STAG Industrial, Inc.
Form 10-K
February 26, 2014

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2013

OR

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

For the transition period from to .
Commission file number 1-34907

STAG INDUSTRIAL, INC.

(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	**27-3099608** (IRS Employer Identification No.)
One Federal Street, 23rd Floor **Boston, Massachusetts** (Address of principal executive offices)	**02110** (Zip Code)

(617) 574-4777
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 par value	New York Stock Exchange

9.0% Series A Cumulative Redeemable Preferred Stock, $0.01 par value	New York Stock Exchange
6.625% Series B Cumulative Redeemable Preferred Stock, $0.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No ý

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 ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Check one:

Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was approximately $836.9 million based on the closing price on the New York Stock Exchange as of June 28, 2013.

Number of shares of the registrant's common stock outstanding as of February 24, 2014: 45,101,276

Number of shares of 9.0% Series A Cumulative Redeemable Preferred Stock as of February 24, 2014: 2,760,000

Number of shares of 6.625% Series B Cumulative Redeemable Preferred Stock as of February 24, 2014: 2,800,000

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement with respect to its 2014 Annual Meeting of Stockholders to be filed not later than 120 days after the end of the registrant's fiscal year are incorporated by reference into Part II, Item 5 and Part III, Items 10, 11, 12, 13 and 14 hereof as noted therein.

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Forward-Looking Statements

This report contains "forward-looking statements" within the meaning of the safe harbor from civil liability provided for such statements by the Private Securities Litigation Reform Act of 1995 (set forth in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act")). You can identify forward-looking statements by the use of words such as "anticipates," "believes," "estimates," "expects," "intends," "may," "plans," "projects," "seeks," "should," "will," and variations of such words or similar expressions. Forward-looking statements in this report include, among others, statements about our future financial condition, results of operations, our business strategy and objectives, including our acquisition strategy, occupancy and leasing rates and trends, and expected liquidity needs and sources (including capital expenditures and the ability to obtain financing or raise capital). Our forward-looking statements reflect our current views about our plans, intentions, expectations, strategies and prospects, which are based on the information currently available to us and on assumptions we have made. Although we believe that our plans, intentions, expectations, strategies and prospects as reflected in or suggested by our forward-looking statements are reasonable, we can give no assurance that our plans, intentions, expectations, strategies or prospects will be attained or achieved and you should not place undue reliance on these forward-looking statements. Furthermore, actual results may differ materially from those described in the forward-looking statements and may be affected by a variety of risks and factors including, without limitation:

- the factors included in this report, including those set forth under the headings "Business," "Risk Factors," and "Management's Discussion and Analysis of Financial Condition and Results of Operations;"
- the competitive environment in which we operate;
- real estate risks, including fluctuations in real estate values and the general economic climate in local markets and competition for tenants in such markets;
- decreased rental rates or increasing vacancy rates;
- potential defaults on or non-renewal of leases by tenants;
- potential bankruptcy or insolvency of tenants;
- acquisition risks, including failure of such acquisitions to perform in accordance with projections;
- the timing of acquisitions and dispositions;
- potential natural disasters such as hurricanes;
- international, national, regional and local economic conditions;
- the general level of interest rates;
- potential changes in the law or governmental regulations that affect us and interpretations of those laws and regulations, including changes in real estate and zoning or real estate investment trust ("REIT") tax laws, and potential increases in real property tax rates;

financing risks, including the risks that our cash flows from operations may be insufficient to meet required payments of principal and interest and we may be unable to refinance our existing debt upon maturity or obtain new financing on attractive terms or at all;

lack of or insufficient amounts of insurance;

our failure to complete acquisitions;

our failure to successfully integrate acquired buildings;

our ability to maintain our qualification as a REIT;

litigation, including costs associated with prosecuting or defending claims and any adverse outcomes; and

possible environmental liabilities, including costs, fines or penalties that may be incurred due to necessary remediation of contamination of properties presently owned or previously owned by us.

Any forward-looking statement speaks only as of the date on which it is made. New risks and uncertainties arise over time, and it is not possible for us to predict those events or how they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I.

Item 1. Business

As used herein, "our company," "we," "our" and "us," refer to STAG Industrial, Inc. and our consolidated subsidiaries and partnerships except where the context otherwise requires. The combined financial information presented for periods on or prior to April 19, 2011 relate solely to the STAG Predecessor Group or our "predecessor business", our "predecessor" for accounting purposes. The combined financial statements for the periods after April 20, 2011 include the financial information of our company, STAG Industrial Operating Partnership, L.P. (our "operating partnership") and our subsidiaries.

Overview

STAG Industrial, Inc. is an industrial real estate company focused on the acquisition, ownership and management of single-tenant net-leased industrial buildings throughout the United States. We were incorporated in Maryland on July 21, 2010 to continue and grow the single-tenant industrial business conducted by our predecessor business. We completed our initial public offering on April 20, 2011.

As of December 31, 2013, we owned 209 buildings in 34 states with approximately 38.1 million rentable square feet, consisting of 142 warehouse/distribution properties, 47 light manufacturing properties and 20 flex/office properties. We also owned one vacant land parcel adjacent to one of our buildings. As of December 31, 2013, our buildings were 95.6% leased to 191 tenants, with no single tenant accounting for more than 2.8% of our total annualized rent and no single industry accounting for more than 12.6% of our total annualized rent. As used herein, the definition of annualized rent is the contractual monthly base rent as of December 31, 2013 multiplied by 12. If a tenant is in a free rent period as of December 31, 2013, the annualized rent is calculated based on the first contractual monthly base rent amount multiplied by 12.

We own our interests in all of our properties and conduct substantially all of our business through our operating partnership. We serve as the sole member of the sole general partner of, and own approximately 86.65% of the outstanding limited partnership interests in, our operating partnership as of December 31, 2013. The remaining 13.35% limited partnership interests in our operating partnership are owned by certain of our executive officers, directors, certain of their affiliates and other outside investors. On April 20, 2011, we closed on our initial public offering ("IPO") of common stock and completed our formation transactions (the "formation transactions").

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We target the acquisition of individual Class B, single-tenant industrial properties predominantly in secondary markets throughout the United States with purchase prices ranging from $5 million to $50 million. We believe, due to observed market inefficiencies, that our focus on owning and expanding a portfolio of such properties will, when compared to other real estate portfolios, generate returns for our stockholders that are attractive in light of the risks associated with these returns because we believe:

- Industrial properties generally require less capital expenditure than other commercial property types and single-tenant properties generally require less expenditure for leasing, operating and capital costs per property than multi-tenant properties.

- Investment yields on single-tenant individual property acquisitions are typically greater than investment yields on portfolio acquisitions. With appropriate asset diversification, individual asset risk can be mitigated across an aggregated portfolio.

- Class B industrial properties tend to have higher current returns and lower volatility than Class A industrial properties.

- Secondary markets generally have less occupancy and rental rate volatility than primary markets.

- Other institutional industrial real estate buyers tend to focus on larger properties in select primary markets, resulting in our typical competitors being local investors who often do not have ready access to debt or equity capital.

- Tenants in our target properties tend to manage their properties directly, which allows us to grow our portfolio without substantially increasing the size of our asset management infrastructure.

For a description of what we consider to be Class A and Class B properties, see "Item 2. Properties" below.

Reflecting the market inefficiencies we have observed, our target properties are generally leased to:

- investment grade credit tenants on shorter term leases (less than four to six years);

- sub-investment grade credit tenants on longer term leases (greater than four to six years); or

- a variable combination of the above.

We believe the market inefficiently prices our target properties because investors typically either underestimate the probability of tenant retention beyond the primary lease term or overestimate the expected cost of tenant default. Further, we believe our relationships with a national network of commercial real estate brokers and our underwriting processes, utilizing our proprietary model, allow us to acquire properties at a discount to their intrinsic values, where intrinsic values are determined by the properties' future cash flows. We elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the "Code"), beginning with our taxable year ended December 31, 2011 and intend to continue to qualify as REIT. So long as we qualify as a REIT, we generally will not be subject to federal income taxes to the extent we currently distribute our income to our stockholders and maintain our qualification as a REIT.

Competitive Strengths

We believe that our investment strategy and operating model distinguish us from other owners, operators and acquirers of industrial real estate in a number of ways, including:

Proven Growth Profile: Since January 1, 2013, we have acquired 39 buildings representing approximately 9.0 million square feet for a total cost of approximately $346 million. Since

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January 1, 2012, we have acquired 109 buildings representing approximately 21.9 million square feet for a total cost of approximately $773 million. Since the closing of our IPO offering on April 20, 2011, we have acquired 124 buildings representing approximately 25.3 million square feet for a total cost of approximately $898 million.

Established Intermediary Relationships: We believe we have developed a reputation as a credible and active buyer of single-tenant industrial real estate, which provides us access to significant acquisition opportunities that may not be available to our competitors.

Scalable Platform: Our focus on net lease properties ensures that our current staff of 44 employees as of December 31, 2013 (with incremental additions of employees) is sufficient to support our continued growth.

Expertise in Underwriting Single-Tenant Properties: We have developed a proprietary underwriting process that integrates real estate and corporate credit analysis to project the future cash flows of potential acquisitions. We believe that our expertise and procedures in assessing tenant retention and vacancy costs are advantages in identifying, underwriting and closing on attractive acquisition opportunities.

Stable and Predictable Cash Flows: Our portfolio is diversified by tenant, industry and geography, which tends to reduce risk and earnings volatility. As of December 31, 2013, no single tenant accounted for more than 2.8% of our total annualized rent; no single industry represented more than 12.6% of our total annualized rent; and no single state was the site for properties generating more than 8.9% of our total annualized rent. Cash flow consistency across our portfolio is enhanced by our weighted (by rental revenue per square foot) average in-place remaining lease term of approximately 4.8 years as of December 31, 2013, low costs for tenant improvements and leasing commissions and low capital expenditures.

Experienced Management Team: The five senior members of our management team have significant real estate industry experience, averaging approximately 27 years, with four members having previous public REIT or public real estate company experience.

Our Strategies

Our primary business objectives are to own and operate a balanced and diversified portfolio of single-tenant industrial properties that maximizes cash flows available for distribution to our stockholders, and to enhance stockholder value over time by achieving sustainable long-term growth in funds from operations per share through the following strategies:

Investment Strategy

Our primary investment strategy is to acquire individual Class B, single-tenant industrial properties predominantly in secondary markets throughout the United States through third-party purchases and structured sale-leasebacks featuring high initial yields and strong ongoing cash-on-cash returns. Where appropriate potential returns present themselves, we also may acquire assets in primary markets.

Growth Strategy

External Growth through Acquisitions: Our target acquisitions are predominantly in the $5 million to $50 million range. The competition for our target assets is primarily local investors who are not likely to have ready access to debt or equity capital. We focus our acquisition activities on our core property types: warehouse/distribution facilities and light manufacturing facilities. From time to time, if an attractive opportunity presents itself, we may consider portfolio acquisitions. As of December 31, 2013, we were evaluating approximately $728 million of specific potential acquisitions that we have identified as warranting further investment consideration after an initial review.

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Internal Growth through Asset Management: Our asset management team utilizes our tenant relationships and leasing expertise to maintain occupancy and increase rental rates. It also collaborates with our internal credit function to actively monitor the credit profile of each of our tenants on an ongoing basis. The team's efforts have resulted in our achieving a tenant retention rate of 59% for those tenants whose leases were scheduled to expire in 2013 and 84% for those tenants whose leases were scheduled to expire in 2012. The 2013 non-renewal total is dwarfed by the approximately 1.4 million square feet of new leases executed by us for previously vacant space. As of December 31, 2013, our portfolio had approximately 1.7 million square feet, or 4.4% of our total rentable square feet, available for lease, compared to 1.4 million square feet or 4.9% as of December 31, 2012.

Underwriting Strategy

We blend fundamental real estate analysis with corporate credit analysis in our proprietary model to make a probabilistic assessment of cash flows that will be realized in future periods. For each asset, our analysis focuses on:

Real Estate. We evaluate the physical real estate within the context of the market (and submarket) in which it is located and the prospect for re-tenanting the building if it becomes vacant by estimating the following:

- market rent for this building in this location;
- downtime to re-lease and related carrying costs;
- cost (tenant improvements, leasing commissions and required capital expenditures) to achieve the projected market rent within the projected downtime; and
- single-tenant or multi-tenant reuse.

Deal Parameters. We evaluate the tenant and landlord obligations contained within the existing or proposed lease and other transaction documents.

Tenant Credit. We apply fundamental credit analysis to evaluate the tenant's credit profile by focusing on the tenant's current and historical financial status, general business plan, operating risks, capital sources and earnings expectations. We also analyze Securities and Exchange Commission ("SEC") filings, press releases, management calls, rating agency reports and other public information. In the case of a private, non-rated firm, we will obtain financial information from the tenant and calculate common measures of credit strength such as debt-to-EBITDA and coverage ratios. For publicly rated firms, we use the credit information issued by Moody's Investor Services, Standard & Poor's, and Fitch Ratings. Using this data and publicly available bond default studies of comparable tenant credits, we estimate the probability of future rent loss due to tenant default.

Tenant Retention. We assess the tenant's use of the property and the degree to which the property is central to the tenant's ongoing operations, the tenant's potential cost to relocate, the supply/demand dynamic in the relevant submarket and the availability of suitable alternative properties. We believe tenant retention tends to be greater for properties that are critical to the tenants' businesses.

Financing Strategy

Our main focus is to preserve a flexible capital structure. We will utilize the capital markets through secondary equity offerings including but not limited to "at the market" equity offerings while also obtaining primarily unsecured debt, which is more efficient than secured debt given our granular acquisition strategy.

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Regulation

General

Our properties are subject to various laws, ordinances and regulations, including regulations relating to common areas and fire and safety requirements. We believe that we and/or our tenants, as applicable, have the necessary permits and approvals to operate each of our properties.

Americans with Disabilities Act

Our properties must comply with Title III of the Americans with Disabilities Act of 1990, as amended (the "ADA") to the extent that such properties are "public accommodations" as defined under the ADA. Under the ADA, all public accommodations must meet federal requirements related to access and use by disabled persons. The ADA may require removal of structural barriers to access by persons with disabilities in certain public areas of our properties where such removal is readily achievable. Although we believe that the properties in our portfolio in the aggregate substantially comply with current requirements of the ADA, and we have not received any notice for correction from any regulatory agency, we have not conducted a comprehensive audit or investigation of all of our properties to determine whether we are in compliance and therefore we may own properties that are not in compliance with the ADA.

ADA compliance is dependent upon the tenant's specific use of the property, and as the use of a property changes or improvements to existing spaces are made, we will take steps to ensure compliance. Noncompliance with the ADA could result in additional costs to attain compliance, imposition of fines by the U.S. government or an award of damages or attorney's fees to private litigants. The obligation to make readily achievable accommodations is an ongoing one, and we will continue to assess our properties and to make alterations to achieve compliance as necessary.

Environmental Matters

Our properties are subject to various federal, state and local environmental laws. Under these laws, courts and government agencies have the authority to require us, as owner of a contaminated property, to clean up the property, even if we did not know of or were not responsible for the contamination. These laws also apply to persons who owned a property at the time it became contaminated, and therefore it is possible we could incur these costs even after we sell some of our properties. In addition to the costs of cleanup, environmental contamination can affect the value of a property and, therefore, an owner's ability to borrow using the property as collateral or to sell the property. Under applicable environmental laws, courts and government agencies also have the authority to require that a person who sent waste to a waste disposal facility, such as a landfill or an incinerator, pay for the clean-up of that facility if it becomes contaminated and threatens human health or the environment. We invest in properties historically used for industrial, light manufacturing and commercial purposes. Certain of our properties are on or are adjacent to or near other properties upon which others, including former owners or tenants of our properties have engaged, or may in the future engage, in activities that may generate or release petroleum products or other hazardous or toxic substances.

