from operations (dollars in thousands):

	For the Three Months Ended March 31,	
	2002	2001
Rental Revenues		
Total rental revenues for reportable segments	$148,280	$134,476
Straight-line rents	3,961	1,325
Total rental revenues	$152,241	$135,801
Income before minority interests and net gains from dispositions of real estate		
Property net operating income for reportable segments	$111,211	$101,556
Straight-line rents	3,961	1,325
Equity in earnings of unconsolidated joint ventures	1,483	1,474
Investment management income	2,588	2,420
Other income	2,850	5,139
Less:		
Interest, including amortization	(35,851)	(31,552)
Depreciation and amortization	(29,675)	(26,854)
General, administrative, and other	(9,945)	(8,183)
Loss on investments in other companies	—	(4,655)
Income before minority interests and gains (losses)	$ 46,622	$ 40,670

12. Commitments and Contingencies

Litigation. In the normal course of business, from time to time, the Company may be 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 material adverse effect on the consolidated financial position, results of operations, or cash flows of the Company.

Environmental Matters. The Company monitors its properties for the presence of hazardous or toxic substances. The Company is not aware of any environmental liability with respect to the properties 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 property and rental loss, liability, flood, and environmental insurance. The Company believes that the policy terms and conditions, limits, and deductibles are adequate and appropriate under the circumstances, given the relative risk of loss, the cost of such coverage, and industry practice. In addition, certain of the Company's properties are located in areas that are subject to earthquake activity; therefore, the Company has obtained limited earthquake insurance on those properties. There are, however, certain types of extraordinary losses, such as those due to acts of terrorism, that may be either uninsurable or not economically insurable. Should an uninsured loss occur, the Company could lose its investment in, and anticipated profits and cash flows from, a property.

AMB PROPERTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

March 31, 2002
(unaudited)

Captive Insurance Company. The Company has responded to recent trends towards increasing costs and decreasing coverage availability in the insurance markets by obtaining higher-deductible property insurance from third party insurers and by forming a wholly-owned captive insurance company, Arcata National Insurance Ltd. ("Arcata") in December 2001. Arcata provides insurance coverage for all or a portion of losses below the increased deductible under the third party policies. The Company capitalized Arcata in accordance with regulatory requirements. Arcata established annual premiums based on projections derived from the past loss experience at the Company's properties. Annually, the Company intends to engage an independent third party to perform an actuarial estimate of future projected claims.

Premiums paid to Arcata have a retrospective component, so that if expenses, including losses, are less than premiums collected, the excess will be returned to the property owners (and, in turn, as appropriate, to the customers) and conversely, subject to certain limitations, if expenses, including losses, are greater than premiums collected, an additional premium will be charged. As with all recoverable expenses, differences between estimated and actual insurance premiums will be recognized in the subsequent year. Through this structure, the Company believes that it will be able to obtain insurance for its portfolio with more comprehensive coverage at a projected overall lower cost than would otherwise be available in the market.

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. Such statements relate to our future performance and plans, results of operations, capital expenditures, acquisitions, and operating improvements and costs. 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 occur or be achieved. 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 customers;*
- *increased interest rates and operating costs;*
- *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;*
- *possible impairments in timely financial reporting or access to capital markets if Arthur Andersen LLP is unable to perform audit-related services;*
- *changes in real estate and zoning laws;*
- *increases in real property tax rates; and*
- *risks of doing business internationally.*

Our success also depends upon economic trends generally, including interest rates, income tax laws, governmental regulation, legislation, population changes, and those other 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 as of the date of this report or as of 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®; Customer Alliance Partners®; Customer Alliance Program®;

Development Alliance Partners®; Development Alliance Program®; eSpace®; Institutional Alliance Partners®; Institutional Alliance Program®; Management Alliance Partners®; Management Alliance Program®; UPREIT Alliance Partners®; UPREIT Alliance Program®, HTD®; and High Throughput Distribution®. The following marks are our unregistered trademarks: Broker Alliance Partners™; Broker Alliance Program™; Strategic Alliance Partners™; and Strategic Alliance Programs™.

GENERAL

We commenced operations as a fully integrated real estate company in connection with the completion of our initial public offering on November 26, 1997, and elected to be taxed as a real estate investment trust under Sections 856 through 860 of the Internal Revenue Code of 1986 with our initial tax return for the year ended December 31, 1997. AMB Property Corporation and the operating partnership were formed shortly before the consummation of our initial public offering.

We generate revenue primarily from rent received from customers under long-term operating leases at our properties, including reimbursements from customers for certain operating costs. In addition, our growth is, in part, dependent on our ability to increase occupancy rates or increase rental rates at our properties and our ability to continue the acquisition and development of additional properties. 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. Moreover, as the general partner of the operating partnership, we generally will be liable for all of the operating partnership's unsatisfied obligations other than non-recourse obligations, including the operating partnership's obligations as the general partner of the co-investment joint ventures. Any such liabilities could adversely affect our financial condition, results of operations, cash flow, and ability to pay dividends on, and the market price of, our stock.

Critical Accounting Policies

Our discussion and analysis of financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, and contingencies as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. We evaluate our assumptions and estimates on an on-going basis. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

REIT Compliance. 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 that 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 others on a 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 90%

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 through the operating partnership. 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.

If we fail to qualify as a real estate investment trust in any taxable year, then we would 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, then our net earnings available for investment or distribution to stockholders would be significantly reduced for each of the years involved and we would no longer be required to make distributions to our stockholders. In addition, our annual fee on our unsecured credit facility may increase and certain rights that preferred limited partnership unitholders in our affiliates have to exchange their preferred units for shares of our preferred stock may be triggered.

Investments in Real Estate. Investments in real estate are stated at cost unless circumstances indicate that cost cannot be recovered, in which case, the carrying value of the property is reduced to estimated fair value. Carrying values for financial reporting purposes are reviewed for impairment on a property-by-property basis whenever events or changes in circumstances indicate that the carrying value of a property may not be recoverable. Impairment is recognized when estimated expected future cash flows (undiscounted and without interest charges) are less than the carrying amount of the property. The estimation of expected future net cash flows is inherently uncertain and relies on assumptions regarding current and future market conditions and the availability of capital. If impairment analysis assumptions change, then an adjustment to the carrying amount of our long-lived assets could occur in the future period in which the assumptions change. To the extent that a property is impaired, the excess of the carrying amount of the property over its estimated fair value is charged to income. We believe that there are no additional impairments of the carrying values of our investments in real estate at March 31, 2002.

Investment in Unconsolidated Joint Ventures. We have non-controlling limited partnership interests in three separate unconsolidated joint ventures. We account for the joint ventures using the equity method of accounting. We have a 56.1% interest in a joint venture, which owns an aggregate of 36 industrial buildings totaling approximately 4.0 million square feet. We also have a 50% interest in each of two other operating and development alliance joint ventures. Our net equity investment in these joint ventures is shown as investment in unconsolidated joint ventures on our consolidated balance sheets.

Rental Revenues. We record rental revenue from long-term operating leases on a straight-line basis over the term of the leases and maintain an allowance for estimated losses that may result from the inability of our customers to make required payments. If customers fail to make contractual lease payments that are greater than our bad-debt reserves, then we may have to recognize additional bad debt charges in future periods.

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, Southern California, Miami, and Seattle. Within each of our markets, we focus our investments in in-fill submarkets. In-fill sub-markets are characterized by supply constraints on the availability of land for competing projects as well as by having physical, political, or economic barriers to new development. 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 growth of the airfreight and ocean-going container business and the outsourcing of supply chain management to third party logistics companies 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 March 31, 2002, we owned and operated 914 industrial buildings and nine retail centers, totaling approximately 83.4 million rentable square feet, located in 26 markets nationwide. As of March 31, 2002, our industrial and retail properties were 94.4% and 87.2% leased, respectively. As of March 31, 2002, through our subsidiary, AMB Capital Partners, LLC, we also managed industrial buildings and retail centers, totaling approximately 2.6 million rentable square feet on behalf of various clients. In addition, we have invested in 40 industrial buildings, totaling approximately 4.9 million rentable square feet, through unconsolidated joint ventures.

As of March 31, 2002, we had six retail centers and four industrial properties, which were held for divestiture. During the quarter, we disposed of one industrial building and one retail building, aggregating approximately 0.3 million rentable square feet, for an aggregate price of $38.5 million. Over the next few years, we intend to dispose of non-strategic assets and redeploy the resulting capital into industrial properties in supply-constrained markets in the U.S. and internationally 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 March 31, 2002, we owned an approximate 94.4% 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.

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. Our principal executive office is located at Pier 1, Bay 1, San Francisco, CA 94111, and our telephone number is (415) 394-9000. We also maintain a regional office in Boston, Massachusetts.

Co-investment Joint Ventures

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, development projects, and renovation projects. As of March 31, 2002, we had investments in five co-investment joint ventures with a gross book value of $1.3 billion, which are consolidated for financial reporting purposes and which are discussed below. We believe that our co-investment program will also continue to serve as a source of capital for acquisitions and developments; however, there can be no assurance that it will continue to do so.

Acquisition and Development Activity

During the quarter, we invested $35.0 million in operating properties, consisting of eight industrial buildings aggregating approximately 0.7 million square feet, all of which was through two of our co-investment joint ventures.

During the quarter, we completed industrial developments valued at $11.4 million, aggregating approximately 0.2 million square feet. We also initiated a new industrial development project valued at $6.0 million aggregating approximately 0.2 million square feet.

As of March 31, 2002, we had in our development pipeline: (1) 12 industrial projects, which will total approximately 3.1 million square feet and have an aggregate estimated investment by us and, in certain instances, our co-investors of $147.6 million upon completion and (2) two development projects available for sale, which will total approximately 0.6 million square feet and have an aggregate estimated investment of $49.6 million upon completion. As of March 31, 2002, we and our Development Alliance Partners have funded an aggregate of $130.8 million and will need to fund an estimated additional $66.4 million in order to complete current and planned projects.

Operating Strategy

We are a full-service real estate company with in-house expertise in acquisitions, development and redevelopment, asset management and leasing, finance and accounting, and market research. We have long-standing relationships with many real estate management and development firms across the country, our Strategic Alliance Partners.

We believe that real estate is fundamentally a local business and that the most effective way for us to operate is by forging alliances with service providers in every market. We believe that these collaborations allow us to: (1) leverage our national presence with the local market expertise of brokers, developers, and property managers; (2) improve the operating efficiency and flexibility of our national portfolio; (3) strengthen customer satisfaction and retention; and (4) provide a continuous pipeline of growth.

We believe that our partners give us local market expertise and flexibility allowing us to focus on our core competencies: developing and refining our strategic approach to real estate investment and management and raising private capital to finance growth and enhance returns to stockholders.

Growth Strategies

Growth Through Operations

We seek to generate internal growth through rent increases on existing space and renewals on re-tenanted space. We do this by seeking to maintain a high occupancy rate at our properties and by seeking to control expenses by capitalizing on the economies of owning, operating, and growing a large national portfolio. As of March 31, 2002, our industrial properties and retail centers were 94.4% leased and 87.2% leased, respectively. During the quarter, we increased average industrial base rental rates (on a cash basis) by 3.0% from the expiring rent for that space, on leases entered into or renewed during the period. This amount excludes expense reimbursements, rental abatements, and percentage rents. During the quarter, we also increased same-store net operating income by 2.0% on our industrial properties.

Growth Through Acquisitions and Capital Redeployment

We believe that our significant acquisition experience, our alliance-based operating strategy, and our extensive network of property acquisition sources will continue to provide opportunities for external growth. We believe that our relationships with third party local property management firms through our Management Alliance Program also will create acquisition opportunities, as such managers market properties on behalf of sellers. Our operating structure also enables us to acquire properties through our UPREIT Alliance Program in exchange for limited partnership units in the operating partnership, thereby enhancing our attractiveness to owners and developers seeking to transfer properties on a tax-deferred basis. In addition to acquisitions, we seek to redeploy capital from non-strategic assets into properties that better fit our current investment focus.

We are generally in various stages of negotiations for a number of acquisitions and dispositions, which may include acquisitions and dispositions of individual properties, acquisitions of large multi-property portfolios, and acquisitions of other real estate companies. There can be no assurance that we will consummate any of these transactions. Such transactions, if we consummate them, may be material individually or in the aggregate. Sources of capital for acquisitions may include undistributed cash flow from operations, borrowings under our unsecured credit facility, other forms of secured or unsecured debt financing, issuances of debt or equity securities by us or the operating partnership (including issuances of units in the operating partnership or its subsidiaries), proceeds from divestitures of properties, and assumption of debt related to the acquired properties.

Growth Through Development

We believe that renovation and expansion of properties and development of well-located, high-quality industrial properties should continue to provide us with attractive opportunities for increased cash flow and a higher rate of return than we may obtain from the purchase of fully leased, renovated properties. Value-added properties are typically characterized as properties with available space or near-term leasing exposure, undeveloped land acquired in connection with another property that provides an opportunity for development, or properties that are well located but require redevelopment or renovation. Value-added properties require significant management attention or capital investment to maximize their return. We believe that we have developed the in-house expertise to create value through acquiring and managing value-added properties and believe that our national market presence and expertise will enable us to continue to generate and capitalize on these opportunities. Through our Development Alliance Program, we have established strategic alliances with national and regional developers to enhance our development capabilities.

The multidisciplinary backgrounds of our employees should provide us with the skills and experience to capitalize on strategic renovation, expansion, and development opportunities. Several of our officers have extensive experience in real estate development, both with us and with national development firms. We generally pursue development projects in joint ventures with local developers. This way, we leverage the development skill, access to opportunities, and capital of such developers, and we eliminate the need and expense of an in-house development staff. Under a typical joint venture agreement with a Development Alliance Partner, we would fund 95% of the construction costs and our partner would fund 5%. Upon completion, we generally would purchase our partner's interest in the joint venture.

Growth Through Co-Investments

We co-invest with third party partners (some of whom may be clients of AMB Capital Partners, LLC, to the extent such clients commit new investment capital), through partnerships, limited liability companies, or joint ventures. We currently use a co-investment formula with each third party whereby we will own at least a 20% interest in all ventures. In general, we control all significant operating and investment decisions of our co-investment entities. We believe that our co-investment program will continue to serve as a source of capital for acquisitions and developments; however, there can be no assurance that it will continue to do so.