Environmental laws in the United States also require that owners or operators of buildings containing asbestos properly manage and maintain the asbestos, adequately inform or train those who may come into contact with asbestos and undertake special precautions, including removal or other abatement, in the event that asbestos is disturbed during building renovation or demolition. These laws may impose fines and penalties on building owners or operators who fail 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. According to Phase I environmental assessments prepared at the time of acquisition, 17 of our buildings are known to have asbestos containing materials. No immediate action was recommended to address these instances and, as a result, we do not currently plan to take

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any actions to address these instances. Additionally, 31 of our buildings are suspected of having asbestos containing materials due to the age of the building and observed conditions. No immediate action was recommended to address these instances and, as a result, we do not currently plan to take any actions to address these instances. In the event of a building renovation or demolition, a comprehensive asbestos inspection would be performed to determine proper handling and disposal of any asbestos containing materials.

Furthermore, various court decisions have established that third parties may recover damages for injury caused by property contamination. For instance, a person exposed to asbestos at one of our properties may seek to recover damages if he or she suffers injury from the asbestos. Lastly, some of these environmental laws restrict the use of a property or place conditions on various activities. An example would be laws that require a business using chemicals to manage them carefully and to notify local officials that the chemicals are being used.

We could be responsible for any of the costs discussed above. The costs to clean up a contaminated property, to defend against a claim, or to comply with environmental laws could be material and could adversely affect the funds available for distribution to our shareholders. All of our properties were subject to a Phase I or similar environmental assessment by independent environmental consultants at the time of acquisition. We generally expect to continue to obtain a Phase I or similar environmental assessment by independent environmental consultants on each property prior to acquiring it. However, these environmental assessments may not reveal all environmental costs that might have a material adverse effect on our business, assets, results of operations or liquidity and may not identify all potential environmental liabilities.

At the time of acquisition, we add each property to our portfolio environmental insurance policy that provides coverage for potential environmental liabilities, subject to the policy's coverage conditions and limitations.

We can make no assurances that future laws, ordinances or regulations will not impose material environmental liabilities on us, or the current environmental condition of our properties will not be affected by tenants, the condition of land or operations in the vicinity of our properties (such as releases from underground storage tanks), or by third parties unrelated to us.

Insurance

We carry comprehensive general liability, fire, extended coverage and rental loss insurance covering all of the properties in our portfolio under a blanket insurance policy. In addition, we maintain a portfolio environmental insurance policy that provides coverage for potential environmental liabilities, subject to the policy's coverage conditions and limitations. Generally, we do not carry insurance for certain losses, including, but not limited to, losses caused by floods (unless the property is located in a flood plain), earthquakes, acts of war, acts of terrorism or riots. We believe the policy specifications and insured limits are appropriate and adequate given the relative risk of loss, the cost of the coverage and standard industry practice; however, our insurance coverage may not be sufficient to fully cover all of our losses. We carry employment practices liability insurance that covers us against claims by employees, former employee or potential employees for various employment related matters including wrongful termination, discrimination, sexual harassment in the workplace, hostile work environment, and retaliation, subject to the policy's coverage conditions and limitations. We also carry comprehensive cyber liability insurance coverage that covers us against claims related to certain first party and third party losses including data restoration costs, crisis management expenses, credit monitoring costs, failure to implement and maintain reasonable security procedures, invasion of customer's privacy and negligence, subject to the policy's coverage conditions and limitations.

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Competition

In acquiring our target properties, we compete with other public industrial property sector REITs, single-tenant REITs, income oriented non-traded REITs, private real estate fund managers and local real estate investors and developers. Local real estate investors and developers historically have represented our predominant competition for deals but they typically do not have ready access to credit. We also face significant competition from owners and managers of competing properties in leasing our properties to prospective tenants and in re-leasing space to existing tenants.

Employees

As of December 31, 2013, we employed 44 full-time employees. We believe that our relationships with our employees are good. None of our employees are represented by a labor union.

Our Corporate Information

Effective January 27, 2014, our principal executive offices are located at One Federal Street, 23rd Floor, Boston, Massachusetts 02110. Prior to January 27, 2014, our principal executive offices were located at 99 High Street, 28th Floor, Boston, Massachusetts 02110. Our telephone number is (617) 574-4777. Our website is www.stagindustrial.com. The information found on, or otherwise accessible through, our website is not incorporated into, and does not form a part of, this report or any other report or document we file with or furnish to the SEC.

How to Obtain Our SEC Filings

All reports we file with the SEC are available free of charge via EDGAR through the SEC website at www.sec.gov. In addition, the public may read and copy materials we file with the SEC at the SEC's public reference room located at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the public reference room can be obtained by calling the SEC at 1-800-SEC-0330. Our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K and any amendments to any of those reports that we file with the SEC are available free of charge as soon as reasonably practicable through our website at www.stagindustrial.com. The information found on, or otherwise accessible through, our website is not incorporated into, and does not form a part of, this report or any other report or document we file with or furnish to the SEC.

Item 1A. Risk Factors

The following risk factors and other information included in this Annual Report on Form 10-K should be carefully considered. The risks and uncertainties described below are not the only risks we face. Additional risks and uncertainties not presently known to us or that we may currently deem immaterial also may impair our business operations. If any of the following risks occur, our business, financial condition, operating results and cash flows could be materially adversely affected.

Risks Related to Our Business and Operations

Our investments are concentrated in the industrial real estate sector, and our business would be adversely affected by an economic downturn in that sector.

As of December 31, 2013, all of our 209 buildings were industrial properties, including 142 warehouse/distribution facilities, 47 light manufacturing facilities and 20 flex/office facilities. This concentration may expose us to the risk of economic downturns in the industrial real estate sector to a greater extent than if our properties were more diversified across other sectors of the real estate industry.

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Adverse economic conditions will negatively affect our returns and profitability.

Our operating results may be affected by market and economic challenges, including the current global economic credit environment and economic uncertainties, which may result from a continued or exacerbated general economic slowdown experienced by the nation as a whole or by the local economies where our properties may be located, or by the real estate industry, including the following:

- poor economic conditions may result in tenant defaults under leases;
- re-leasing may require concessions or reduced rental rates under the new leases due to reduced demand;
- adverse capital and credit market conditions may restrict our operating activities; and
- constricted access to credit may result in tenant defaults, non-renewals under leases or inability of potential buyers to acquire properties held for sale.

Also, to the extent we purchase real estate in an unstable market, we are subject to the risk that if the real estate market ceases to attract the same level of capital investment in the future that it attracts at the time of our purchases, or the number of companies seeking to acquire properties decreases, the value of our investments may not appreciate or may decrease significantly below the amount we pay for these investments. The length and severity of any economic slowdown or downturn cannot be predicted. Our operations could be negatively affected to the extent that an economic slowdown or downturn is prolonged or becomes more severe.

Substantial international, national and local government deficits and the weakened financial condition of these governments may adversely impact our business, financial condition and results of operations.

The values of, and the cash flows from, the properties we own may be affected by developments in global, national and local economies. As a result of the recent global economic crisis and the significant government interventions, federal, state and local governments have incurred record deficits and assumed or guaranteed liabilities of private financial institutions or other private entities. These increased budget deficits and the weakened financial condition of federal, state and local governments may lead to reduced governmental spending, tax increases, public sector job losses, increased interest rates, currency devaluations, defaults on debt obligations or other adverse economic events, which may directly or indirectly adversely affect our business, financial condition and results of operations.

There can be no assurance that the global market disruptions, including the increased cost of funding for certain governments and financial institutions, will improve, nor can there be any assurance that future assistance packages will be available or, even if provided, will be sufficient to stabilize the affected countries and markets. Risks and ongoing concerns about the global economic crisis could have a detrimental impact on economic recovery, financial markets and institutions and the availability of debt financing, which may directly or indirectly adversely affect our business, financial condition and results of operations.

Events or occurrences that affect areas in which our properties are geographically concentrated may impact financial results.

In addition to general, regional, national and international economic conditions, our operating performance is impacted by the economic conditions of the specific markets in which we have concentrations of properties. We have holdings in the following states, which, as of December 31, 2013, accounted for the percentage of our total annualized rent indicated: Illinois (8.9%); North Carolina (8.7%); Ohio (8.3%); Michigan (7.2%); and Indiana (6.9%). Our operating performance could be adversely affected if conditions become less favorable in any of the states or regions in which we have a concentration of properties.

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We are subject to industry concentrations that make us susceptible to adverse events with respect to certain industries.

We are subject to certain industry concentrations with respect to our properties, including the following, which, as of December 31, 2013, accounted for the percentage of our total annualized rent indicated: Automotive (12.5%); Containers & Packaging (11.1%); Industrial Equipment, Components & Metals (10.6%); Air Freight and Logistics (9.3%); and Food and Beverages (7.7%). Such industries are subject to specific risks that could result in downturns within the industries. Any downturn in one or more of these industries, or in any other industry in which we may have a significant concentration now or in the future, could adversely affect our tenants who are involved in such industries. If any of these tenants is unable to withstand such downturn or is otherwise unable to compete effectively in its business, it may be forced to declare bankruptcy, fail to meet its rental obligations, seek rental concessions or be unable to enter into new leases, which could materially and adversely affect us.

We are subject to risks involved in single-tenant leases, and the default by one or more tenants could materially and adversely affect us.

Any of our tenants may experience a downturn in its business at any time that may significantly weaken its financial condition or cause its failure. As a result, such a tenant may decline to extend or renew its lease upon expiration, fail to make rental payments when due or declare bankruptcy. The default, financial distress or bankruptcy of a single tenant could cause interruptions in the receipt of rental revenue and/or result in a vacancy, which is likely to result in the complete reduction in the operating cash flows generated by the property leased to that tenant and may decrease the value of that property. In addition, a majority of our leases generally require the tenant to pay all or substantially all of the operating expenses normally associated with the ownership of the property, such as utilities, real estate taxes, insurance and routine maintenance. Following a vacancy at a single-tenant property, we will be responsible for all of the operating costs at such property until it can be re-let, if at all.

If our tenants are unable to obtain financing necessary to continue to operate their businesses and pay us rent, we could be materially and adversely affected.

Many of our tenants rely on external sources of financing to operate their businesses. The U.S. financial and credit markets may continue to experience liquidity disruptions, resulting in the unavailability of financing for many businesses. If our tenants are unable to obtain financing necessary to continue to operate their businesses, they may be unable to meet their rent obligations to us or enter into new leases with us or be forced to declare bankruptcy and reject our leases, which could materially and adversely affect us.

We depend on key personnel, the loss of their full service could adversely affect us.

Our success depends to a significant degree upon the continued contributions of certain key personnel including, but not limited to, our executive officers, whose continued service is not guaranteed, and each of whom would be difficult to replace. While we have entered into employment contracts with our executive officers, they may nevertheless cease to provide services to us at any time. If any of our key personnel were to cease employment with us, our operating results could suffer. Our ability to retain our management group or to attract suitable replacements should any members of the management group leave is dependent on the competitive nature of the employment market. The loss of services from key members of the management group or a limitation in their availability could adversely impact our financial condition and cash flows. Further, such a loss could be negatively perceived in the capital markets. We have not obtained and do not expect to obtain key man life insurance on any of our key personnel except for Mr. Benjamin S. Butcher, the founder of our predecessor business and our Chief Executive Officer, President and Chairman. The policy has limits in the amount of $5.0 million and covers us in the event of Mr. Butcher's death.

We also believe that, as we expand, our future success depends, in large part, upon our ability to hire and retain highly skilled managerial, investment, financing, operational and marketing personnel. Competition for such personnel is intense, and we cannot assure you that we will be successful in attracting and retaining such skilled personnel.

Our growth will depend upon future acquisitions of properties, and we may be unable to consummate acquisitions on advantageous terms or acquisitions may not perform as we expect.

We acquire and intend to continue to acquire primarily generic warehouse/distribution properties and light manufacturing properties. The acquisition of properties entails various risks, including the risks that our investments may not perform as we expect. Further, we face competition for attractive investment opportunities from other well-capitalized real estate investors, including both publicly-traded REITs and private institutional investment funds, and these competitors may have greater financial resources than we and a greater ability to borrow funds to acquire properties. This competition will increase as investments in real estate become increasingly attractive relative to other forms of investment. As a result of competition, we may be unable to acquire additional properties for the purchase price we desire. In addition, we expect to finance future acquisitions through a combination of secured and unsecured borrowings, proceeds from equity or debt offerings by us or our operating partnership or its subsidiaries and proceeds from property contributions and divestitures which may not be available and which could adversely affect our cash flows. Any of the above risks could adversely affect our financial condition, results of operations, cash flows and ability to pay distributions on, and the market price of, our securities.

We may be unable to source "limited marketing" deal flow in the future, which could adversely affect our ability to locate and acquire additional properties at attractive prices.

A key component of our growth strategy is to continue to acquire additional industrial real estate assets. Many of the acquisitions we sourced, based on total purchase price, were acquired before they were widely marketed by real estate brokers, or "limited marketing" transactions. Properties that are acquired by "limited marketing" transactions are typically more attractive to us as a purchaser because of the absence of a formal sales process, which could lead to higher prices. If we cannot obtain "limited marketing" deal flow in the future, our ability to locate and acquire additional properties at attractive prices could be somewhat adversely affected.

The cash available for distribution to stockholders may not be sufficient to pay dividends at expected levels, nor can we assure you of our ability to make distributions in the future.

Distributions will be authorized and determined by our board of directors in its sole discretion from time to time and will depend upon a number of factors, including:

- cash available for distribution;
- our results of operations;
- our financial condition, especially in relation to the anticipated future capital needs of our properties;
- the distribution requirements for REITs under the Code;
- our operating expenses; and
- other factors our board of directors deems relevant.

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Consequently, we may not continue our current level of distributions to stockholders, and our distribution levels may fluctuate.

In addition, some of our distributions may include a return of capital. To the extent that we make distributions in excess of our current and accumulated earnings and profits, such distributions would generally be considered a return of capital for federal income tax purposes to the extent of the holder's adjusted tax basis in its shares. A return of capital is not taxable, but it has the effect of reducing the holder's adjusted tax basis in its investment. To the extent that distributions exceed the adjusted tax basis of a holder's shares, they will be treated as gain from the sale or exchange of such stock. If we borrow to fund distributions, our future interest costs would increase, thereby reducing our earnings and cash available for distribution from what they otherwise would have been.

We have owned our properties for a limited time, and we may not be aware of characteristics or deficiencies involving any one or all of them.

The majority of our properties have been under management for less than five years. In addition, since the completion of our initial public offering, we have acquired an additional 124 buildings totaling approximately 25.3 million rentable square feet. These properties may have characteristics or deficiencies unknown to us that could affect their valuation or revenue potential and such properties may not ultimately perform up to our expectations. We cannot assure you that the operating performance of the properties will not decline under our management.

We face risks associated with security breaches through cyber attacks, cyber intrusions or otherwise, as well as other significant disruptions of our information technology (IT) networks and related systems.