Growth Through Developments for Sale

The operating partnership, through a wholly-owned subsidiary, Headlands Realty Corporation, conducts a variety of businesses that include incremental income programs, such as our development projects available for sale to third parties. Such development properties include value-added conversion projects and build-to-sell projects. During 2001, we completed and sold two value-added conversion projects for a net gain of $13.2 million. As of March 31, 2002, we were developing two projects for sale to third parties.

AMB Capital Partners

AMB Capital Partners, LLC provides real estate investment management services on a fee basis to third-party clients. On December 31, 2001, AMB Investment Management, Inc. was reorganized through a series of related transactions into AMB Capital Partners. On May 31, 2001, the operating partnership began consolidating its investment in AMB Investment Management by acquiring 100% of its common stock for $0.3 million. Prior to May 31, 2001, the operating partnership owned 100% of AMB Investment Management's non-voting preferred stock (representing a 95% economic interest therein) and reflected its investment using the equity method.

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 (generally defined as 90% leased or

12 months after we receive a certificate of occupancy for the building). We refer to these properties as the same store properties. For the comparison between the years ended March 31, 2002 and 2001, the same store industrial properties consisted of properties aggregating approximately 72.5 million square feet. The properties acquired during the first three months of 2002 consisted of eight buildings, aggregating approximately 0.7 million square feet. The properties acquired during 2001 consisted of 65 buildings, aggregating approximately 6.8 million square feet. In the first three month of 2002, the property divestitures consisted of one industrial building and one retail center, aggregating approximately 0.3 million square feet. In 2001, property divestitures consisted of 24 industrial and two retail buildings, aggregating approximately 3.2 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 historical rates.

For the Three Months Ended March 31, 2002 and 2001 (dollars in millions)

Rental Revenues	2002	2001	$ Change	% Change
Same store	$127.7	$126.0	$ 1.7	1.3%
2001 acquisitions	16.0	0.9	15.1	n/a
2002 acquisitions	0.7	—	0.7	—
Developments	2.2	1.1	1.1	100.0%
Divestitures	1.6	6.5	(4.9)	(75.4)%
Straight-line rents	4.0	1.3	2.7	207.7%
Total	$152.2	$135.8	$ 16.4	12.1%

The growth in rental revenues in same store properties resulted primarily from the incremental effect of cash rental rate increases on renewals and rollovers, fixed rent increases on existing leases, and reimbursement of expenses, partially offset by lower average occupancies. Occupancy was 94.3% at March 31, 2002, and 95.9% at March 31, 2001. During the quarter, the same store rent increases on industrial renewals and rollovers (cash basis) was 2.9% on 4.3 million square feet leased.

Investment Management and Other Income	2002	2001	$ Change	% Change
Equity in earnings of unconsolidated joint ventures	$1.5	$1.5	$ 0.0	0.0%
Investment management income	2.6	2.4	0.2	8.3%
Interest and other income	2.8	5.1	(2.3)	(45.1)%
Total	$6.9	$9.0	$ (2.1)	(23.3)%

The $0.2 million increase in investment management income was due primarily to increased asset management fees and priority distributions from our co-investment joint ventures. The $2.3 million decrease in interest and other income was primarily due to our having no construction loans to our unconsolidated joint ventures and no bridge loans to our joint ventures in 2002.

Property Operating Expenses and Real Estate Taxes (Exclusive of depreciation and amortization)	2002	2001	$ Change	% Change
Rental expenses	$18.5	$16.3	$ 2.2	13.5%
Real estate taxes	18.6	16.6	2.0	12.0%
Property operating expenses	$37.1	$32.9	$ 4.2	12.8%
Same store	$30.8	$30.6	$ 0.2	0.7%
2001 acquisitions	4.4	0.2	4.2	—
2002 acquisitions	0.6	—	0.6	—
Developments	0.9	0.1	0.8	—
Divestitures	0.4	2.0	(1.6)	(80.0)%
Total	$37.1	$32.9	$ 4.2	12.8%

The increase in same store properties' operating expenses primarily relates to increases in real estate taxes and insurance expenses, partially offset by decreases in common area maintenance expenses.

Other Expenses	2002	2001	$ Change	% Change
Interest, including amortization	$35.9	$31.5	$ 4.4	14.0%
Depreciation and amortization	29.7	26.9	2.8	10.4%
General and administrative	9.9	8.2	1.7	20.7%
Total	$75.5	$66.6	$ 8.9	13.4%

The increase in interest expense was primarily due to the issuance of additional unsecured senior debt securities, an increase in secured debt balances, and our secured credit facility, partially offset by decreased borrowings on our unsecured credit facility. The secured debt issuances were primarily for our co-investment joint ventures' properties. The increase in depreciation expense was due to the increase in our net investment in real estate. The increase in general and administrative expenses was primarily due to increased personnel and occupancy costs. In addition, the consolidation of AMB Investment Management, Inc. (predecessor-in-interest to AMB Capital Partners, LLC) and Headlands Realty Corporation on May 31, 2001, contributed to the increase in general and administrative expenses.

During 2001, we recognized $4.7 million of losses on investments in other companies, related to our investment in Webvan Group, Inc.

During 2002, we retired $28.8 million of secured debt primarily in connection with property divestitures and prepayments. We recognized a net extraordinary loss of $0.2 million related to the early retirement of debt, resulting from prepayment penalties, partially offset by the write-off of debt premiums.

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: (1) cash flow from operations; (2) borrowings under our unsecured credit facility; (3) other forms of secured or unsecured financing; (4) 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 (5) net proceeds from divestitures of properties. Additionally, we believe that our private capital co-investment program will also continue to serve as a source of capital for acquisitions and developments. We believe that our sources of working capital, specifically our cash flow from operations and borrowings available under our unsecured credit facility, 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. During the quarter, we divested ourselves of one industrial and one retail buildings for an aggregate price of $38.5 million, with a resulting net loss of $0.3 million, net of minority interest partners' share. Both of these buildings were classified as held for sale as of December 31, 2001.

Properties Held for Divestiture. We have decided to divest ourselves of four industrial properties and six retail centers, which are not in our core markets or which do not meet our strategic objectives. The divestitures of the properties are subject to negotiation of acceptable terms and other customary conditions. As of March 31, 2002, the net carrying value of the properties held for divestiture was $139.4 million.

Co-investment Joint Ventures. We consolidate the financial position, results of operations, and cash flows of our five co-investment joint ventures. We consolidate these joint ventures for financial reporting purposes because we are the sole managing general partner and, as a result, control all of the major operating decisions. Third-party equity interests in the joint ventures are reflected as minority interests in the consolidated financial statements. As of March 31, 2002, we owned approximately 29.0 million square feet of our properties through these entities. We may make additional investments through these joint ventures or new joint ventures in the future and presently plan to do so. The inability to obtain new joint venture partners could adversely affect our financial condition, results of operations, cash flow, and ability to pay dividends on, and the market price of, our stock.

During the quarter ended March 31, 2001, we contributed $427.3 million in operating properties, consisting of 94 industrial buildings aggregating approximately 8.8 million square feet, to two of our co-investment joint ventures. We recognized a gain of $16.8 million related to these contributions, representing the portion of the contributed properties acquired by the third party co-investors.