We face risks associated with security breaches, whether through cyber attacks or cyber intrusions over the Internet, malware, computer viruses, attachments to e-mails, persons inside our organization or persons with access to systems inside our organization, and other significant disruptions of our IT networks and related systems. The risk of a security breach or disruption, particularly through cyber attack or cyber intrusion, including by computer hackers, foreign governments and cyber terrorists, has generally increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. Our IT networks and related systems are essential to the operation of our business and our ability to perform day-to-day operations and, in some cases, may be critical to the operations of certain of our tenants. Although we make efforts to maintain the security and integrity of these types of IT networks and related systems, and we have implemented various measures to manage the risk of a security breach or disruption, there can be no assurance that our security efforts and measures will be effective or that attempted security breaches or disruptions would not be successful or damaging. Even the most well protected information, networks, systems and facilities remain potentially vulnerable because the techniques used in such attempted security breaches evolve and generally are not recognized until launched against a target, and in some cases are designed to not be detected and, in fact, may not be detected. Accordingly, we may be unable to anticipate these techniques or to implement adequate security barriers or other preventative measures, and thus it is impossible for us to entirely mitigate this risk. A security breach or other significant disruption involving our IT networks and related systems could disrupt the proper functioning of our networks and systems; result in misstated financial reports, violations of loan covenants and/or missed reporting deadlines; result in our inability to properly monitor our compliance with the rules and regulations regarding our qualification as a REIT; result in the unauthorized access to, and destruction, loss, theft, misappropriation or release of proprietary, confidential, sensitive or otherwise valuable information of ours or others, which others could use to compete against us or for disruptive, destructive or otherwise harmful purposes and outcomes; require significant management attention and resources to remedy any damages that result; subject us to claims for breach of contract, damages, credits, penalties or termination of leases or other agreements; or damage our reputation among our tenants and investors generally.

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Risks Related to Our Organization and Structure

Certain of our officers and directors have duties to Fund II, which may create conflicts of interest and may impede business decisions that could benefit our stockholders.

Certain of our executive officers and one of our directors also serve as officers or on the board of managers of STAG Investments II, LLC ("Fund II"), a private equity real estate fund that continues to operate as a private, fully invested fund. Our officers and director may have conflicting duties because they have a duty to both us and to Fund II, which retained ownership of certain of its properties and continues as a private, fully-invested fund until liquidated. Prior to the completion of the formation transactions, Fund II was fully invested and, as a result, will not be making any additional investments in income properties. However, some Fund II properties may be competitive with our current or future properties. It is possible that the officers' and board members' fiduciary duty to Fund II, including, without limitation, their interests in Fund II, will conflict with what will be in the best interests of our company.

Our fiduciary duties as sole member of the general partner of our operating partnership could create conflicts of interest, which may impede business decisions that could benefit our stockholders.

We, as the sole member of the general partner of our operating partnership, have fiduciary duties to the other limited partners in our operating partnership, the discharge of which may conflict with the interests of our stockholders. The limited partners of our operating partnership have agreed that, in the event of a conflict in the fiduciary duties owed by us to our stockholders and, in our capacity as indirect general partner of our operating partnership, to such limited partners, we are under no obligation to give priority to the interests of such limited partners. In addition, those persons holding common units will have the right to vote on certain amendments to the operating partnership agreement (which require approval by a majority in interest of the limited partners, including us) and individually to approve certain amendments that would adversely affect their rights. These voting rights may be exercised in a manner that conflicts with the interests of our stockholders. For example, we are unable to modify the rights of limited partners to receive distributions as set forth in the operating partnership agreement in a manner that adversely affects their rights without their consent, even though such modification might be in the best interest of our stockholders.

In addition, conflicts may arise when the interests of our stockholders and the limited partners of our operating partnership diverge, particularly in circumstances in which there may be an adverse tax consequence to the limited partners. Tax consequences to holders of common units upon a sale or refinancing of our properties may cause the interests of our senior management to differ from your own. As a result of unrealized built-in gain attributable to contributed property at the time of contribution, some holders of common units, including our principals, may suffer different and more adverse tax consequences than holders of our securities upon the sale or refinancing of the properties owned by our operating partnership, including disproportionately greater allocations of items of taxable income and gain upon a realization event. As those holders will not receive a correspondingly greater distribution of cash proceeds, they may have different objectives regarding the appropriate pricing, timing and other material terms of any sale or refinancing of certain properties, or whether to sell or refinance such properties at all.

We may experience conflicts of interest with several members of our senior management team and board who have or may become limited partners in our operating partnership through the receipt of common units or long-term incentive plan units in our operating partnership ("LTIP units") granted under our 2011 Equity Incentive Plan.

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Our growth depends on external sources of capital which are outside of our control, which may affect our ability to seize strategic opportunities, satisfy debt obligations and make distributions to our stockholders.

In order to maintain our qualification as a REIT, we are generally required under the Code to distribute annually at least 90% of our net taxable income, determined without regard to the dividends paid deduction and excluding any net capital gain. In addition, we will be subject to income tax at regular corporate rates to the extent that we distribute less than 100% of our net taxable income, including any net capital gains. Because of these distribution requirements, we may not be able to fund future capital needs, including any necessary acquisition financing, from operating cash flow. Consequently, we may rely on third-party sources to fund our capital needs. We may not be able to obtain financing on favorable terms or at all. Any additional debt we incur will increase our leverage. Our access to third-party sources of capital depends, in part, on:

- general market conditions;
- the market's perception of our growth potential;
- our current debt levels;
- our current and expected future earnings;
- our cash flow and cash dividends; and
- the market price per share of our common stock.

If we cannot obtain capital from third-party sources, we may not be able to acquire properties when strategic opportunities exist, meet the capital and operating needs of our existing properties or satisfy our debt service obligations. Further, in order to meet the REIT distribution requirements and maintain our REIT status and to avoid the payment of income and excise taxes, we may need to borrow funds on a short-term basis even if the then-prevailing market conditions are not favorable for these borrowings. These short-term borrowing needs could result from differences in timing between the actual receipt of cash and inclusion of income for federal income tax purposes or the effect of non-deductible capital expenditures, the creation of reserves, certain restrictions on distributions under loan documents or required debt or amortization payments.

To the extent that capital is not available to acquire properties, profits may not be realized or their realization may be delayed, which could result in an earnings stream that is less predictable than some of our competitors and result in us not meeting our projected earnings and distributable cash flow levels in a particular reporting period. Failure to meet our projected earnings and distributable cash flow levels in a particular reporting period could have an adverse effect on our financial condition and on the market price of our stock.

STAG Predecessor Group and STAG Industrial, Inc. have experienced historical net losses and accumulated deficits after depreciation and amortization and we may experience future losses.

STAG Industrial, Inc. had historical net losses attributable to common stockholders for the years ended December 31, 2013 and December 31, 2012 of $4.2 million and $12.8 million, and for the period from April 20, 2011 to December 31, 2011 of $6.8 million, respectively. STAG Predecessor Group had historical net losses of $0.2 million for the period from January 1, 2011 to April 19, 2011. We would have been profitable had the net losses excluded the non-cash impacts of depreciation and amortization. STAG Predecessor Group had historical accumulated deficits after effects of depreciation and amortization of $14.0 million as of April 19, 2011. There can be no assurance that we will not incur net losses in the future after excluding the effects of depreciation and amortization, which could adversely affect our ability to service our indebtedness and our ability to pay dividends or make distributions, any of which could adversely affect the trading price of our stock.

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We are subject to financial reporting and other requirements for which our accounting, internal audit and other management systems and resources may not be adequately prepared and we may not be able to accurately report our financial results.

We are subject to reporting and other obligations under the Exchange Act, including the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. Section 404 requires annual management assessments of the effectiveness of our internal controls over financial reporting and a report by our independent registered public accounting firm addressing these assessments. These reporting and other obligations place significant demands on our management, administrative, operational, internal audit and accounting resources and cause us to incur significant expenses. We may need to upgrade our systems or create new systems; implement additional financial and management controls, reporting systems and procedures; expand our internal audit function; and hire additional accounting, internal audit and finance staff. Any failure to maintain effective internal controls could have a material adverse effect on our business, operating results and price of our securities.

Our charter, the partnership agreement of our operating partnership and Maryland law contain provisions that may delay or prevent a change of control transaction.

Our charter contains 9.8% ownership limits. Our charter, subject to certain exceptions, authorizes our directors to take such actions as are necessary and desirable to limit any person to actual or constructive ownership of no more than 9.8% in value or in number of shares, whichever is more restrictive, of the outstanding shares of our capital stock and no more than 9.8% in value or in number of shares, whichever is more restrictive, of the outstanding shares of our common stock. In addition, the articles supplementary for our 9.0% Series A Cumulative Redeemable Preferred Stock, par value $0.01 per share (the "series A preferred stock") and our 6.625% Series B Cumulative Redeemable Preferred Stock, par value $0.01 per share (the "series B preferred stock"), provide that generally no person may own, or be deemed to own by virtue of the attribution provisions of the Code, either more than 9.8% in value or in number of shares, whichever is more restrictive, of our outstanding series A preferred stock or series B preferred stock. Our board of directors, in its sole discretion, may exempt a proposed transferee from the ownership limits. However, our board of directors may not grant an exemption from the ownership limits to any proposed transferee whose ownership, direct or indirect, of more than 9.8% of the value or number of our outstanding shares of our common stock, our series A preferred stock or our series B preferred stock could jeopardize our status as a REIT. The ownership limits contained in our charter and the restrictions on ownership of our common stock may delay or prevent a transaction or a change of control that might be in the best interest of our stockholders.

Our board of directors may create and issue a class or series of preferred stock without stockholder approval. Subject to the rights of holders of series A preferred stock and series B preferred stock to approve the classification or issuance of any class or series of stock ranking senior to the series A preferred stock or our series B preferred stock, our board of directors is empowered under our charter to amend our charter to increase or decrease the aggregate number of shares of our common stock or the number of shares of stock of any class or series that we have authority to issue, to designate and issue from time to time one or more classes or series of preferred stock and to classify or reclassify any unissued shares of our common stock or preferred stock without stockholder approval. Subject to the rights of holders of series A preferred stock and the series B preferred stock discussed above, our board of directors may determine the relative rights, preferences and privileges of any class or series of preferred stock issued. The issuance of preferred stock could also have the effect of delaying or preventing a change of control transaction that might otherwise be in the best interests of our stockholders.

Certain provisions in the partnership agreement for our operating partnership may delay or prevent unsolicited acquisitions of us. Provisions in the partnership agreement for our operating partnership may delay or make more difficult unsolicited acquisitions of us or changes in our control. These provisions could discourage third parties from making proposals involving an unsolicited acquisition of us or change of our control, although some stockholders might consider such proposals, if made, desirable. These provisions include, among others:

- redemption rights of qualifying parties;
- transfer restrictions on our common units;
- the ability of the general partner in some cases to amend the partnership agreement without the consent of the limited partners; and
- the right of the limited partners to consent to transfers of the general partnership interest and mergers under specified circumstances.

Any potential change of control transaction may be further limited as a result of provisions of the partnership unit designation for the LTIP units, which require us to preserve the rights of LTIP unit holders and may restrict us from amending the partnership agreement for our operating partnership in a manner that would have an adverse effect on the rights of LTIP unit holders.

Certain provisions of Maryland law could inhibit changes in control. Certain provisions of the Maryland General Corporation Law ("MGCL") may have the effect of inhibiting a third party from making a proposal to acquire us or impeding a change of control under circumstances that might be in the best interest of our stockholders, including:

- "business combination" provisions that, subject to limitations, prohibit certain business combinations between us and an "interested stockholder" (defined generally as any person who beneficially owns 10% or more of the voting power of our shares or an affiliate thereof) for five years after the most recent date on which the stockholder becomes an interested stockholder, and thereafter impose special appraisal rights and special stockholder voting requirements on these combinations; and
- "control share" provisions that provide that "control shares" of our company (defined as shares which, when aggregated with other shares controlled by the stockholder, entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a "control share acquisition" (defined as the direct or indirect acquisition of ownership or control of "control shares") have no voting rights except to the extent approved by our stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares.

We have elected to opt out of these provisions of the MGCL, in the case of the business combination provisions of the MGCL, by resolution of our board of directors, and in the case of the control share provisions of the MGCL, pursuant to a provision in our bylaws. Only upon the approval of our stockholders, our board of directors may by resolution elect to repeal the foregoing opt-outs from the business combination provisions of the MGCL and we may, only upon the approval of our stockholders, by amendment to our bylaws, opt in to the control share provisions of the MGCL in the future.

Additionally, Title 8, Subtitle 3 of the MGCL, permits our board of directors, without stockholder approval and regardless of what is currently provided in our charter or our bylaws, to implement takeover defenses, some of which (for example, a classified board) we do not currently have. These provisions may have the effect of inhibiting a third party from making an acquisition proposal for our company or of delaying, deferring or preventing a change in control of our company under circumstances that might be in the best interest of our stockholders.

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Our charter, bylaws, the partnership agreement for our operating partnership and Maryland law also contain other provisions that may delay, defer or prevent a transaction or a change of control that might be in the best interest of our stockholders.

Under their employment agreements, our executive officers have the right to terminate their employment and, under certain conditions, receive severance, which may adversely affect us.

The employment agreements with our executive officers provide that each executive may terminate his or her employment and, under certain conditions, receive severance based on two or three times (depending on the officer) the annual total of salary and bonus and immediate vesting of all outstanding equity-based awards. In the case of certain terminations, they would not be restricted from competing with us after their departure.

Compensation awards to our management may not be tied to or correspond with our improved financial results or the share price of our common stock, which may adversely affect us.

The compensation committee of our board of directors is responsible for overseeing our compensation and employee benefit plans and practices, including our executive compensation plans and our incentive compensation and equity-based compensation plans. Our compensation committee has significant discretion in structuring compensation packages and may make compensation decisions based on any number of factors. As a result, compensation awards may not be tied to or correspond with improved financial results at our company or the share price of our common stock.

Our board of directors can take many actions without stockholder approval.

Our board of directors has overall authority to oversee our operations and determine our major corporate policies. This authority includes significant flexibility. For example, our board of directors can do the following:

- amend or revise at any time and from time to time our investment, financing, borrowing and dividend policies and our policies with respect to all other activities, including growth, debt, capitalization and operations;

- amend our policies with respect to conflicts of interest provided that such changes are consistent with applicable legal requirements;

- within the limits provided in our charter, prevent the ownership, transfer and/or accumulation of shares in order to protect our status as a REIT or for any other reason deemed to be in the best interests of us and our stockholders;

- issue additional shares without obtaining stockholder approval, which could dilute the ownership of our then-current stockholders;

- amend our charter to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series, without obtaining stockholder approval;

- subject to the rights of holders of our series A preferred stock and of our series B preferred stock, classify or reclassify any unissued shares of our common stock or preferred stock, set the preferences, rights and other terms of such classified or reclassified shares, without obtaining stockholder approval;

- employ and compensate affiliates;

- direct our resources toward investments that do not ultimately appreciate over time;

change creditworthiness standards with respect to third-party tenants; and determine that it is no longer in our best interests to continue to qualify as a REIT.

Any of these actions could increase our operating expenses, impact our ability to make distributions or reduce the value of our assets without giving you, as a stockholder, the right to vote.

Our rights and the rights of our stockholders to take action against our directors and officers are limited.

Maryland law provides that a director or officer has no liability in that capacity if he or she performs his or her duties in good faith, in a manner he or she reasonably believes to be in our best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. In addition, our charter eliminates our directors' and officers' liability to us and our stockholders for money damages except for liability resulting from actual receipt of an improper benefit or profit in money, property or services or active and deliberate dishonesty established by a final judgment and which is material to the cause of action. Our bylaws require us to indemnify our directors and officers to the maximum extent permitted by Maryland law for liability actually incurred in connection with any proceeding to which they may be made, or threatened to be made, a party, except to the extent that the act or omission of the director or officer was material to the matter giving rise to the proceeding and was either committed in bad faith or was the result of active and deliberate dishonesty, the director or officer actually received an improper personal benefit in money, property or services, or, in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. As a result, we and our stockholders may have more limited rights against our directors and officers than might otherwise exist under common law. In addition, we may be obligated to fund the defense costs incurred by our directors and officers.

The number of shares of our common stock available for future sale, including by our affiliates and other continuing investors, could adversely affect the market price of our common stock, and future sales by us of shares of our common stock may be dilutive to existing stockholders.

Sales of substantial amounts of shares of our common stock in the public market, or upon exchange of common units or exercise of any options, or the perception that such sales might occur could adversely affect the market price of our common stock. The exchange of common units for common stock, the exercise of any stock options or the vesting of any restricted stock granted under our 2011 Equity Incentive Plan, the issuance of our common stock or common units in connection with property, portfolio or business acquisitions and other issuances of our common stock or common units could have an adverse effect on the market price of the shares of our common stock. Also, continuing investors in our initial public offering and the related formation transactions that hold common units are parties to an agreement that provides for registration rights. These registration rights required us to file a "shelf" registration statement covering all shares of our common stock for which their common units may be redeemed or exchanged pursuant to the partnership agreement of our operating partnership. A shelf registration statement covering these shares has been filed and is currently effective. The existence of shares of our common stock reserved for issuance under our 2011 Equity Incentive Plan or upon exchange of common units may adversely affect the terms upon which we may be able to obtain additional capital through the sale of equity securities. In addition, future sales by us of our common stock may be dilutive to existing stockholders.

Future offerings of debt securities, which would be senior to our common stock upon liquidation, or equity securities, which would dilute our existing stockholders and may be senior to our common stock for the purposes of distributions, may adversely affect the market price of our securities.

Our common stock is ranked junior to our series A preferred stock and series B preferred stock. Our outstanding series A preferred stock and series B preferred stock also has or will have a preference upon our dissolution, liquidation or winding up in respect of assets available for distribution to our stockholders. Holders of our common stock are not entitled to preemptive rights or other

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protections against dilution. In the future, we may attempt to increase our capital resources by making additional offerings of debt or equity securities, including commercial paper, medium-term notes, senior or subordinated notes and classes of preferred or common stock. Upon liquidation, holders of our debt securities and shares of preferred stock and lenders with respect to other borrowings will receive a distribution of our available assets prior to the holders of our common stock. Additional equity offerings may dilute the holdings of our existing stockholders or reduce the market price of our securities or both. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our stockholders bear the risk of our future offerings reducing the market price of our securities and diluting their proportionate ownership.

The market price and trading volume of our common stock may be volatile.

The market price of our common stock may be volatile. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur. If the market price of our common stock declines significantly, you may be unable to resell your shares at or above the price at which they traded when you acquired them. We cannot assure you that the market price of our common stock will not fluctuate or decline significantly in the future. Some of the factors that could negatively affect the market price of our common stock or result in fluctuations in the market price or trading volume of our common stock include:

- actual or anticipated variations in our quarterly operating results;
- changes in our operations or earnings estimates or publication of research reports about us or the industry;
- changes in our dividend policy;
- increases in market interest rates that lead purchasers of our shares to demand a higher yield;
- changes in market valuations of similar companies;
- adverse market reaction to any increased indebtedness we incur in the future;
- our ability to comply with applicable financial covenants in our unsecured credit facility, unsecured term loans and other loan agreements;
- additions or departures of key management personnel;
- actions by institutional stockholders;
- the realization of any of the other risk factors presented in this report;
- speculation in the press or investment community; and
- general U.S. and worldwide market and economic conditions.

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General Real Estate Risks

Our performance and value are subject to general economic conditions and risks associated with our real estate assets.

The investment returns available from equity investments in real estate depend on the amount of income earned and capital appreciation generated by the 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 distributions to our stockholders could be adversely affected. In addition, there are significant expenditures associated with an investment in real estate (such as mortgage payments, real estate taxes and maintenance costs) that generally do not decline when circumstances reduce the income from the property. Income from and the value of our properties may be adversely affected by:

- changes in general or local economic climate;
- the attractiveness of our properties to potential tenants;
- changes in supply of or demand for similar or competing properties in an area;
- bankruptcies, financial difficulties or lease defaults by our tenants;
- changes in interest rates and availability of permanent mortgage funds that may render the sale of a property difficult or unattractive or otherwise reduce returns to stockholders;
- changes in operating costs and expenses and our ability to control rents;
- changes in or increased costs of compliance with governmental rules, regulations and fiscal policies, including changes in tax, real estate, environmental and zoning laws, and our potential liability thereunder;
- our ability to provide adequate maintenance and insurance;
- changes in the cost or availability of insurance, including coverage for mold or asbestos;
- unanticipated changes in costs associated with known adverse environmental conditions or retained liabilities for such conditions;
- periods of high interest rates and tight money supply;
- tenant turnover;
- general overbuilding or excess supply in the market; and
- disruptions in the global supply chain caused by political, regulatory or other factors including terrorism.

In addition, periods of economic slowdown or recession, 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 may result in declining economic activity, which could reduce the demand for, and the value of, our properties. To the extent that future attacks impact our tenants, their businesses similarly could be adversely affected, including their ability to continue to honor their existing leases.

For these and other reasons, we cannot assure you that we will be profitable or that we will realize growth in the value of our real estate properties.

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Actions by our competitors may decrease or prevent increases in the occupancy and rental rates of our properties.

We compete with other owners, operators and developers of real estate, some of which own properties similar to ours in the same markets and submarkets in which our properties are located. If our competitors offer space at rental rates below current market rates or below the rental rates we currently charge our tenants, we may lose potential tenants, and we may be pressured to reduce our rental rates below those we currently charge in order to retain tenants when our tenants' leases expire. As a result, our financial condition, cash flows, cash available for distribution, trading price of our securities and ability to satisfy our debt service obligations could be materially adversely affected.

A significant portion of our properties have leases that expire in the next three years and we may be unable to renew leases, lease vacant space or re-lease space as leases expire, which could adversely affect our results of operations, cash flows, cash available for distribution, and the value of our securities.

Our results of operations, cash flows, cash available for distribution, and the value of our securities would be adversely affected if we are unable to lease, on economically favorable terms, a significant amount of space in our operating properties. As of December 31, 2013, leases with respect to 33.0% of our total annualized rent will expire before December 31, 2016. We cannot assure you that expiring leases will be renewed or that our properties will be re-leased at base rental rates equal to or above the current average base rental rates. In addition, the number of vacant or partially vacant industrial properties in a market or submarket could adversely affect our ability to re-lease the space at attractive rental rates.

A property that incurs a vacancy could be difficult to sell or re-lease, which could adversely affect our results of operations, cash flows, cash available for distribution, and the value of our securities.

A property may incur a vacancy either by the continued default of a tenant under its lease or the expiration of one of our leases. In addition, certain of the properties we acquire may have some level of vacancy at the time of closing. Certain of our properties may be specifically suited to the particular needs of a tenant. We may have difficulty obtaining a new tenant for any vacant space we have in our properties. If the vacancy continues for a long period of time, we may suffer reduced revenue resulting in less cash available to be distributed to stockholders. In addition, the resale value of a property could be diminished because the market value of a particular property will depend principally upon the value of the leases of such property.

We may not have funding for future tenant improvements, which could adversely affect our results of operations, cash flows, cash available for distribution, and the value of our securities.

When a tenant at one of our properties does not renew its lease or otherwise vacates its space in one of our buildings, it is likely that, in order to attract one or more new tenants, we will be required to expend funds to construct new tenant improvements in the vacated space. Except with respect to our current reserves for capital expenditures, tenant improvements and leasing commissions, we cannot assure you that we will have adequate sources of funding available to us for such purposes in the future.

Bankruptcy laws will limit our remedies if a tenant becomes bankrupt and rejects the lease and we may be unable to collect balances due on our leases.

If a tenant becomes bankrupt or insolvent, that could diminish the income we receive from that tenant's leases. Our tenants may experience downturns in their operating results due to adverse changes to their business or economic conditions, and those tenants that are highly leveraged may have a higher possibility of filing for bankruptcy or insolvency. We may not be able to evict a tenant solely because of

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its bankruptcy. On the other hand, a bankruptcy court might authorize the tenant to terminate its leases with us. If that happens, our claim against the bankrupt tenant for unpaid future rent would be an unsecured prepetition claim subject to statutory limitations, and therefore such amounts received in bankruptcy are likely to be substantially less than the remaining rent we otherwise were owed under the leases. In addition, any claim we have for unpaid past rent could be substantially less than the amount owed. If the lease for such a property is rejected in bankruptcy, our revenue would be reduced and could adversely impact our ability to pay distributions to stockholders.

Real estate investments are not as liquid as other types of assets, which may reduce economic returns to investors.

Real estate investments are not as liquid as other types of investments, and this lack of liquidity may limit our ability to react promptly to changes in economic or other conditions. In addition, significant expenditures associated with real estate investments, such as mortgage payments, real estate taxes and maintenance costs, are generally not reduced when circumstances cause a reduction in income from the investments. In addition, we intend to comply with the safe harbor rules relating to the number of properties that can be disposed of in a year, the tax bases and the costs of improvements made to these properties, and other items that enable a REIT to avoid punitive taxation on the sale of assets. Thus, our ability at any time to sell assets or contribute assets to property funds or other entities in which we have an ownership interest may be restricted. This lack of liquidity may limit our ability to vary our portfolio promptly in response to changes in economic or other conditions and, as a result, could adversely affect our financial condition, results of operations, cash flows and our ability to pay distributions on, and the market price of, our securities.

Acquired properties may be located in new markets where we may face risks associated with investing in an unfamiliar market.

We have acquired, and may continue to acquire, properties in markets that are new to us. When we acquire properties located in these markets, we may face risks associated with a lack of market knowledge or understanding of the local economy, forging new business relationships in the area and unfamiliarity with local government and permitting procedures.

Uninsured losses relating to real property may adversely affect your returns.

We attempt to ensure that all of our properties are adequately insured to cover casualty losses. However, there are certain losses, including losses from floods, earthquakes, acts of war, acts of terrorism or riots, that are not generally insured against or that are not generally fully insured against because it is not deemed economically feasible or prudent to do so. In addition, changes in the cost or availability of insurance could expose us to uninsured casualty losses. In the event that any of our properties incurs a casualty loss that is not fully covered by insurance, the value of our assets will be reduced by the amount of any such uninsured loss, and we could experience a significant loss of capital invested and potential revenue in these properties and could potentially remain obligated under any recourse debt associated with the property. Moreover, we, as the indirect general partner of our operating partnership, generally will be liable for all of our operating partnership's unsatisfied recourse obligations, including any obligations incurred by our operating partnership as the general partner of joint ventures. Any such losses could adversely affect our financial condition, results of operations, cash flows and ability to pay distributions on, and the market price of, our securities. In addition, we may have no source of funding to repair or reconstruct the damaged property, and we cannot assure you that any such sources of funding will be available to us for such purposes in the future. We evaluate our insurance coverage annually in light of current industry practice through an analysis prepared by outside consultants.

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Contingent or unknown liabilities could adversely affect our financial condition.

As part of the formation transactions, we assumed existing liabilities of contributed operating companies and liabilities in connection with contributed properties, some of which may be unknown or unquantifiable. Unknown liabilities might include liabilities for cleanup or remediation of undisclosed environmental conditions beyond the scope of our environmental insurance coverage, claims of tenants, vendors or other persons dealing with the entities prior to our initial public offering, tax liabilities, and accrued but unpaid liabilities whether incurred in the ordinary course of business or otherwise. In addition, we may in the future acquire properties, or may have previously owned properties, subject to liabilities and without any recourse, or with only limited recourse, with respect to unknown liabilities. As a result, if a liability were asserted against us based on ownership of any of these entities or properties, then we might have to pay substantial sums to settle it, which could adversely affect our cash flows.

Environmentally hazardous conditions may adversely affect our operating results.

Under various federal, state and local environmental laws, a current or previous owner or operator of real property may be liable for the cost of removing or remediating hazardous or toxic substances on such property. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. 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, natural resources or property damage or other costs, including investigation and clean-up costs, resulting from the environmental contamination. The presence of hazardous or toxic substances on one of our properties, or the failure to properly remediate a contaminated property, could give rise to a lien in favor of the government for costs it may incur to address the contamination, or otherwise adversely affect our ability to sell or lease the property or borrow using the property as collateral. Environmental laws also may impose restrictions on the manner in which property may be used or businesses may be operated. A property owner who violates environmental laws may be subject to sanctions which may be enforced by governmental agencies or, in certain circumstances, private parties. In connection with the acquisition and ownership of our properties, we may be exposed to such costs. The cost of defending against environmental claims, of compliance with environmental regulatory requirements or of remediating any contaminated property could materially adversely affect our business, assets or results of operations and, consequently, amounts available for distribution to our stockholders.

Environmental laws in the United States also require that owners or operators of buildings containing asbestos properly manage and maintain the asbestos, adequately inform or train those who may come into contact with asbestos and undertake special precautions, including removal or other abatement, in the event that asbestos is disturbed during building renovation or demolition. These laws may impose fines and penalties on building owners or operators who fail 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. Some of our properties contain asbestos-containing building materials.

We invest in properties historically used for industrial, light manufacturing and commercial purposes. Some of these properties contain, or may have contained, underground storage tanks for the storage of petroleum products and other hazardous or toxic substances. All of 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 underground storage tanks used to store petroleum products or other hazardous or toxic substances. In addition, certain of our properties are on or are adjacent to or near other properties upon which others, including former owners or tenants of our 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 that the acquisition will yield a superior risk-adjusted return. In such an instance, we underwrite the costs of environmental investigation, clean-up and monitoring into the cost. Further, in connection with property dispositions, we may agree to remain responsible for, and to bear the cost of, remediating or monitoring certain environmental conditions on the properties.

Preliminary assessments of environmental conditions at a property that meet certain specifications are often referred to as "Phase I environmental site assessments" or "Phase I environmental assessments." They are intended to discover and evaluate information regarding the environmental condition of the surveyed property and surrounding properties. Phase I environmental assessments generally 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, but do not include soil sampling or subsurface investigations and typically do not include an asbestos survey. Material environmental conditions, liabilities or compliance concerns may arise after the environmental assessment has been completed. Moreover, there can be no assurance that:

- future laws, ordinances or regulations will not impose any material environmental liability; or

- the current environmental condition of our properties will not be affected by tenants, by the condition of land or operations in the vicinity of our properties (such as releases from underground storage tanks), or by third parties unrelated to us.

Compliance or failure to comply with the Americans with Disabilities Act and other similar regulations could result in substantial costs.