We owned, as of March 31, 2002, approximately 21% of the partnership interests in AMB Institutional Alliance Fund I, L.P. The Alliance Fund I is a co-investment partnership between the operating partnership and AMB Institutional Alliance REIT I, Inc., which includes 15 institutional investors as stockholders, and is engaged in the acquisition, ownership, operation, management, renovation, expansion, and development of industrial buildings in target markets nationwide. As of March 31, 2002, the Alliance Fund I had received equity contributions from third party investors totaling $169.0 million, which, when combined with debt financings and our investment, creates a total planned capitalization of $420.0 million.

We formed AMB Partners II, L.P. to acquire, manage, develop, and redevelop distribution facilities nationwide. On February 14, 2001, Partners II received an equity contribution from with the City and County of San Francisco Employees' Retirement System of $50.0 million, which, when combined with anticipated debt financings and our investment, creates a total planned capitalization of $250.0 million. We are the managing general partner of Partners II and owned, as of March 31, 2002, approximately 50% of Partners II.

We formed AMB-SGP, L.P. with a subsidiary of GIC Real Estate Pte Ltd., the real estate investment subsidiary of the Government of Singapore Investment Corporation, to own and operate, through a private real estate investment trust, distribution facilities nationwide. On March 23, 2001, AMB-SGP received an equity contribution from GIC of $75.0 million, which, when combined with anticipated debt financings and our investment, creates a total planned capitalization of $425.0 million. We are the managing general partner of AMB-SGP and owned, as of March 31, 2002, approximately 50.3% of AMB-SGP.

We formed the AMB Institutional Alliance Fund II, L.P., in which AMB Institutional Alliance REIT II, Inc. became a partner on June 28, 2001. We owned, as of March 31, 2002, 20% of the partnership interests in the Alliance Fund II. The Alliance Fund II is a co-investment partnership between the operating partnership, the Alliance REIT II, and a third party limited partner. The Alliance REIT II included 14 institutional investors as stockholders as of March 31, 2002. The Alliance Fund II is engaged in the acquisition, ownership, operation, management, renovation, expansion, and development of industrial buildings in target markets nationwide. As of March 31, 2002, the Alliance Fund II had received total equity commitments from third party investors of $195.4 million, which, when combined with anticipated debt financings and our investment, creates a total planned capitalization of $489.0 million. We are the managing general partner of the Alliance Fund II.

Credit Facilities. In May 2000, the operating partnership entered into a $500.0 million unsecured revolving credit agreement. We guarantee the operating partnership's obligations under the credit facility. The credit facility matures in May 2003, has a one-year extension option, and is subject to a 15 basis point annual facility fee, which is based on our credit rating. The operating partnership has the ability to increase available borrowings to $700.0 million by adding additional banks to the facility or obtaining the agreement of existing banks to increase its commitments. We use our unsecured credit facility principally for acquisitions and for general working capital requirements. Borrowings under our credit facility currently bear interest at LIBOR plus 75 basis points, which is based on our credit rating. 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 dividends on, and the market price of, our stock. Accordingly, in the future, we may engage in transactions to limit our exposure to rising interest rates. As of March 31, 2002, there was no outstanding balance on our unsecured credit facility. 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 March 31, 2002, the remaining amount available under our unsecured credit facility was $500.0 million (excluding the $200.0 million of potential additional capacity).

In July 2001, the Alliance Fund II obtained a $150.0 million credit facility from Bank of America N.A. Borrowings currently bear interest at LIBOR plus 87.5 basis points. As of March 31, 2002, the outstanding balance was $116.0 million and the remaining amount available was $34.0 million. The credit facility is secured by the unfunded capital commitments of the third party investors in the Alliance REIT II and the Alliance Fund II.

Equity. During the quarter ended March 31, 2002, we redeemed 36,111 common limited partnership units of the operating partnership for shares of our common stock.

In December 2001, our board of directors approved a new stock repurchase program for the repurchase of up to $100.0 million worth of our common stock. The new stock repurchase program expires in December 2003 and no repurchases have been made under the new program through March 31, 2002.

Debt. As of March 31, 2002, the aggregate principal amount of our secured debt was $1.2 billion, excluding unamortized debt premiums of $5.3 million. The secured debt bears interest at rates varying from 3.5% to 10.4% per annum (with a weighted average rate of 7.4%) and final maturity dates ranging from July 2002 to June 2023. All of the secured debt bears interest at fixed rates, except for seven loans with an aggregate principal amount of $71.2 million as of March 31, 2002, which bear interest at variable rates (with a weighted average interest rate of 3.7% at March 31, 2002).

In August 2000, the operating partnership commenced a medium-term note program for the issuance of up to $400.0 million in principal amount of medium-term notes, which are guaranteed by us. As of March 31, 2002, the operating partnership had issued $400.0 million of medium-term notes under this program. On January 14, 2002, the operating partnership issued and sold the remaining $20.0 million of the notes under this program to Lehman Brothers, Inc., as principal. We have guaranteed the notes, which mature on January 17, 2007, and bear interest at 5.90% per annum. The operating partnership used the net proceeds of $19.9 million for general corporate purposes, to partially repay indebtedness, and to acquire and develop additional properties.

We guarantee the operating partnership’s obligations with respect to the senior debt securities. If we are unable to refinance or extend principal payments due at maturity or pay them with proceeds of other capital transactions, then we expect that our cash flow will not be sufficient in all years to pay dividends 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, then 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 dividends 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, then 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 dividends on, and the market price of, our stock.

Mortgage Receivables. In September 2000, we sold a retail center located in Los Angeles, California. As of March 31, 2002, we carried a 9.5% mortgage note in the principal amount of $74.0 million on the retail center. The maturity date of the mortgage note was extended to September 30, 2002. During 2001, we renegotiated this mortgage and received a $5.0 million pay-down on the principal balance and increased the interest rate to 9.5% from 8.75%. We have a first lien against the retail center as collateral for the mortgage note and believes that the underlying estimated fair value of the retail center is equal to or greater than the carrying value of the mortgage note. Through a wholly-owned subsidiary, we also hold a mortgage loan receivable on AMB Pier One, LLC, an unconsolidated joint venture. The note bears interest at 13.0% and matures in May 2026. As of March 31, 2002, the outstanding balance on the note was $13.2 million.

In order to maintain financial flexibility and facilitate the deployment of capital through market cycles, we presently intend to operate with a debt-to-total market capitalization ratio of approximately 45% or less. At

March 31, 2002, our debt-to-total market capitalization ratio was 43.6%. Additionally, we currently intend to 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 or circumstances could arise that could render us unable to comply with these policies.