Under the ADA, places of public accommodation must meet certain federal requirements related to access and use by disabled persons. Noncompliance could result in the imposition of fines by the federal government or the award of damages to private litigants. If we are required to make unanticipated expenditures to comply with the ADA, including removing access barriers, then our cash flows and the amounts available for distributions to our stockholders may be adversely affected. While we believe that our properties are currently in material compliance with these regulatory requirements, the requirements may change or new requirements may be imposed that could require significant unanticipated expenditures by us that will affect our cash flows and results of operations.

Four of our properties are subject to a ground lease that exposes us to the loss of such property upon breach or termination of the ground lease and may limit our ability to sell the property.

We own four of our properties through a leasehold interest in the land underlying the building and we may acquire additional buildings in the future that are subject to similar ground leases. As lessee under a ground lease, we are exposed to the possibility of losing the property upon expiration, or an earlier breach by us, of the ground lease, which may have an adverse effect on our business, financial condition and results of operations, our ability to make distributions to our stockholders, and the trading price of our securities.

In the future, our ground leases may contain certain provisions that may limit our ability to sell certain of our properties. In addition, in the future, in order to assign or transfer our rights and obligations under certain of our ground leases, we may be required to obtain the consent of the landlord which, in turn, could adversely impact the price realized from any such sale.

We also own one property that benefits from payment in lieu of tax ("PILOT") programs and to facilitate such tax treatment our ownership in this property is structured as a leasehold interest with the

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relevant municipality serving as lessor. With respect to such arrangements, we have the right to purchase the fee interest in the property for a nominal purchase price, so the risk factors set forth above for traditional ground leases are mitigated by our ability to convert such leasehold interests to fee interests. In the event of such a conversion of our ownership interests, however, any preferential tax treatment offered by the PILOT programs will be lost.

We may be unable to sell a property if or when we decide to do so, including as a result of uncertain market conditions, which could adversely affect the return on your investment.

We expect to hold the various real properties in which we invest until such time as we decide that a sale or other disposition is appropriate given our investment objectives. Our ability to dispose of properties on advantageous terms depends on factors beyond our control, including competition from other sellers and the availability of attractive financing for potential buyers of our properties. We cannot predict the various market conditions affecting real estate investments which will exist at any particular time in the future. Due to the uncertainty of market conditions which may affect the future disposition of our properties, we cannot assure you that we will be able to sell our properties at a profit in the future. Accordingly, the extent to which you will receive cash distributions and realize potential appreciation on our real estate investments will be dependent upon fluctuating market conditions.

Furthermore, we may be required to expend funds to correct defects or to make improvements before a property can be sold. We cannot assure you that we will have funds available to correct such defects or to make such improvements.

If we sell properties and provide financing to purchasers, defaults by the purchasers would adversely affect our cash flows.

If we decide to sell any of our properties, we presently intend to use our best efforts to sell them for cash. However, in some instances we may sell our properties by providing financing to purchasers. If we provide financing to purchasers, we will bear the risk that the purchaser may default, which could negatively impact our cash distributions to stockholders and result in litigation and related expenses. Even in the absence of a purchaser default, the distribution of the proceeds of sales to our stockholders, or their reinvestment in other assets, will be delayed until the promissory notes or other property we may accept upon a sale are actually paid, sold, refinanced or otherwise disposed of.

Risks Related to Our Debt Financings

Our operating results and financial condition could be adversely affected if we are unable to make required payments on our debt.

Our charter and bylaws do not limit the amount or percentage of indebtedness that we may incur, and we are subject to risks normally associated with debt financing, including the risk that our cash flows will be insufficient to meet required payments of principal and interest. There can be no assurance that we will be able to refinance any maturing indebtedness, that such refinancing would be on terms as favorable as the terms of the maturing indebtedness or that we will be able to otherwise obtain funds by selling assets or raising equity to make required payments on maturing indebtedness.

In particular, loans obtained to fund property acquisitions may be secured by first mortgages on such properties. If we are unable to make our debt service payments as required, a lender could foreclose on the property or properties securing its debt. This could cause us to lose part or all of our investment, which in turn could cause the value of our stock to decrease and negatively impact our ability to pay distributions. Certain of our existing and secured future indebtedness is and may be cross-collateralized and, consequently, a default on this indebtedness could cause us to lose part or all of our investment in multiple properties.

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Increases in interest rates could increase the amount of our debt payments and adversely affect our ability to make distributions to our stockholders.

As of December 31, 2013, we had total outstanding debt of approximately $556.1 million, including $130.5 million of debt subject to variable interest rates (excluding amounts outstanding under our unsecured term loans that were hedged to fix rates), and we expect that we will incur additional indebtedness in the future. Interest we pay reduces our cash available for distributions. Since we have incurred and may continue to incur variable rate debt, increases in interest rates raise our interest costs, which reduces our cash flows and our ability to make distributions to you. If we are unable to refinance our indebtedness at maturity or meet our payment obligations, the amount of our distributable cash flows and our financial condition would be adversely affected, and we may lose the property securing such indebtedness. In addition, if we need to repay existing debt during periods of rising interest rates, we could be required to liquidate one or more of our investments in properties at times which may not permit realization of the maximum return on such investments.

Covenants in our mortgage loans, our unsecured credit facility and unsecured term loans and any future debt instruments could limit our flexibility, prevent us from paying distributions, and adversely affect our financial condition or our status as a REIT.

The terms of certain of our mortgage loans require us to comply with loan-to-collateral-value ratios, debt service coverage ratios and, in the case of an event of default, limitations on the ability of our subsidiaries that are borrowers under our mortgage loans to make distributions to us or our other subsidiaries. In addition, our unsecured credit facility and unsecured term loans require us to comply with loan-to-collateral-value ratios, debt service coverage ratios, leverage ratios, recourse indebtedness thresholds, fixed charge coverage ratios and tangible net worth thresholds and limits. Our existing loan covenants may reduce flexibility in our operations, and breaches of these covenants could result in defaults under the instruments governing the applicable indebtedness even if we have satisfied our payment obligations. In addition, upon a default, our unsecured credit facility and unsecured term loans will limit, among other things, our ability to pay dividends, even if we are otherwise in compliance with our financial covenants. Other indebtedness that we may incur in the future may contain financial or other covenants more restrictive than those in our mortgage loans, unsecured credit facility and unsecured term loans.

As of December 31, 2013, we had certain secured loans that are cross-collateralized by multiple properties. If we default on any of these loans we may then be required to repay such indebtedness, together with applicable prepayment charges, to avoid foreclosure on all cross-collateralized properties within the applicable pool. Moreover, our unsecured credit facility and unsecured term loans contain, and future secured corporate credit facilities may 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 facilities in addition to any mortgage or other debt that is in default. If our properties were foreclosed upon, or if we are unable to refinance our indebtedness at maturity or meet our payment obligations, the amount of our distributable cash flows and our financial condition would be adversely affected.

We are a holding company and conduct all of our operations through our operating partnership. We do not have, apart from our ownership of our operating partnership, any independent operations. As a result, we will rely on distributions from our operating partnership to pay any dividends we might declare on our securities. We will also rely on distributions from our operating partnership to meet our debt service and other obligations, including our obligations to make distributions required to maintain our REIT status. The ability of subsidiaries of our operating partnership to make distributions to our operating partnership, and the ability of our operating partnership to make distributions to us in turn, will depend on their operating results and on the terms of any loans that encumber the properties owned by them. Such loans may contain lockbox arrangements, reserve requirements, financial

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covenants and other provisions that restrict the distribution of funds. In the event of a default under these loans, the defaulting subsidiary would be prohibited from distributing cash. For example, our subsidiaries are party to mortgage loans that prohibit, in the event of default, their distribution of any cash to a related party, including our operating partnership. As a result, a default under any of these loans by the borrower subsidiaries could cause us to have insufficient cash to make the distributions required to maintain our REIT status.

If we enter into financing arrangements involving balloon payment obligations, it may adversely affect our ability to make distributions.

Some of our financing arrangements require us to make a lump-sum or "balloon" payment at maturity. Our ability to make a balloon payment at maturity is uncertain and may depend upon our ability to obtain additional financing or our ability to sell the property. At the time the balloon payment is due, we may or may not be able to refinance the existing financing on terms as favorable as the original loan or sell the property at a price sufficient to make the balloon payment. The effect of a refinancing or sale could affect the rate of return to stockholders and the projected time of disposition of our assets. In addition, payments of principal and interest made to service our debts may leave us with insufficient cash to pay the distributions that we are required to pay to maintain our qualification as a REIT.

If mortgage debt or unsecured debt is unavailable at reasonable rates, we may not be able to finance or refinance our properties, which could reduce the number of properties we can acquire and the amount of cash distributions we can make.

If mortgage debt or unsecured debt is unavailable at reasonable rates, we may not be able to finance the purchase of properties. In addition, we run the risk of being unable to refinance mortgage debt or unsecured debt when the loans come due or of being unable to refinance such debt on favorable terms. If interest rates are higher when we refinance such debt, our income could be reduced. We may be unable to refinance such debt at appropriate times, which may require us to sell properties on terms that are not advantageous to us or could result in the foreclosure of any mortgaged properties. If any of these events occur, our cash flows would be reduced. This, in turn, would reduce cash available for distribution to you and may hinder our ability to raise more capital by issuing more stock or by borrowing more money.

Our hedging strategies may not be successful in mitigating our risks associated with interest rates and could reduce the overall returns on your investment.

We use various derivative financial instruments to provide a level of protection against interest rate risks, but no hedging strategy can protect us completely. These instruments involve risks, such as the risk that the counterparties may fail to honor their obligations under these arrangements, that these arrangements may not be effective in reducing our exposure to interest rate changes and that a court could rule that such agreements are not legally enforceable. These instruments may also generate income that may not be treated as qualifying REIT income for purposes of the 75% or 95% REIT income tests. In addition, the nature and timing of hedging transactions may influence the effectiveness of our hedging strategies. Poorly designed strategies or improperly executed transactions could actually increase our risk and losses. Moreover, hedging strategies involve transaction and other costs. We cannot assure you that our hedging strategy and the derivatives that we use will adequately offset the risk of interest rate volatility or that our hedging transactions will not result in losses that may reduce the overall return on your investment.

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U.S. Federal Income Tax Risks

Failure to qualify as a REIT would reduce our net earnings available for investment or distribution.

Our qualification as a REIT will depend upon our ability to meet requirements regarding our organization and ownership, distributions of our income, the nature and diversification of our income and assets and other tests imposed by the Code. If we fail to qualify as a REIT for any taxable year after electing REIT status, we will be subject to federal income tax on our taxable income at regular corporate rates. In addition, we would generally be disqualified from treatment as a REIT for the four taxable years following the year in which we failed to qualify as a REIT. Losing our REIT status would reduce our net earnings available for investment or distribution to stockholders because of the additional tax liability. In addition, dividends to stockholders would no longer qualify for the dividends-paid deduction and we would no longer be required to make distributions. If this occurs, we might be required to borrow funds or liquidate some investments in order to pay the applicable tax.

Even if we qualify as a REIT for federal income tax purposes, we may be subject to other tax liabilities that reduce our cash flow and our ability to make distributions to our stockholders.

Even if we qualify as a REIT for federal income tax purposes, we may be subject to some federal, state and local taxes on our income or property. For example:

- To qualify as a REIT, we must distribute annually at least 90% of our REIT taxable income to our stockholders (which is determined without regard to the dividends-paid deduction or net capital gain). To the extent that we satisfy the distribution requirement but distribute less than 100% of our REIT taxable income, we will be subject to federal corporate income tax on the undistributed income.

- We will be subject to a 4% nondeductible excise tax on the amount, if any, by which distributions we pay in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income and 100% of our undistributed income from prior years.

- If we have net income from the sale of foreclosure property that we hold primarily for sale to customers in the ordinary course of business or other non-qualifying income from foreclosure property, we must pay a tax on that income at the highest corporate income tax rate.

- If we sell an asset, other than foreclosure property, that we hold primarily for sale to customers in the ordinary course of business, our gain would be subject to the 100% "prohibited transaction" tax unless such sale were made by our taxable REIT subsidiary ("TRS") or if we qualify for a safe harbor from tax.

We intend to make distributions to our stockholders to comply with the REIT requirements of the Code.

REIT distribution requirements could adversely affect our ability to execute our business plan.

From time to time, we may generate taxable income greater than our income for financial reporting purposes, or our taxable income may be greater than our cash flow available for distribution to stockholders. If we do not have other funds available in these situations, we could be required to borrow funds, sell investments at disadvantageous prices, make taxable distributions of our stock or debt securities or find another alternative source of funds to make distributions sufficient to enable us to pay out enough of our taxable income to satisfy the REIT distribution requirement and to avoid corporate income tax and the 4% excise tax in a particular year. These alternatives could increase our costs or reduce the value of our equity. Thus, compliance with the REIT requirements may hinder our ability to operate solely on the basis of maximizing profits.

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To maintain our REIT status, we may be forced to forego otherwise attractive opportunities, which may delay or hinder our ability to meet our investment objectives and reduce our stockholders' overall return.

To qualify as a REIT, we must satisfy certain tests on an ongoing basis concerning, among other things, the sources of our income, nature of our assets and the amounts we distribute to our stockholders. We may be required to make distributions to stockholders at times when it would be more advantageous to reinvest cash in our business or when we do not have funds readily available for distribution. Compliance with the REIT requirements may hinder our ability to operate solely on the basis of maximizing profits and the value of our stockholders' investment.

Recharacterization of sale-leaseback transactions may cause us to lose our REIT status.

In certain circumstances, we expect to purchase real properties and lease them back to the sellers of such properties. While we intend to structure any such sale-leaseback transaction such that the lease will be characterized as a "true lease" for tax purposes, thereby allowing us to be treated as the owner of the property for federal income tax purposes, we cannot assure you that the Internal Revenue Service ("IRS") will not challenge such characterization. In the event that any such sale-leaseback transaction is challenged and recharacterized as a financing transaction or loan for federal income tax purposes, deductions for depreciation and cost recovery relating to such property would be disallowed. If a sale-leaseback transaction were so recharacterized, we might fail to satisfy the REIT qualification "asset tests" or "income tests" and, consequently, lose our REIT status effective with the year of recharacterization. Alternatively, the amount of our REIT taxable income could be recalculated which might also cause us to fail to meet the distribution requirement for a taxable year.

We may be subject to adverse legislative or regulatory tax changes affecting REITs that could have a negative effect on us.

The rules dealing with federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Department of the Treasury. Changes to the tax laws, with or without retroactive application, could adversely affect our stockholders or us. We cannot predict how changes in the tax laws might affect our stockholders or us. New legislation, Treasury Regulations, administrative interpretations or court decisions could significantly and negatively affect our ability to qualify as a REIT or the federal income tax consequences of such qualification.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our target properties fit into two general categories:

- Warehouse/Distribution properties generally 200,000 to 1,000,000 square feet in size with ceiling heights between 22 feet and 36 feet and used to store and ship various materials and products.

- Light Manufacturing properties generally 75,000 to 250,000 square feet in size with ceiling heights between 16 feet and 22 feet and used to manufacture all types of goods and products.

We target Class B properties, as compared to Class A properties. The distinction between Class A industrial and Class B industrial properties is subjective. However, we consider Class A and Class B industrial properties to be as follows:

- Class A industrial properties typically possess most of the following characteristics: concrete tilt-up construction, clear height in excess of 26 feet, a ratio of dock doors to floor area that is more than one door per 10,000 square feet, truck courts sized to accommodate easy maneuvering of long-haul tractor trailer trucks, energy efficient design characteristics, less than 15 years old and square footage generally in excess of 200,000 square feet.