The tables below summarize our debt maturities and capitalization as of March 31, 2002 (dollars in thousands):

Debt

	Company Secured Debt(1)	Joint Venture Debt	Unsecured Senior Debt Securities	Credit Facilities(2)	Total Debt
2002	$ 17,767	$ 28,621	$ —	$ —	$ 46,388
2003	76,151	37,528	—	116,000	229,679
2004	72,426	52,030	—	—	124,456
2005	62,338	38,449	250,000	—	350,787
2006	86,466	74,888	25,000	—	186,354
2007	25,618	32,395	75,000	—	133,013
2008	33,619	148,119	175,000	—	356,738
2009	5,176	32,958	—	—	38,134
2010	52,780	93,595	75,000	—	221,375
2011	1,311	167,878	75,000	—	244,189
Thereafter	3,307	80,672	125,000	—	208,979
Subtotal	436,959	787,133	800,000	116,000	2,140,092
Unamortized premiums	3,677	1,664	—	—	5,341
Total consolidated debt	440,636	788,797	800,000	116,000	2,145,433
Our share of unconsolidated joint venture debt(3)	—	39,430	—	—	39,430
Total debt	440,636	828,227	800,000	116,000	2,184,863
Joint venture partners' share of consolidated joint venture debt	—	(444,798)	—	(92,800)	(537,598)
Our share of total debt	$440,636	$ 383,426	$800,000	$ 23,200	$1,647,265
Weighed average interest rate	8.0%	7.1%	7.2%	2.8%	7.1%
Weighed average maturity (in years)	4.5	7.2	7.3	1.4	6.4

(1) All of the secured debt bears interest at fixed rates, except for seven loans with an aggregate principal amount of $71.2 million as of March 31, 2002, which bear interest at variable rates (with a weighted average interest rate of 3.7% at March 31, 2002).

(2) The 2003 maturity represents a secured credit facility obtained by the Alliance Fund II, which will repay the facility with capital contributions and secured debt proceeds. The operating partnership also has a $500.0 million unsecured credit facility, which matures in 2003 and had no outstanding balance at March 31, 2002.

(3) The weighted average interest and weighted average maturity for the unconsolidated joint venture debt were 6.3% and 6.5 years, respectively.

Market Equity

Security	Shares/Units Outstanding	Market Price	Market Value
Common stock	84,064,371	$ 27.50	$2,311,770
Common limited partnership units	4,932,916	27.50	135,655
Total	88,997,287		$2,447,425

Preferred Stock and Units

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 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
Series G preferred units	7.95%	1,000	August 2005
Series H preferred units	8.13%	42,000	September 2005
Series I preferred units	8.00%	25,500	March 2006
Series J preferred units	7.95%	40,000	September 2006
Weighted Average/ Total	8.18%	$384,161	

Capitalization Ratios

Total debt-to-total market capitalization	43.6%
Our share of total debt-to-total market capitalization	36.8%
Total debt plus preferred-to-total market capitalization	51.2%
Our share of total debt plus preferred-to-total market capitalization	45.4%
Our share of total debt-to-total book capitalization	44.9%

Liquidity

As of March 31, 2002, we had approximately $99.5 million in cash, restricted cash, and cash equivalents, and $500.0 million of additional available borrowings under our credit facility. We also had $34.0 million of additional available borrowing under our Alliance Fund II credit facility. To fund acquisitions, development activities, and capital expenditures and to provide for general working capital requirements, we intend to use: (1) cash from operations; (2) borrowings under our credit facility; (3) other forms of secured and unsecured financing; (4) 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); (5) proceeds from divestitures of properties; and (6) private capital. The unavailability of capital would adversely affect our financial condition, results of operations, cash flow, and ability to pay dividends on, and the market price of, our stock.

Our board of directors declared a regular cash dividend for the quarter ending March 31, 2002, of $0.41 per share of common stock and the operating partnership declared a regular cash distribution for the quarter ending March 31, 2002, of $0.41 per common unit. The dividends and distributions were payable on April 15, 2002, to stockholders and unitholders of record on April 4, 2002. The Series A, B, E, F, G, and J preferred stock and unit dividends and distributions were also payable on April 15, 2002, to stockholders and unitholders of record on April 4, 2002. The Series D, H, and I preferred unit distributions were payable on

March 25, 2002, to unitholders of record on March 11, 2002. The following table sets forth the dividend and distribution declarations for the three months ended March 31, 2002 and 2001:

Security	Paying Entity	For the Three Months Ended March 31, 2002	2001
Common stock	AMB Property Corporation	$0.410	$0.395
Operating partnership units	Operating Partnership	$0.410	$0.395
Series A preferred stock	AMB Property Corporation	$0.531	$0.531
Series A preferred units	Operating Partnership	$0.531	$0.531
Series B preferred units	Operating Partnership	$1.078	$1.078
Series C preferred units	AMB Property II, L.P.	n/a	$1.094
Series D preferred units	AMB Property II, L.P.	$0.969	$0.969
Series E preferred units	AMB Property II, L.P.	$0.969	$0.969
Series F preferred units	AMB Property II, L.P.	$0.994	$0.994
Series G preferred units	AMB Property II, L.P.	$0.994	$0.994
Series H preferred units	AMB Property II, L.P.	$1.016	$1.016
Series I preferred units	AMB Property II, L.P.	$1.000	$0.044
Series J preferred units	Operating Partnership	$0.994	n/a

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, as well as property divestitures. However, we may not be able to obtain future financings on favorable terms or at all. Our inability to obtain future financings on favorable terms or at all would adversely affect our financial condition, results of operations, cash flow, and ability to pay dividends on, and the market price of, our stock.

Capital Commitments

Developments. In addition to recurring capital expenditures, which consist of building improvements and leasing costs incurred to renew or re-tenant space, as of March 31, 2002, we are developing 12 projects representing a total estimated investment of $147.6 million upon completion and two development projects available for sale representing a total estimated investment of $49.6 million upon completion. Of this total, $130.8 million had been funded as of March 31, 2002, and an estimated $66.4 million is required to complete current and planned projects. We expect to fund these expenditures with cash from operations, borrowings under our credit facility, debt or equity issuances, and net proceeds from property divestitures, which could have an adverse effect on our cash flow. 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. This could adversely affect our financial condition, results of operations, cash flow, and ability to pay dividends on, and the market price of, our stock. We have no other material capital commitments.

Acquisitions. During the quarter, we invested $35.0 million in eight operating industrial buildings, aggregating approximately 0.7 million rentable square feet. We funded these acquisitions and initiated development and renovation projects through private capital contributions, borrowings under our credit facility, cash, debt and equity issuances, and net proceeds from property divestitures.

Captive Insurance Company. We have responded to recent trends towards increasing costs and decreasing coverage availability in the insurance markets by obtaining higher-deductible property insurance from third party insurers and by forming a wholly-owned captive insurance company, Arcata National Insurance Ltd. in December 2001. Arcata provides insurance coverage for all or a portion of losses below the increased deductible under the third party policies. The Company capitalized Arcata in accordance with regulatory requirements. Arcata established annual premiums based on projections derived from the past loss experience of our properties. Annually, we intend to engage an independent third party to perform an actuarial estimate of future projected claims.

Premiums paid to Arcata have a retrospective component, so that if expenses, including losses, are less than premiums collected, the excess will be returned to the property owners (and, in turn, as appropriate, to the customers) and conversely, subject to certain limitations, if expenses, including losses, are greater than premiums collected, an additional premium will be charged. As with all recoverable expenses, differences between estimated and actual insurance premiums will be recognized in the subsequent year. Through this structure, we believe that we have been able to obtain insurance for our portfolio with more comprehensive coverage at a projected overall lower cost than would otherwise be available in the market.