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Class B industrial properties typically vary from Class A industrial properties in that they have some but not all of the features of the Class A industrial properties. These properties remain functional but are less attractive to high volume distribution users.

Our definition of Class A and Class B may be different from those used by other companies.

As of December 31, 2013, we owned the properties listed below. Except as otherwise noted in the footnotes, we own fee simple interests in all of the properties.

State	City	Number of Buildings	Asset Type(12)	Total Rentable Square Feet
Alabama				
	Phenix City(9)	1	Warehouse / Distribution	117,568
Arkansas				
	Rogers(3)	1	Warehouse / Distribution	400,000
Colorado				
	Golden(3)	1	Warehouse / Distribution	227,500
Connecticut				
	Avon(3)	1	Light Manufacturing	78,400
	East Windsor(11)	1	Warehouse / Distribution	145,000
Delaware				
	Newark(3)	1	Flex / Office	28,653
	Newark(3)	1	Flex / Office	24,012
Florida				
	Daytona Beach	1	Light Manufacturing	142,857
	Ocala(3)	1	Warehouse / Distribution	619,466
	Orlando(3)	1	Light Manufacturing	215,900
	Orlando(3)	1	Warehouse / Distribution	155,000
	Pensacola(3)	1	Flex / Office	30,620
	Pensacola(3)	1	Flex / Office	7,409
	Tavares(3)	1	Light Manufacturing	148,298
Georgia				
	Atlanta(3)	1	Warehouse / Distribution	407,981
	Conyers(4)	1	Warehouse / Distribution	226,256
	Dallas(3)	1	Warehouse / Distribution	92,807
	LaGrange(3)	1	Warehouse / Distribution	249,716
	Shannon	1	Warehouse / Distribution	568,516
	Smyrna(3)	1	Warehouse / Distribution	102,000
	Statham(3)	1		225,680

			Warehouse / Distribution	
Idaho				
	Idaho Falls(3)	1	Warehouse / Distribution	90,300
	Pocatello(3)	1	Flex / Office	43,353
Illinois				
	Belvidere(3)	1	Warehouse / Distribution	105,000
	Belvidere(3)	1	Warehouse / Distribution	105,000
	Belvidere(3)	1	Warehouse / Distribution	70,000
	Belvidere(3)	1	Warehouse / Distribution	176,960
	Belvidere(3)	1	Warehouse / Distribution	105,000
	Belvidere(3)	1	Warehouse / Distribution	100,000
	Belvidere(3)	1	Warehouse / Distribution	90,000
	Belvidere(3)	1	Warehouse / Distribution	255,000
	Dekalb(3)	1	Warehouse / Distribution	146,740
	Gurnee(3)	1	Warehouse / Distribution	223,760

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State	City	Number of Buildings	Asset Type(12)	Total Rentable Square Feet
	Harvard	1	Light Manufacturing	126,304
	Montgomery(3)	1	Warehouse / Distribution	584,301
	Mt. Prospect(3)	1	Warehouse / Distribution	87,380
	Sauk Village	1	Warehouse / Distribution	375,785
	South Holland	1	Warehouse / Distribution	202,902
	Woodstock(3)	1	Light Manufacturing	129,803
Indiana				
	Albion(3)	7	Light Manufacturing	261,013
	Elkhart(3)	1	Warehouse / Distribution	18,000
	Elkhart(3)	1	Warehouse / Distribution	152,100
	Franklin(3)	1	Warehouse / Distribution	703,496
	Goshen(4)	1	Warehouse / Distribution	366,000
	Kendallville(3)	1	Light Manufacturing	58,500
	Lafayette(9)	1	Warehouse / Distribution	71,400
	Lafayette(9)	1	Warehouse / Distribution	120,000
	Lafayette(9)	1	Warehouse / Distribution	275,000
	Marion(9)	1	Warehouse / Distribution	249,600
	Mishawaka(3)	1	Light Manufacturing	308,884
	Portage(2)	1	Warehouse / Distribution	212,000
	South Bend(3)	1	Warehouse / Distribution	225,000
Iowa				
	Marion(3)	1	Warehouse / Distribution	95,500
	Sergeant Bluff(3)	1	Flex / Office	148,131
Kansas				
	Kansas City(9)	1	Light Manufacturing	56,580
	Parsons(9)	1	Light Manufacturing	120,000
	Wichita(9)	1	Warehouse / Distribution	80,850
	Wichita(9)	1	Warehouse / Distribution	120,000
	Wichita(9)	1	Warehouse / Distribution	44,760
	Wichita(9)	1	Warehouse / Distribution	47,700
Kentucky				
	Danville(3)	1	Warehouse / Distribution	757,047
	Georgetown(4)	1		97,500

			Warehouse / Distribution	
	Louisville(4)	1	Warehouse / Distribution	191,820
	Louisville(4)	1	Warehouse / Distribution	306,000
	Bardstown(3)	1	Warehouse / Distribution	102,318
Maine				
	Belfast(3)	5	Flex / Office	318,979
	Lewiston(3)	1	Flex / Office	60,000
	Portland(10)	1	Warehouse / Distribution	100,600
Maryland				
	Hampstead(3)	1	Warehouse / Distribution	1,035,249
	Sparks	2	Flex / Office	34,800
Massachusetts				
	Chicopee(3)	1	Warehouse / Distribution	217,000
	Malden(3)	1	Light Manufacturing	46,129
	Malden(3)	1	Light Manufacturing	63,814
	Norton(6)	1	Warehouse / Distribution	200,000
Michigan				
	Auburn Hills	1	Warehouse / Distribution	87,932
	Chesterfield(3)	1	Warehouse / Distribution	68,300
	Chesterfield(3)	1	Warehouse / Distribution	49,612

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State	City	Number of Buildings	Asset Type(12)	Total Rentable Square Feet
	Chesterfield(3)	1	Warehouse / Distribution	49,849
	Chesterfield(3)	1	Warehouse / Distribution	311,042
	Holland(3)	1	Warehouse / Distribution	307,576
	Holland(9)	1	Warehouse / Distribution	195,000
	Holland(3)	1	Light Manufacturing	198,822
	Kentwood(3)	1	Light Manufacturing	85,157
	Lansing(4)	1	Warehouse / Distribution	231,000
	Lansing(3)	1	Warehouse / Distribution	129,325
	Lansing(9)	1	Warehouse / Distribution	250,100
	Lansing	1	Warehouse / Distribution	160,000
	Marshall(3)	1	Light Manufacturing	57,025
	Novi(9)	1	Warehouse / Distribution	120,800
	Southfield(3)(13)	1	Warehouse / Distribution	113,000
	Sterling Heights(9)	1	Warehouse / Distribution	108,000
	Walker(4)	1	Warehouse / Distribution	210,000
Minnesota				
	Alexandria(3)	1	Light Manufacturing	172,170
	New Hope(3)	1	Light Manufacturing	107,348
	Rogers(4)	1	Warehouse / Distribution	386,724
Mississippi				
	Jackson(3)	1	Flex / Office	11,600
	Jackson(3)	1	Flex / Office	39,909
Missouri				
	St. Louis(5)	1	Warehouse / Distribution	305,550
	Kansas City(3)	1	Warehouse / Distribution	226,576
	O'Fallon(4)	1	Warehouse / Distribution	77,000
	Hazelwood	1	Warehouse / Distribution	249,441
New Hampshire				
	Londonderry(3)	1	Warehouse / Distribution	125,060
New Jersey				
	Lopatcong(3)	1	Warehouse / Distribution	87,500
	Piscataway(3)	1	Warehouse / Distribution	228,000

New York				
	Buffalo(3)	1	Warehouse / Distribution	117,000
	Cheektowaga(3)	1	Warehouse / Distribution	121,760
	Farmington(3)	1	Warehouse / Distribution	149,657
	Gloversville(9)	1	Warehouse / Distribution	50,000
	Gloversville(9)	1	Warehouse / Distribution	101,589
	Gloversville(9)	1	Flex / Office	26,529
	Gloversville(9)	1	Warehouse / Distribution	59,965
	Johnstown(9)	1	Warehouse / Distribution	52,500
	Johnstown(9)	1	Warehouse / Distribution	60,000
	Johnstown(9)	1	Light Manufacturing	42,325
	Johnstown(9)	1	Warehouse / Distribution	57,102
North Carolina				
	Charlotte(4)	1	Warehouse / Distribution	491,025
	Charlotte(4)	1	Warehouse / Distribution	465,323
	Huntersville(3)	1	Warehouse / Distribution	185,570
	Jefferson(3)	2	Light Manufacturing	103,577
	Lexington(3)	1	Warehouse / Distribution	201,800
	Mebane(3)	1	Warehouse / Distribution	223,340
	Mebane(3)	1	Light Manufacturing	202,691

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State	City	Number of Buildings	Asset Type(12)	Total Rentable Square Feet
	Mebane	1	Warehouse / Distribution	383,500
	Mooresville(4)	1	Warehouse / Distribution	300,000
	Newton(3)	1	Warehouse / Distribution	187,200
	Pineville(3)	1	Light Manufacturing	75,400
	Rural Hall(3)	1	Warehouse / Distribution	250,000
	Smithfield(3)	1	Warehouse / Distribution	191,450
Ohio				
	Bellevue(3)	1	Warehouse / Distribution	181,838
	Boardman(3)	1	Warehouse / Distribution	175,900
	Boardman(3)	1	Light Manufacturing	95,000
	Canton	1	Warehouse / Distribution	448,000
	Cincinnati(8)	1	Flex / Office	114,532
	Dayton	1	Flex / Office	113,000
	Gahanna(7)	1	Warehouse / Distribution	383,000
	Salem(3)	1	Light Manufacturing	251,000
	North Jackson(4)	1	Warehouse / Distribution	307,315
	North Jackson(3)	1	Warehouse / Distribution	209,835
	Seville(3)	2	Warehouse / Distribution	345,000
	Springfield(3)	1	Warehouse / Distribution	350,500
	Streetsboro(4)	1	Warehouse / Distribution	343,416
	Toledo(3)	1	Warehouse / Distribution	177,500
	Twinsburg(3)	1	Warehouse / Distribution	120,774
Oklahoma				
	Catoosa(2)(3)	1	Light Manufacturing	100,100
Oregon				
	Gresham(4)	1	Warehouse / Distribution	420,690
	Salem(4)	1	Light Manufacturing	108,000
	Salem(4)	1	Light Manufacturing	47,900
Pennsylvania				
	Muhlenberg Township(3)	1	Warehouse / Distribution	394,289
	O'Hara Township(9)	1	Warehouse / Distribution	887,084
	Warrendale(3)	1	Warehouse / Distribution	148,065
	Williamsport(3)	1		250,000

			Warehouse / Distribution	
South Carolina				
	Duncan(3)	1	Warehouse / Distribution	474,000
	Duncan(3)	1	Warehouse / Distribution	313,380
	Edgefield(3)	1	Light Manufacturing	126,190
	Greenwood(9)	1	Light Manufacturing	104,955
	Greenwood(9)	1	Light Manufacturing	70,100
	Orangeburg(3)	1	Warehouse / Distribution	319,000
	Simpsonville(3)	1	Warehouse / Distribution	204,952
	Simpsonville(3)	1	Warehouse / Distribution	207,042
	Spartanburg(3)	4	Warehouse / Distribution	409,600
	Ware Shoals(9)	1	Light Manufacturing	20,514
	West Columbia(3)	1	Warehouse / Distribution	273,280
South Dakota				
	Rapid City(3)	1	Flex / Office	137,000
Tennessee				
	Cleveland(4)	1	Warehouse / Distribution	151,704
	Jackson	1	Warehouse / Distribution	250,000
	Madison(4)	1	Warehouse / Distribution	418,406
	Mascot	1	Light Manufacturing	130,560

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State	City	Number of Buildings	Asset Type(12)	Total Rentable Square Feet
	Nashville(3)	1	Warehouse / Distribution	150,000
	Portland(3)(1)	1	Warehouse / Distribution	414,043
	Vonore(4)	1	Warehouse / Distribution	342,700
Texas				
	Arlington(3)	1	Warehouse / Distribution	94,132
	Arlington(3)	1	Warehouse / Distribution	196,000
	El Paso(2)	1	Warehouse / Distribution	269,245
	Fort Worth(4)	1	Warehouse / Distribution	101,500
	Houston(3)	1	Warehouse / Distribution	201,574
	Round Rock	1	Light Manufacturing	79,180
	Waco(2)	1	Warehouse / Distribution	66,400
Virginia				
	Buena Vista(3)	1	Light Manufacturing	172,759
	Lexington(3)	1	Warehouse / Distribution	15,085
	Fairfield(3)	1	Light Manufacturing	75,221
	Harrisonburg(3)	1	Warehouse / Distribution	357,673
	Independence(9)	1	Warehouse / Distribution	120,000
Wisconsin				
	Appleton	1	Light Manufacturing	145,519
	Chippewa Falls	1	Light Manufacturing	77,700
	Chippewa Falls	1	Light Manufacturing	19,700
	De Pere(3)	1	Warehouse / Distribution	200,000
	Janesville	1	Warehouse / Distribution	700,000
	Mayville(3)	1	Light Manufacturing	339,179
	Milwaukee(3)	2	Warehouse / Distribution	117,564
	Milwaukee(3)	1	Light Manufacturing	270,000
	New Berlin(3)	1	Warehouse / Distribution	205,063
	Sun Prairie(3)	1	Warehouse / Distribution	427,000
		209		**38,086,376**

(1) Subject to a PILOT agreement.

(2) Subject to ground lease.

(3) This property is part of the borrowing base for our unsecured credit facility and unsecured term loans as of February 26, 2014.

(4) The acquisition loan facilities with Connecticut General Life Insurance Company ("CIGNA") are collateralized by this property.

(5) The Union Fidelity Life Insurance Co. loan is collateralized by this property.

(6) The Webster Bank, N.A. loan is collateralized by this property.

(7) The Sun Life Assurance Company of Canada (U.S.) loan is collateralized by this property.

(8) The parking lot utilized by the tenant adjacent to the property is subject to a ground lease.

(9) The Wells Fargo Bank, N.A. loan is collateralized by this property.

(10) The Webster Bank, N.A. loan is collateralized by this property.

(11) The Webster Bank, N.A. loan is collateralized by this property.

(12) Flex / Office are properties that are generally 50,000 to 200,000 square feet in size and used for office space, light manufacturing, research and development and warehousing.

(13) This property includes a vacant land parcel adjacent to the building.

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Property Diversification

The following table sets forth information relating to diversification by property type in our portfolio based on total annualized rent as of December 31, 2013.

Property Type	Total Number of Buildings	Occupancy(1)	Total Occupied Square Feet	Percentage of Total Occupied Square Feet	Total Annualized Rent	Annualized Rent Per Leased Square Foot	Percentage of Total Annualized Rent
Warehouse/Distribution	142	95.9%	30,600,349	84.0%	$ 111,454,981	$ 3.64	80.2%
Light Manufacturing	47	95.9%	4,827,541	13.3%	17,426,002	3.61	12.5%
Flex/Office	20	87.2%	992,636	2.7%	10,156,590	10.23	7.3%
Total/Weighted Average	**209**	**95.6%**	**36,420,526**	**100.0%**	**$ 139,037,573**	**$ 3.82**	**100.0%**

(1) Calculated as the average economic occupancy weighted by each property's rentable square footage. As used herein, economic occupancy includes all square footage where an existing lease is in place whether or not such square footage is physically occupied.