Potential Unknown Liabilities. Unknown liabilities may include the following: (1) liabilities for clean-up or remediation of undisclosed environmental conditions; (2) claims of customers, vendors, or other persons dealing with our predecessors prior to our formation transactions that had not been asserted prior to our formation transactions; (3) accrued but unpaid liabilities incurred in the ordinary course of business; (4) tax liabilities; and (5) claims for indemnification by the officers and directors of our predecessors and others indemnified by these entities.

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 a 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 generally accepted accounting principles in the United States 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.

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 FFO of unconsolidated joint ventures, less minority interests' pro rata share of FFO of consolidated joint ventures and perpetual preferred stock dividends. In accordance with the NAREIT White Paper on funds from operations, we include the effects of straight-line rents in funds from operations. Further, we do not adjust FFO to eliminate the effects of non-recurring charges.

The following table reflects the calculation of funds from operations (dollars in thousands, except share and per share data):

	For the Three Months Ended March 31,	
	2002	2001
Income before minority interests and gains/(losses)	$ 46,622	$40,670
Real estate related depreciation and amortization:		
Total depreciation and amortization	29,675	26,854
FF&E depreciation and ground lease amortization(1)	(674)	(481)
FFO attributable to minority interests(2)	(12,844)	(7,187)
Adjustments to derive FFO in unconsolidated joint ventures(3):		
Our share of net income	(1,483)	(1,474)
Our share of FFO	2,129	2,120
Preferred stock dividends	(2,125)	(2,125)
Preferred unit distributions	(5,857)	(6,858)
Funds from operations	$ 55,443	$51,519

(1) FF&E depreciation represents depreciation on furniture, fixtures, and equipment that is not real estate related. Ground lease amortization represents the amortization of our investments in ground lease properties, for which we do not have a purchase option.

(2) Represents FFO attributable to minority interests in consolidated joint ventures whose interests are not exchangeable into common stock. The minority interests' share of net operating income for the three months ended March 31, 2002 and 2001, was $19.7 million and $9.9 million, respectively.

(3) Our share of net operating income for the quarters ended March 31, 2002 and 2001, was $2.6 million and $2.8 million, respectively.

OPERATING AND LEASING STATISTICS SUMMARY

The following table summarizes key operating and leasing statistics for all of our industrial properties as of and for the three month period ended March 31, 2002 (dollars in thousands):

	Three Months Ended March 31, 2002
Square feet owned(1)(2)	82,289,218
Occupancy percentage(1)	94.4%
Weighted average lease terms:	
Original	6.2 years
Remaining	3.2 years
Tenant retention	74.4%
Rent increases on renewals and rollovers	3.0%
Square feet leased	4,421,637
Second generation tenant improvements and leasing commissions per sq. ft.(3):	
Renewals	$ 0.88
Re-tenanted	2.53
Weighted average	$ 1.73
Recurring capital expenditures(4)	
Tenant improvements	$ 3,919
Lease commissions and other lease costs	4,963
Building improvements	2,341
Sub-total	11,223
Partners' share of capital expenditures	(2,842)
Total	$ 8,381

(1) Includes all industrial consolidated operating properties and excludes development and renovation projects. Excludes retail and other properties' square feet of 1,085,891, occupancy of 87.2%, and annualized base rent of $12.7 million.

(2) In addition to owned square feet as of March 31, 2002, we managed, through our subsidiary, AMB Investment Management, approximately 2.6 million additional square feet of industrial, retail, and other properties. We also have investments in approximately 4.9 million square feet of industrial properties through our investments in the unconsolidated joint ventures.

(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 properties as of and for the three month period ended March 31, 2002:

	Three Months Ended March 31, 2002
Square feet in same store pool(1)	72,525,762
% of total square feet	88.1%
Occupancy percentage at period end	
March 31, 2002	95.1%
March 31, 2001	96.1%
Tenant retention	76.6%
Rent increases on lease commencements	2.9%
Square feet leased	4,294,936
Cash basis net operating income growth % increase:	
Revenues	1.6%
Expenses	0.5%
Net operating income	2.0%

(1) Excludes properties purchased or developments stabilized after December 31, 2000.

Item 3. ***Quantitative and Qualitative Disclosures About Market Risk***

Market risk is the risk of loss from adverse changes in market prices and interest rates. Our future earnings and cash flows are dependent upon prevalent market rates. Accordingly, we manage our market risk by matching projected cash inflows from operating, investing, and financing activities with projected cash outflows for debt service, acquisitions, capital expenditures, distributions to stockholders and unitholders, and other cash requirements. The majority of our outstanding debt has fixed interest rates, which minimizes the risk of fluctuating interest rates. Our exposure to market risk includes: (1) interest rate fluctuations in connection with our 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. As of March 31, 2002, we had no interest rate caps or swaps. See "Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Capital Resources — Market Capitalization."

The table below summarizes the market risks associated with our fixed and variable rated debt outstanding before unamortized debt premiums of $5.3 million as of March 31, 2002:

	Expected Maturity Date						
	2002	2003	2004	2005	2006	Thereafter	Total Debt
Fixed rate debt(1)	$45,518	$ 88,982	$95,545	$348,131	$178,449	$1,196,245	$1,952,870
Average interest rate	7.9%	7.8%	8.0%	7.4%	7.3%	7.4%	7.4%
Variable rate debt(2)	$ 870	$140,697	$28,911	$ 2,656	$ 7,905	$ 6,183	$ 187,222
Average interest rate	3.7%	2.9%	4.0%	3.9%	3.5%	3.5%	3.1%

(1) Represents 91.3% of all outstanding debt.

(2) Represents 8.7% of all outstanding debt.

If market rates of interest on our variable rate debt increased by 10% (or approximately 31 basis points), then the increase in interest expense on the variable rate debt would be approximately $0.6 million annually.

PART II

Item 1. *Legal Proceedings*

As of March 31, 2002, 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*

On January 11 2002, we redeemed 10,227 common limited partnership units of the operating partnership for 10,227 shares of our common stock to two individuals. On February 1, 2002, we redeemed 25,884 common limited partnership units of the operating partnership for 25,884 shares of our common stock to an individual. The issuance of the 36,111 shares of our common stock in exchange for the common limited partnership units was exempt from the registration requirement of the Securities Act pursuant to Section 4(2) of the Securities Act and Rule 506 of Regulation D.

Item 3. *Defaults Upon Senior Securities*

None.

Item 4. *Submission of Matters to a Vote of Security Holders*

None.

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, then our ability to pay dividends 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. Periods of economic slowdown or recession in the United States and in other countries, rising interest rates, or declining demand for real estate, or public perception that any of these events may occur would result in a general decrease in rents or an increased occurrence of defaults under existing leases, which would adversely affect our financial condition and results of operations.

Future terrorist attacks in the United States may result in declining economic activity, which could harm the demand for and the value of our properties. To the extent that our customers are impacted by future attacks, their businesses similarly could be adversely affected, including their ability to continue to honor their existing leases. Our properties are currently concentrated predominantly in the industrial real estate sector. Our concentration in a certain property type exposes 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 adversely affect our financial condition, results of operations, cash flow, and ability to pay dividends on, and the market price of, our stock. 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 11.9% of our industrial properties (based on annualized base rent) as of March 31, 2002, will expire on or prior to December 31, 2002. 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 dividends 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 dividends to our stockholders. The relative illiquidity of our holdings and 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 dividends on, and the market price of, our stock.