Geographic Diversification

The following table sets forth information relating to geographic diversification by state in our portfolio based on total annualized rent as of December 31, 2013.

	Total Number of Buildings	Occupancy(1)	Total Occupied Square Feet	Percentage of Total Occupied Square Feet	Total Annualized Rent	Annualized Rent Per Leased Square Foot	Percentage of Total Annualized Rent
Illinois	16	97.9%	2,823,935	7.6%	$ 12,354,820	$ 4.38	8.9%
North Carolina	14	100.0%	3,260,876	8.6%	12,083,896	$ 3.71	8.7%
Ohio	16	93.1%	3,368,162	9.5%	11,584,014	$ 3.44	8.3%
Michigan	18	90.5%	2,473,474	7.2%	9,992,712	$ 4.04	7.2%
Indiana	19	100.0%	3,020,993	7.9%	9,558,624	$ 3.16	6.9%
Wisconsin	11	96.8%	2,421,860	6.6%	7,988,442	$ 3.30	5.7%
South Carolina	14	100.0%	2,523,013	6.6%	7,566,354	$ 3.00	5.4%
Pennsylvania	4	100.0%	1,679,438	4.4%	6,853,299	$ 4.08	4.9%
Tennessee	7	92.6%	1,719,315	4.9%	5,729,015	$ 3.33	4.1%
Florida	7	100.0%	1,319,550	3.5%	5,621,339	$ 4.26	4.0%
All Others	83	92.6%	11,809,910	33.2%	49,705,058	$ 4.21	35.9%
	209	**95.6%**	**36,420,526**	**100.0%**	**139,037,573**	**$ 3.82**	**100.0%**

(1) Calculated as the average economic occupancy weighted by each property's rentable square footage.

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Industry Diversification

The following table sets forth information relating to tenant diversification by industry in our portfolio based on total annualized rent as of December 31, 2013.

Industry	Total Number of Leases(1)	Total Leased Square Feet	Percentage of Leased Square Feet	Total Annualized Rent	Percentage of Total Annualized Rent
Automotive	31	4,412,530	12.1%	$ 17,388,493	12.5%
Containers & Packaging	18	4,278,904	11.7%	15,458,583	11.1%
Industrial Equipment, Component & Metals	29	3,589,712	9.9%	14,704,932	10.6%
Air Freight & Logistics	19	3,547,099	9.8%	12,905,517	9.3%
Food & Beverages	12	2,929,147	8.0%	10,689,402	7.7%
Retail	12	2,551,756	7.0%	7,993,510	5.7%
Business Services	10	1,369,823	3.8%	7,889,170	5.7%
Office Supplies	10	2,020,973	5.5%	6,827,580	4.9%
Building Materials	12	1,660,481	4.6%	6,043,035	4.3%
Aerospace & Defense	14	1,387,700	3.8%	5,826,731	4.2%
Household Durables	7	1,698,530	4.7%	5,636,987	4.1%
Personal Products	6	1,664,466	4.6%	5,566,635	4.0%
Healthcare	9	1,123,204	3.1%	4,837,802	3.5%
Finance	3	429,045	1.2%	3,634,612	2.6%
Technology	6	805,769	2.2%	2,909,443	2.1%
Media & Entertainment	3	1,016,876	2.8%	2,572,954	1.9%
Non-Profit/Government	6	196,413	0.5%	1,863,148	1.3%
Education	3	69,862	0.2%	572,549	0.4%
Recreational Goods	2	121,776	0.3%	258,471	0.2%
Other	10	1,546,460	4.2%	5,458,019	3.9%
Total/Weighted Average	**222**	**36,420,526**	**100.0%**	**$ 139,037,573**	**100.0%**

(1) A single lease may cover space in more than one building.

Tenants

Our portfolio of properties has a stable and diversified tenant base. As of December 31, 2013, our properties were 95.6% leased to 191 tenants in a variety of industries, with no single tenant accounting for more than 2.8% and no single industry accounting for more than 12.6% of our total annualized rent. Our 10 largest tenants account for approximately 16.7% of our annualized rent. We intend to continue to maintain a diversified mix of tenants to limit our exposure to any single tenant or industry. As of December 31, 2013, 57% of our tenants (or parents thereof) were publicly rated and 30% were investment grade rated based on annualized rent.

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The following table sets forth information about the 10 largest tenants in our portfolio based on total annualized rent as of December 31, 2013.

Tenants	Number of Leases	Total Leased Square Feet	Percentage of Total Leased Square Feet	Total Annualized Rent	Percentage of Total Annualized Rent
Solo Cup Company	1	1,035,249	2.8%	$ 3,809,716	2.7%
International Paper Company	2	573,323	1.6%	2,952,291	2.1%
Bank of America, N.A.	1	318,979	0.9%	2,404,538	1.8%
Spencer Gifts, LLC	1	491,025	1.4%	2,122,404	1.5%
Jacobson Warehouse Company LLC	2	578,687	1.6%	2,119,712	1.5%
Closetmaid Corporation	2	619,466	1.7%	2,053,400	1.5%
Stream International Inc.	1	148,131	0.4%	1,999,769	1.5%
Armacell, LLC	3	518,838	1.4%	1,989,527	1.4%
American Beverage Corp	1	613,200	1.7%	1,876,392	1.3%
Archway Marketing Serv., Inc	1	386,724	1.1%	1,857,989	1.4%
Total	**15**	**5,283,622**	**14.6%**	**$ 23,185,738**	**16.7%**

Lease Expirations

As of December 31, 2013, our weighted average in-place remaining lease term was approximately 4.8 years. For the year ended December 31, 2013, we have achieved a 59% tenant retention rate for those tenants whose leases were scheduled to expire in 2013. The following table sets forth a summary schedule of lease expirations for leases in place as of December 31, 2013, plus available space, for each of the 10 calendar years beginning with 2013 and thereafter in our portfolio (dollars in thousands, except per square foot data). The information set forth in the table assumes that tenants exercise no renewal options and no early termination rights.

Year Lease of Expiration	Number of Leases Expiring	Total Rentable Square Feet	Expiring Percentage of Total Square Feet	Total Annualized Rent	Percentage of Total Annualized Rent	Total Annualized Rent per Leased Square Foot
Available	0	1,665,850				
MTM(1)	4	71,825	0.2%	$ 196,440	0.1%	$ 2.73
2014(2)	27	2,892,847	7.6%	11,594,411	8.3%	$ 4.01
2015	30	5,013,856	13.2%	15,388,346	11.1%	$ 3.07
2016	35	4,634,298	12.2%	18,719,464	13.5%	$ 4.04
2017	30	5,188,090	13.6%	20,341,351	14.6%	$ 3.92
2018	31	4,970,706	13.0%	18,838,839	13.5%	$ 3.79
2019	9	1,834,492	4.8%	8,837,917	6.4%	$ 4.82
2020	8	2,478,222	6.5%	9,122,651	6.6%	$ 3.68
2021	14	2,892,038	7.6%	12,871,530	9.3%	$ 4.45
2022	9	1,238,920	3.2%	4,710,967	3.4%	$ 3.80
Thereafter	25	5,205,232	13.7%	18,415,657	13.2%	$ 3.54
Total/Weighted Average	**222**	**38,086,376**	**95.6%**	**$ 139,037,573**	**100.0%**	**$ 3.82**

(1) Month-to-month leases.

(2) Four leases containing 190,971 square feet expired on December 31, 2013. These leases are considered occupied on December 31, 2013; therefore, the expirations will not factor into period ending occupancy until 2014.

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Item 3. Legal Proceedings

From time to time, we are a party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of our business. We are not currently a party, as plaintiff or defendant, to any legal proceedings which, individually or in the aggregate, would be expected to have a material effect on our business, financial condition or results of operations if determined adversely to our company.

Item 4. Mine Safety Disclosures

Not applicable.

PART II.

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Information about our equity compensation plans and other related stockholder matters is incorporated by reference to our definitive Proxy Statement for our 2014 Annual Stockholders' Meeting.

Market Information

Our common stock has been listed on the NYSE since April 15, 2011 and is traded under the symbol "STAG." The closing share price for our common stock on February 24, 2014, as reported by the NYSE, was $22.98. The following table sets forth, for the periods indicated, the high and low sale prices in dollars on the NYSE for our common stock as well as the dividends declared per share of common stock.

	High	Low	Dividends per common share(1)
Quarter ended December 31, 2013	$ 22.45	$ 19.28	$ 0.30(2)
Quarter ended September 30, 2013	$ 22.32	$ 18.76	$ 0.30
Quarter ended June 30, 2013	$ 24.35	$ 19.30	$ 0.30
Quarter ended March 31, 2013	$ 22.19	$ 17.97	$ 0.30
Quarter ended December 31, 2012	$ 19.07	$ 16.01	$ 0.27
Quarter ended September 30, 2012	$ 16.50	$ 14.04	$ 0.27
Quarter ended June 30, 2012	$ 15.07	$ 12.34	$ 0.27
Quarter ended March 31, 2012	$ 14.17	$ 11.44	$ 0.26

(1) On December 18, 2013, our board of directors approved a 5% increase in our annual common stock dividend from the 2013 annual rate of $1.20 per share to $1.26 per share commencing with the payment of the January 2014 common stock dividend to be paid in February 2014.

(2) On September 24, 2013, our board of directors declared dividends for each month of the fourth quarter of $0.10 per share, which equates to $0.30 per share on a quarterly basis.

Holders of Our Common Stock

As of February 24, 2014, we had approximately 41 stockholders of record. This figure does not reflect the beneficial ownership of shares held in the nominee name.

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Dividends

To maintain our qualification as a REIT, we must make annual distributions to our stockholders of at least 90% of our taxable net income (not including net capital gains). We had adopted a policy of paying regular quarterly dividends on our common stock, and we had adopted a policy of paying regular quarterly distributions on the common units of our operating partnership. On August 15, 2013, our board of directors voted to increase the frequency of the payment of dividends on our common stock and common units from quarterly to monthly commencing with the fourth quarter of 2013. Cash distributions have been paid on our common stock and common units since our initial public offering. Dividends are declared at the discretion of our board of directors and depend on actual and anticipated cash from operations, our financial condition, capital requirements, the annual distribution requirements under the REIT provisions of the Code and other factors our board of directors may consider relevant.

Common Units and Recent Sales of Unregistered Securities

During the year ended December 31, 2013, we issued an aggregate of 2,186 shares of common stock in connection with the redemption of 2,186 common units of limited partnership held by certain limited partners of our operating partnership. The shares of common stock issued upon redemption of common units of limited partnership interest were registered with the SEC on our Registration Statement on Form S-3 (No. 333-181291), which was declared effective on May 18, 2012.

On June 19, 2013, in connection with our acquisition of eight buildings, our operating partnership issued 555,758 common units. The issuance of the common units was effected in reliance upon an exemption from registration provided by Section 4(2) under the Securities Act of 1933, as amended. We relied on the exemption based on representations given by the holders of the common units. Common units may be redeemed for cash or, at our election, our common stock on a one-for-one basis, subject to adjustment, as provided in the operating partnership agreement.

Performance Graph

The following graph provides a comparison of the cumulative total return on our common stock with the cumulative total return on the Standard & Poor's 500 Index, the MSCI US REIT Index, and the FTSE NAREIT Equity Industrial Index. The MSCI US REIT Index represents performance of publicly traded REITs while the FTSE NAREIT Equity Industrial Index represents only the performance of our peers, publicly traded industrial REITs. Stockholders' returns over the indicated period are based on historical data and should not be considered indicative of future stockholder returns. The graph covers the period from April 15, 2011 to December 31, 2013 and assumed that $100 was invested in STAG Industrial, Inc. common stock and in each index on April 15, 2011 and that all dividends were reinvested.

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The actual returns shown on the graph above are as follows:

Index	4/15/2011	6/30/2011	9/30/2011	12/30/2011	3/30/2012	6/29/2012	9/28/2012	12/31/2012	3/28/2013	6/28/2013	9/30/2013	12/31/2013
STAG Industrial, Inc.	$ 100.00	$ 95.82	$ 81.79	$ 94.05	$ 116.65	$ 124.13	$ 140.79	$ 157.97	$ 189.63	$ 180.53	$ 184.73	$ 189.88
S&P 500	$ 100.00	$ 100.89	$ 86.89	$ 97.16	$ 109.39	$ 106.38	$ 113.14	$ 112.71	$ 124.67	$ 128.29	$ 135.02	$ 149.22
MSCI US REIT Index	$ 100.00	$ 104.01	$ 88.90	$ 102.48	$ 113.48	$ 117.74	$ 117.74	$ 120.69	$ 130.43	$ 128.37	$ 124.51	$ 123.67
FTSE NAREIT Equity Industrial Index	$ 100.00	$ 100.86	$ 71.96	$ 85.83	$ 106.74	$ 102.82	$ 108.43	$ 113.46	$ 126.68	$ 120.36	$ 121.94	$ 121.87

This performance graph shall not be deemed "filed" for purposes of Section 18 of the Exchange Act, or incorporated by reference into any filing by us under the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing.

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Item 6. Selected Financial Data

The following sets forth selected financial and operating data for our company on a historical consolidated basis. The following data should be read in conjunction with the Consolidated and Combined Financial Statements and Notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Annual Report on Form 10-K. The company's selected historical Consolidated Balance Sheet information as of December 31, 2013, December 31, 2012 and December 31, 2011, and the company's selected historical Consolidated Statement of Operations data for the years ended December 31, 2013 and December 31, 2012 and the period from April 20, 2011 to December 31, 2011, have been derived from the audited financial statements of STAG Industrial, Inc. The selected historical Combined Balance Sheet information as of December 31, 2010 and 2009, and the selected historical Combined Statements of Operations data for the period from January 1, 2011 to April 19, 2011 and the years ended December 31, 2010 and 2009, has been derived from the audited Combined Financial Statements of the

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STAG Predecessor Group. The results of operations for all periods presented have been adjusted to reflect discontinued operations:

	STAG Industrial, Inc.			STAG Predecessor Group		
	Year Ended December 31, 2013	Year Ended December 31, 2012	Period from April 20, 2011 to December 31, 2011	Period from January 1, 2011 to April 19, 2011	Year Ended December 31, 2010	Year Ended December 31, 2009
Statement of Operations Data:						
Revenue						
Total revenue	$ 133,893	$ 84,052	$ 41,116	$ 7,707	$ 25,919	$ 27,356
Expenses						
Property	24,010	12,841	7,180	2,067	6,122	7,213
General and administrative	17,840	14,549	8,365	484	874	981
Property acquisition costs	3,427	4,218	1,088			
Depreciation and amortization	67,556	42,427	21,325	2,345	8,931	9,640
Loss on impairment		622				
Other expenses	621	339	294			
Total expenses	113,454	74,996	38,252	4,896	15,927	17,834
Other income (expense)						
Interest income	13	19	28	1	16	66
Interest expense	(20,319)	(16,110)	(11,829)	(3,825)	(12,817)	(12,913)
Gain (loss) on interest rate swaps		215	2,179	762	(282)	(1,720)
Formation transaction costs			(3,674)			
Offering costs	(27)	(68)	(78)			
Loss on extinguishment of debt		(929)				
Total other income (expense)	(20,333)	(16,873)	(13,374)	(3,062)	(13,083)	(14,567)
Net income (loss) from continuing operations	$ 106	$ (7,817)	$ (10,510)	$ (251)	$ (3,091)	$ (5,045)
Total Income (loss) attributable to discontinued operations	4,796	(2,382)	1,283	22	145	(515)
Net income (loss)	$ 4,902	$ (10,199)	$ (9,227)	$ (229)	$ (2,946)	$ (5,560)
Less: preferred stock dividends	9,495	6,210	1,018			
Less: amount allocated to unvested restricted stockholders	262	122				
	(620)	(3,720)	(3,396)			