A Significant Number of Our Properties are Located in California

Our industrial properties located in California as of March 31, 2002, represented approximately 28.4% of the aggregate square footage of our industrial operating properties as of March 31, 2002, and 36.0% of our industrial annualized base rent. Annualized base rent means the monthly contractual amount under existing leases as of March 31, 2002, 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 California's economy or real estate conditions could adversely affect our financial condition, results of operations, cash flow, and our ability to pay dividends on, and the market price of, our stock. Certain of our properties are also subject to possible loss from seismic activity.

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 that 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, then 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 generally will be liable for all of the operating partnership's unsatisfied obligations other than non-recourse obligations, including any obligations incurred by the operating partnership as the general partner of the co-investment joint ventures. Any such liabilities could adversely affect our financial condition, results of operations, cash flow, and ability to pay dividends 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 March 31, 2002, 291 industrial buildings aggregating approximately 23.4 million square feet (representing 28.4% of our industrial operating properties based on aggregate square footage and 36.0% based on industrial 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 that we believe are commercially reasonable. This insurance coverage also applies to the properties managed by AMB Capital Partners, LLC, with a single aggregate policy limit and deductible applicable to those properties and our properties. 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 March 31, 2002, we had ownership interests in several joint ventures, limited liability companies, or partnerships with third parties, as well as interests in three unconsolidated entities. As of March 31, 2002, we owned approximately 29.0 million square feet (excluding three 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. Such partners may share certain approval rights over major decisions. Partnership, limited liability company, or joint venture investments may involve risks such as the following: (1) 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); (2) our partners, co-members, or joint venturers might at any time have economic or other business interests or goals that are inconsistent with our business interests or goals; (3) 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 (4) 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 adversely affect our financial condition, results of operations, cash flow, and ability to pay dividends 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 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 dividends 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: (1) 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; (2) 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; (3) new or renovated properties may perform below anticipated levels, producing cash flow below budgeted amounts; (4) 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 that could divert management's time from our day-to-day operations; and (5) 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 adversely affect our financial condition, results of operations, cash flow, and ability to pay dividends on, and the market price of, our stock.

We May be Unable to Complete Divestitures on Advantageous Terms

We have decided to divest ourselves of four retail centers and one industrial property, which are not in our core markets or which do not meet our strategic objectives. The divestitures of the properties are subject to negotiation of acceptable terms and other customary conditions. 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 affect our financial condition, results of operations, cash flow, and ability to pay dividends 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. However, 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, then 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 dividends 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 pay dividends 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 March 31, 2002, we had total debt outstanding of approximately $2.1 billion.

In addition, we guarantee the operating partnership's obligations with respect to the senior debt securities referenced in our financial statements. If we are unable to refinance or extend principal payments due at maturity or pay them with proceeds of other capital transactions, then we expect that our cash flow will not be sufficient in all years to pay dividends 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, then 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 dividends 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, then 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 dividends on, and the market price of, our stock.

Rising Interest Rates Could Adversely Affect Our Cash Flow

As of March 31, 2002, we had $116.0 million outstanding under our Alliance Fund II secured credit facility, no outstanding balance on our unsecured credit facility, and we had seven secured loans with an aggregate principal amount of $71.2 million, which bear interest at variable rates (with weighted average interest rate of 3.7% as of March 31, 2002). 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 dividends on, and the market price of, our stock. Accordingly, in the future, we may 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 90% of our real estate investment trust taxable income (determined without regard to the dividends-paid deduction and by excluding any net capital gain) and we are subject to tax on our income to the extent it is not distributed. 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: (1) general market conditions; (2) the market's perception of our growth potential; (3) our current and potential future earnings and cash distributions; and (4) the market price of our capital stock. Additional debt financing may substantially increase our debt-to-total capitalization ratio.

We Could Default on Cross-Collateralized and Cross-Defaulted Debt

As of March 31, 2002, we had 23 non-recourse secured loans, which are cross collateralized by 50 properties. As of March 31, 2002, we had $572.1 million (not including unamortized debt premium) outstanding on these loans. If we default on any of these loans, then we could 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 dividends 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 that is in default, which could adversely affect our financial condition, results of operations, cash flow, and ability to pay dividends 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 18 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 have 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: (1) liabilities for clean-up or remediation of undisclosed environmental conditions; (2) 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; (3) accrued but unpaid liabilities incurred in the ordinary course of business; (4) tax liabilities; and (5) 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 dividends on, and the market price of, our stock.

Our Access to Timely Financial Reporting and to Capital Markets May be Impaired if Arthur Andersen LLP in Unable to Perform Required Audit-Related Services

On March 14, 2002, our independent public accountant, Arthur Andersen, LLP, was indicted on federal obstruction of justice charges arising from the U.S. government's investigation of Enron Corporation. Arthur Andersen LLP has indicated that it intends to contest vigorously the indictment. The Securities and Exchange Commission has said that it will continue accepting financial statements audited by Arthur Andersen LLP, and interim financial statements reviewed by it, so long as Arthur Andersen LLP is able to make certain representations to its clients. Our access to the capital markets and our ability to make timely filings with the Securities and Exchange Commission could be impaired if the Securities and Exchange Commission ceases accepting financial statements audited by Arthur Andersen LLP, if Arthur Andersen LLP becomes unable to make the required representations to us, or if for any other reason Arthur Andersen LLP is unable to perform required audit-related services for us. However, we believe that our sources of working capital, specifically our cash flow from operations and borrowings available under our unsecured credit facility, are adequate for us to meet our liquidity requirements for the foreseeable future.

Conflicts of Interest

Some of Our Directors and 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 Institutional Housing Partners, L.P., a residential housing finance company, and ownership of Aspire Development, Inc. and Aspire Development, L.P., developers that own property not suitable for ownership by us. Aspire Development, Inc. and Aspire Development, L.P. have agreed not to initiate any new development projects not contemplated at 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. 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.

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 March 31, 2002, Aspire Development, L.P. owns interests in three retail development projects in the U.S., one of which is a single freestanding Walgreens drugstore and two of which are Walgreens drugstores plus shop buildings, which are less than 10,000 feet. In addition, Messrs. 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 $150,000, in a limited partnership, which owns an office building located in Oakland, California.

In addition, several of our executive officers individually own: (1) less than 1% interests in the stocks of certain publicly-traded real estate investment trusts; (2) certain interests in and rights to developed and undeveloped real property located outside the United States; and (3) certain other de minimus 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. 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 $2.2 million. Messrs. Moghadam and Burke each have a 26.7% interest in the partnership, each valued at approximately $3.0 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 that 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 April 24, 2002, we believe that 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 ABP Investments U.S. (with respect to various client accounts for which ABP Investments U.S. serves as investment advisor) beneficially owned 13.9% of our outstanding common stock. In addition, our executive officers and directors beneficially owned 4.3% of our outstanding common stock as of April 24, 2002, 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.