Less: loss attributable to noncontrolling interest after preferred stock dividends						
Net income (loss) attributable to common stockholders	$ (4,235)	$ (12,811)	$ (6,849)			
Net loss per share from continuing operations attributable to the common stockholders	$ (0.20)	$ (0.44)	$ (0.49)			
Income (loss) per share from discontinued operation attributable to common stockholders	0.10	(0.07)	0.05			
Net loss per share attributable to the common stockholders	$ (0.10)	$ (0.51)	$ (0.44)			
Balance Sheet Data (End of Period):						
Rental property, before accumulated depreciation	$ 1,079,046	$ 816,227	$ 502,258	$	$ 210,186	$ 210,009
Rental property, after accumulated depreciation	1,007,393	770,052	472,254		190,925	195,383
Total assets	1,270,281	1,005,124	624,514		211,004	220,116
Total debt	556,091	479,215	296,779		207,550	212,132
Total liabilities	595,717	515,664	314,605		219,340	221,637
Total equity (deficit)	674,564	489,460	309,909		(8,336)	(1,521)
Other Data:						
Dividend declared per common share	$ 1.20	$ 1.07	$ 0.7257	$	$	$
Cash flow provided by operating activities	$ 82,687	$ 48,011	$ 14,666	$ 2,359	$ 9,334	$ 8,365
Cash flow used in investing activities	(325,231)	(417,203)	(114,458)	(581)	(2,088)	(2,040)
Cash flow (used in) provided by financing activities	230,228	371,700	116,013	(3,070)	(8,451)	(6,921)

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of our financial condition and results of operations should be read in conjunction with our financial statements and related notes included elsewhere in this report. The combined financial information presented for periods on or prior to April 19, 2011 relate solely to the STAG Predecessor Group. The consolidated financial statements for the period April 20, 2011 to December 31, 2011 and the years ended December 31, 2012 and December 31, 2013 include the financial information of our company, our operating partnership and our subsidiaries. Where the "company" is referenced in comparisons of financial results between the year ended December 31, 2012 and any quarter or period ended in 2011, the financial information for such quarter or period prior to April 19, 2011 relates solely to the STAG Predecessor Group, notwithstanding "company" being the reference.

Overview

We are a fully-integrated, full-service real estate company focused on the acquisition, ownership and management of single-tenant industrial properties throughout the United States.

As of December 31, 2013, we owned 209 buildings in 34 states with approximately 38.1 million rentable square feet, consisting of 142 warehouse/distribution properties, 47 light manufacturing properties and 20 flex/office properties. We also owned one vacant land parcel adjacent to one of our buildings. Our properties were 95.6% leased to 191 tenants, with no single tenant accounting for more than 2.8% of our total annualized rent and no single industry accounting for more than 12.6% of our total annualized rent.

We were formed as a Maryland corporation on July 21, 2010 and our operating partnership, of which we, through our wholly owned subsidiary, STAG Industrial GP, LLC, are the sole general partner, was formed as a Delaware limited partnership on December 21, 2009. On April 20, 2011, we completed the formation transactions and became a public company. At December 31, 2013, we owned an 86.65% limited partnership interest in our operating partnership. We are organized and conduct our operations to qualify as a REIT under the Code, and generally are not subject to federal income tax to the extent we distribute our income to our stockholders and maintain our qualification as a REIT.

Factors That May Influence Future Results of Operations

Outlook

The lack of speculative development generally across the country and specifically in our markets may improve occupancy levels and rental rates in our owned portfolio. In addition, our acquisition activity is expected to enhance our overall financial performance. The continuation of low interest rates combined with the availability of attractively priced properties should allow us to deploy our capital on an attractive "spread investing" basis. In general, the economic environment for our tenants appears to be improving due in particular to the increasing availability of financing accessible by mid-sized companies. Additionally, based on various real estate publications, the outlook for the industrial real estate sector is positive as the United States economy continues to improve and as retailers and manufacturers have made the shortening of the supply chain their top priority for the foreseeable future.

Rental Revenue

We receive income primarily from rental revenue from our properties. The amount of rental revenue generated by the properties in our portfolio depends principally on our ability to maintain the occupancy rates of currently leased space and to lease currently available space. As of December 31, 2013, our properties were approximately 95.6% leased. The amount of rental revenue generated by us also depends on our ability to maintain or increase rental rates at our properties. Future economic

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downturns or regional downturns affecting our submarkets that impair our ability to renew or re-lease space and the ability of our tenants to fulfill their lease commitments, as in the case of tenant bankruptcies, could adversely affect our ability to maintain or increase rental rates at our properties.

Certain leases entered into by us contain tenant concessions. Any such rental concessions are accounted for on a straight line basis over the term of the lease.

Scheduled Lease Expirations

Our ability to re-lease space subject to expiring leases will impact our results of operations and is affected by economic and competitive conditions in our markets and by the desirability of our individual buildings. As of December 31, 2013, we had approximately 1.7 million rentable square feet of currently available space in our buildings. Of the 2.8 million square feet of leases that have expired during the year ended December 31, 2013, we have renewed 1.6 million square feet of leases, resulting in a 59% tenant retention rate as of December 31, 2013. As of December 31, 2013, for the period January 1, 2014 through December 31, 2014, one of our top ten tenants based on December 31, 2013 annualized revenue had their only lease expire in 2014. The tenant signed a new lease for five years to retain 47% of the space effective at the existing lease expiration. The base rent will remain flat on a per square foot basis. Subsequent to December 31, 2013, the tenant executed the first amendment to the lease, which allows the tenant to holdover in the entire space through April 30, 2014.

Conditions in Our Markets

The properties in our portfolio are located in markets throughout the United States. Positive or negative changes in economic or other conditions, adverse weather conditions and natural disasters in these markets may affect our overall performance.

Rental Expenses

Our rental expenses generally consist of utilities, real estate taxes, management fees, insurance and site repair and maintenance costs. For the majority of our tenants, our rental expenses are controlled, in part, by the triple net provisions in tenant leases. In our triple net leases, the tenant is responsible for all aspects of and costs related to the property and its operation during the lease term, including utilities, taxes, insurance and maintenance costs. However, we also have modified gross leases and gross leases in our property portfolio. The terms of those leases vary and on some occasions we may absorb property related expenses of our tenants. In our modified gross leases, we are responsible for some property related expenses during the lease term, but the cost of most of the expenses is passed through to the tenant for reimbursement to us. In our gross leases, we are responsible for all aspects of and costs related to the property and its operation during the lease term. Our overall performance will be impacted by the extent to which we are able to pass-through rental expenses to our tenants.

Critical Accounting Policies

The preparation of financial statements in conformity with GAAP requires management to use judgment in the application of accounting policies, including making estimates and assumptions. We base our estimates on historical experience and on various other assumptions believed to be reasonable under the circumstances. These judgments affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. If our judgment or interpretation of the facts and circumstances relating to various transactions had been different, it is possible that different accounting policies would have been applied resulting in a different presentation of our financial statements. From time to time, we evaluate our estimates and assumptions. In the event estimates or assumptions prove to be different from actual results, adjustments are made in subsequent periods to reflect more current information. Below is a discussion of accounting policies that we consider critical in that they may require complex judgment in their application or require estimates about matters that are inherently uncertain.

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Real Estate and Deferred Lease Intangibles

Real estate investments are carried at cost less accumulated depreciation and amortization. The cost of real estate includes the purchase price of the property and leasehold improvements. Expenditures for maintenance and repairs are expensed as incurred. Significant renovations and betterments that extend the economic useful lives of assets are capitalized.

We evaluate the carrying value of all tangible and intangible real estate assets held for use for possible impairment when an event or change in circumstance has occurred that indicates their carrying value may not be recoverable. The evaluation includes estimating and reviewing anticipated future undiscounted cash flows to be derived from the asset and the ultimate sale of the asset. If such cash flows are less than the asset's carrying value, an impairment charge is recognized to the extent by which the asset's carrying value exceeds the estimated fair value. Estimating future cash flows is highly subjective and such estimates could differ from actual results.

For properties considered held for sale, we cease depreciating the properties and value the properties at the lower of depreciated cost or fair value, less costs to dispose. We classify properties as held for sale when all criteria within the FASB's Accounting Standard Codification ("ASC") 360, *Property, Plant and Equipment* are met.

We present qualifying assets and liabilities and the results of operations that have been sold, or otherwise qualify as "held for sale," as discontinued operations in all periods presented if the property operations are expected to be eliminated and we will not have significant continuing involvement following the sale. The components of the property's net income (loss) are reflected as discontinued operations include operating results, depreciation and interest expense (if the property is subject to a secured loan).

Expenditures for tenant improvements, leasehold improvements and leasing commissions are capitalized and amortized or depreciated over the shorter of their useful lives or the terms of each specific lease. Depreciation expense is computed using the straight-line method based on the following useful lives:

Buildings	40 years
Building and land improvements	5 - 20 years
Tenant improvements	Shorter of useful life or terms of related lease

We evaluate acquisitions to determine if the acquisition represents an asset acquisition or business combination, and we account for all business combinations in accordance with ASC 805, *Business Combinations*. Upon acquisition of a property, we allocate the purchase price of the property based upon the fair value of the assets and liabilities acquired, which generally consist of land, buildings, tenant improvements and intangible assets including in-place leases, above market and below market leases and tenant relationships, as well as the fair value of debt assumed. We allocate the purchase price to the fair value of the tangible assets of an acquired property by valuing the property as if it were vacant. Acquired above and below market leases are valued based on the present value of the difference between prevailing market rates and the in-place rates measured over a period equal to the remaining term of the lease for above market leases and the initial term plus the term of any below market fixed rate renewal options for below market leases that are considered bargain renewal options. The above market lease values are amortized as a reduction of rental income over the remaining term of the respective leases, and the below market lease values are amortized as an increase to rental income over the remaining initial terms plus the terms of any below market fixed rate renewal options that are considered bargain renewal options of the respective leases.

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The purchase price is further allocated to in-place lease values and tenant relationships based on our evaluation of the specific characteristics of each tenant's lease and our overall relationship with the respective tenant. The value of in-place lease intangibles and tenant relationships, which are included as components of deferred leasing intangibles, are amortized over the remaining lease term (and expected renewal periods of the respective lease for tenant relationships) as adjustments to depreciation and amortization expense. If a tenant terminates its lease, the unamortized portion of leasing commissions, above and below market leases, the in-place lease value and tenant relationships are immediately written off.

In determining the fair value of the debt assumed, we discount the spread between the future contractual interest payments and hypothetical future interest payments on mortgage debt based on a current market rate. The associated fair market value debt adjustment is amortized through interest expense over the life of the debt.

Using information available at the time of acquisition, we allocate the total consideration to tangible assets and liabilities and identified intangible assets and liabilities. We may adjust the preliminary purchase price allocations after obtaining more information about asset valuations and liabilities assumed.

Use of Derivative Financial Instruments

We record all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether we have elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. We may enter into derivative contracts that are intended to economically hedge certain of its risks, even though hedge accounting does not apply or we elect not to apply hedge accounting

In accordance with the FASB's fair value measurement guidance, we made an accounting policy election to measure the credit risk of our derivative financial instruments that are subject to master netting arrangements on a net basis by counterparty portfolio. Credit risk is the risk of failure of the counterparty to perform under the terms of the contract. We minimize the credit risk in an interest rate swap by entering into transactions with high-quality counterparties. Our exposure to credit risk at any point is generally limited to amounts recorded as assets or liabilities on the Consolidated Balance Sheets.

Fair Value of Financial Instruments

We adopted the fair value measurement provisions for its financial instruments recorded at fair value. The guidance establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

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Revenue Recognition

All current leases are classified as operating leases and rental revenue is recognized on a straight-line basis over the term of the lease when collectability is reasonably assured. Differences between rental revenue earned and amounts due under the lease are charged or credited, as applicable, to accrued rental revenue. Additional rents from expense reimbursements for insurance, real estate taxes and certain other expenses are recognized in the period in which the related expenses are incurred.

Early lease termination fees are recorded in rental income on a straight-line basis from the notification date of such termination to the then remaining (not the original) lease term, if any, or upon collection if collection is not reasonably assured.

We earn revenue from asset management fees, which are included in our Consolidated Statements of Operations in other income. We recognize revenue from asset management fees when the related fees are earned and are realized or realizable.

By the terms of their leases, certain tenants are obligated to pay directly the costs of their properties' insurance, real estate taxes and certain other expenses and these costs are not reflected in our Consolidated and Combined Financial Statements. To the extent any tenant responsible for these costs under its respective lease defaults on its lease or it is deemed probable that the tenant will fail to pay for such costs, we would record a liability for such obligation. We do not recognize recovery revenue related to leases where the tenant will pay expenses directly for real estate taxes, insurance, ground lease payments, and certain other expenses.

Results of Operations

The following discussion of our results of operations should be read in conjunction with the Consolidated and Combined Financial Statements and the accompanying footnotes. We consider our same store (as defined below) portfolio to consist of only those buildings owned and operated at the beginning and at the end of both of the applicable periods presented. Same store results are considered to be useful to investors in evaluating our performance because they provide information relating to changes in building-level operating performance without taking into account the effects of acquisitions or dispositions.

Comparison of the year ended December 31, 2013 to the year ended December 31, 2012

Our results of operations are affected by the acquisition and disposition activity during the 2013 and 2012 periods as described below. On January 1, 2012, we owned 105 buildings including 57 warehouse/distribution buildings, 28 light manufacturing buildings and 20 flex/office buildings. Subsequent to January 1, 2012, we sold five buildings for which the results of operations are included in income (loss) attributable to discontinued operations and are not considered part of our same store portfolio. Therefore, there are 100 buildings which are considered our same store portfolio in the analysis below. Same store occupancy decreased 0.7% to 93.0% as of December 31, 2013 compared to 93.7% as of December 31, 2012. The results of operations from acquisitions relates to the 109 buildings acquired after January 1, 2012 for an aggregate cost of approximately $767.2 million.

The following table summarizes selected operating information for our same store portfolio and our total portfolio for the years ended December 31, 2013 and December 31, 2012 (dollars in thousands). This table includes a reconciliation from our same store portfolio to our total portfolio by

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also providing information for the years ended December 31, 2013 and December 31, 2012 with respect to the buildings acquired after January 1, 2012.

	Same Store Portfolio Year ended December 31,				Acquisitions Year ended December 31,		Total Portfolio Year ended December 31,			
	2013	2012	Change	% Change	2013	2012	2013	2012	Change	% Change
Revenue										
Operating revenue										
Rental income	$ 57,664	$ 59,270	$ (1,606)	-2.7%	$ 58,680	$ 14,707	$ 116,344	$ 73,977	$ 42,367	57.3%
Tenant recoveries	9,354	7,419	1,935	26.1%	6,995	1,344	16,349	8,763	7,586	86.6%
Other income(1)	283	92	191	207.6%	24	24	307	116	191	164.7%
Total operating revenue	67,301	66,781	520	0.8%	65,699	16,075	133,000	82,856	50,144	60.5%
Expenses										
Operating expenses										
Property	7,250	5,333	&nbs							