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, then 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, then our cash flow and the amounts available for dividends 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, 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 failing 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, are adjacent to, or are near other properties upon which others, including former owners or customers 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. 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. Furthermore, 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, the current environmental condition of our properties may be affected by customers, the condition of land, 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 existing or future environmental laws and regulations exceed our budgets for these items, then our financial condition, results of operations, cash flow, and ability to pay dividends 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, then 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 expenditure could adversely affect our financial condition, results of operations, cash flow, and ability to pay dividends 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 that 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 others on a 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 90% 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 through the operating partnership. 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.

If we fail to qualify as a real estate investment trust in any taxable year, then 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, then 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 our stockholders.

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 Capital Partners, LLC and Headlands Realty Corporation. AMB Capital Partners, LLC and Headlands Realty Corporation, as taxable REIT subsidiaries, are also subject to tax on their income, reducing their cash available for distribution to us.

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 that 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 IRS were to successfully argue that a transfer or disposition of property constituted a prohibited transaction, then 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 qualification 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 dividends 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, then our financial condition, results of operations, cash flow, and ability to pay dividends on, and the market price of, our stock could be adversely affected.

We May Be Unable to Effectively Manage Our International Growth

We may acquire properties in foreign countries. Local markets affect our operations and, therefore, we would be subject to economic fluctuations in foreign locations. Our international operations also would be subject to the usual risks of doing business abroad such as the revaluation of currencies, revisions in tax treaties or other laws governing the taxation of revenues, restrictions on the transfer of funds, and, in certain parts of the world, political instability. We cannot predict the likelihood that any such developments may occur. Further, we may enter into agreements with non-U.S. entities that are governed by the laws of, and are subject to dispute resolution in, the courts of another country or region. We cannot accurately predict whether such a forum would provide us with an effective and efficient means of resolving disputes that may arise. Even if we are able to obtain a satisfactory decision through arbitration or a court proceeding, we could have difficulty enforcing any award or judgment on a timely basis. Our business has grown rapidly and continues to grow through property acquisitions and developments. If we fail to effectively manage our international growth, then our financial condition, results of operations, cash flow, and ability to pay dividends on, and the market price of, our stock could be adversely affected.

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, 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 customers (or a tenant of any partnership in which we are a partner), then 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 other 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 dividends 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 and 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: (1) 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; (2) the provision in the charter requiring a two-thirds vote of stockholders for any amendment of the charter; (3) 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; (4) 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 (5) 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 pay dividends to our stockholders.

If We Issue Additional Securities, then 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. 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 the option of the operating partnership, 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 4,932,916 common limited partnership units as of March 31, 2002. As of March 31, 2002, we had reserved 10,256,568 shares of common stock for issuance under our Stock Option and Incentive Plans (not including shares that we have already issued) and, as of March 31, 2002, we had granted to certain directors, officers, and employees options to purchase 9,172,954 shares of common stock (excluding forfeitures and 370,967 shares that we have issued pursuant to the exercise of options). As of March 31, 2002, we had granted 712,647 restricted shares of common stock, excluding 2,733 shares that 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: (1) the extent of investor interest in us; (2) 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); (3) our financial performance; (4) general stock and bond market conditions, including changes in interest rates on fixed income securities, that may lead prospective purchasers of our stock to demand a higher annual yield from future dividends; and

(5) terrorist activity may adversely affect the markets in which our securities trade, possibly increasing market volatility and causing the further erosion of business and consumer confidence and spending. 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 Dividends, 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 dividends. It 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 that 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 expectations with regard to future earnings and cash dividends 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, then 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 dividends to our stockholders.

Item 6. *Exhibits and Reports on Form 8-K*

(a) *Exhibits:*

Exhibit Number	Description
3.1	Articles Supplementary establishing and fixing the rights and preferences of the 7.95% Series K Cumulative Redeemable Preferred Stock (incorporated by reference to Exhibit 3.1 of AMB Property Corporation's Current Report on Form 8-K filed on April 23, 2002).
4.1	$20,000,000 5.90% Fixed Rate Note No. 11 dated January 14, 2002, attaching the Parent Guarantee dated January 17, 2002 (incorporated by reference to Exhibit 4.1 of AMB Property Corporation's Current Report on Form 8-K filed on January 23, 2002).
4.2	Registration Rights Agreement among the Registrant, AMB Property, L.P., and the unitholders signatory thereto dated April 17, 2002 (incorporated by reference to Exhibit 4.1 of AMB Property Corporation's Current Report on Form 8-K filed on April 23, 2002).
10.1	Terms Agreement dated as of August 15, 2000, by and among Morgan Stanley & Co., AMB Property, L.P., and AMB Property Corporation (incorporated by reference to Exhibit 1.1 of AMB Property Corporation's Current Report on Form 8-K filed on January 23, 2002).
10.2	Sixth Amended and Restated Agreement of Limited Partnership of AMB Property, L.P., dated April 17, 2002 (incorporated by reference to Exhibit 10.1 of AMB Property Corporation's Current Report on Form 8-K filed on April 23, 2002).
12.1	Calculation of Ratio of Earnings to Fixed Charges for AMB Property Corporation.

(b) *Reports on Form 8-K:*

- AMB Property Corporation filed a Current Report on Form 8-K on January 23, 2002, in connection with the issuance of $20.0 million in senior unsecured notes by AMB Property, L.P. under its medium-term note program.

- AMB Property Corporation filed a Current Report on Form 8-K on January 24, 2002, in connection with its fourth quarter 2001 earnings release.

- AMB Property Corporation filed a Current Report on Form 8-K on April 11, 2002, in connection with its first quarter 2002 earnings release.

- AMB Property Corporation filed a Current Report on Form 8-K on April 23, 2002, in connection with the issuance and sale by AMB Property, L.P. of 800,000 7.95% Series K Cumulative Redeemable Preferred Limited Partnership Units and the filing by AMB Property Corporation Articles Supplementary establishing and fixing the rights and preferences of the 7.95% Series K Cumulative Redeemable Preferred Stock.

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

By: /s/ MICHAEL A. COKE

Michael A. Coke

Chief Financial Officer and
Executive Vice President
(Duly Authorized Officer and Principal
Financial and Accounting Officer)

Date: April 26, 2002

EXHIBIT 12.1

AMB PROPERTY CORPORATION
COMPUTATION OF EARNINGS TO FIXED CHARGES RATIO

(IN THOUSANDS)

	FOR THE THREE MONTHS ENDED MARCH 31, 2002	FOR THE THREE MONTHS ENDED MARCH 31, 2001
Earnings		
Income from continuing operations before adjustment for minority interest	30,711	44,440
Add:		
Minority interest in income of majority owned subsidiaries	15,623	12,997
Fixed charges	44,136	42,798
Amortization of capitalized interest	212	116
Losses from unconsolidated entities	-	149
Distributed income from unconsolidated entities	1,433	1,173
Less:		
Interest capitalization	(1,791)	(3,782)
Preferred distributions of consolidated subsidiaries	(5,857)	(6,858)
Income from unconsolidated entities and other	(458)	(440)
Total earnings	84,009	90,593
Fixed charges		
Interest on indebtedness (including amortization of premiums and financings costs)	35,851	31,552
Interest capitalized	1,791	3,782
Portion of rents representative of the interest factor	637	606
Preferred distributions of consolidated subsidiaries	5,857	6,858
Total fixed charges	44,136	42,798
Earnings to fixed charges	1.9	2.1