Columbia Equity Trust, Inc.
Form S-11/A
June 28, 2005

**As filed with the Securities and Exchange Commission on June 28, 2005**

**Registration No. 333-122644**

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

**Amendment No. 6**
**to**

# Form S-11

**FOR REGISTRATION UNDER THE SECURITIES ACT OF 1933**
**OF CERTAIN REAL ESTATE COMPANIES**

# Columbia Equity Trust, Inc.

*(Exact name of registrant as specified in its governing instruments)*

**1750 H Street, N.W.**

**Suite 500**
**Washington, D.C. 20006**
**(202) 303-3080**
*(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)*

**Oliver T. Carr, III**
**Chairman, President and Chief Executive Officer**
**Columbia Equity Trust, Inc.**
**1750 H Street, N.W.**
**Suite 500**
**Washington, D.C. 20006**
**(202) 303-3080**
**(202) 303-3078 (Telecopy)**
*(Name, address, including zip code, and telephone number, including area code, of agent for service)*

***Copies to:***

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**Approximate date of commencement of proposed sale to the public:** As soon as practicable after the effective date of this Registration Statement.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

**The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such dates as the Commission, acting pursuant to said Section 8(a), may determine.**

**SUBJECT TO COMPLETION, DATED JUNE 28, 2005**

**PROSPECTUS**

# 10,666,666 Shares

# Common Stock

Columbia Equity Trust, Inc. is a recently formed, self-advised, self-managed Maryland corporation formed to succeed to the commercial office property business of Carr Capital Corporation. We intend to focus on the acquisition, development, renovation, repositioning, ownership, management and operation of commercial office properties in the Greater Washington, D.C. area. We intend to be taxed as a real estate investment trust, or REIT, for federal income tax purposes.

This is our initial public offering of our common stock. No public market currently exists for our common stock.

We are selling all of the shares of common stock offered by this prospectus. We currently expect the public offering price to be between $14 and $16 per share. We have applied to list our common stock on the New York Stock Exchange under the symbol COE.

**See Risk Factors beginning on page 17 of this prospectus for risk factors relevant to an investment in our common stock.**

| | Per Share | Total |
|---|---|---|
| Public offering price | $ | $ |
| Underwriting discount(1) | $ | $ |
| Proceeds to us, before expenses | $ | $ |

(1) Excludes a financial advisory fee of approximately $1,200,000 (approximately $1,380,000 if the underwriters over-allotment option is exercised in full) payable to Wachovia Capital Markets, LLC and Robert W. Baird & Co. Incorporated.

We have granted the underwriters an option to purchase up to an additional 1,600,000 shares of common stock from us at the public offering price within 30 days after the date of this prospectus solely to cover over-allotments, if any. At our request, the underwriters have reserved up to 8% of the shares of common stock being offered by this prospectus for sale to our directors, officers, employees, business associates and related persons through a directed share program at the public offering price. The underwriters are offering the shares of common stock covered by this prospectus as described in Underwriting.

The underwriters expect to deliver the shares of common stock on or about , 2005.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

**Wachovia Securities** **Robert W. Baird & Co.**

**A.G. Edwards** **Legg Mason Wood Walker** Incorporated **Raymond James**

**Ferris, Baker Watts** Incorporated **Wells Fargo Securities**

**The date of this prospectus is , 2005.**

**No dealer, salesperson or other individual has been authorized to give any information or make any representations not contained in this prospectus in connection with the offering made by this prospectus. If given or made, such information or representations must not be relied upon as having been authorized by us or any of the underwriters. This prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, any of our securities in any jurisdiction in which such an offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation. Neither the delivery of this prospectus nor any sale made hereunder shall, under any circumstances, create an implication that there has not been any change in the facts set forth in this prospectus or in the affairs of our company since the date hereof.**

# TABLE OF CONTENTS



**Until , 2005, 25 days after the date of this prospectus, all dealers that buy, sell or trade shares of our common stock, whether or not participating in this offering, may be required to deliver a prospectus. This requirement is in addition to the dealers obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.**

## PROSPECTUS SUMMARY

*This is only a summary and does not contain all of the information that you should consider before investing in shares of our common stock. You should read the entire prospectus, including Risk Factors and our financial statements, and pro forma financial information, and related notes appearing elsewhere in this prospectus, before deciding to invest in shares of our common stock. In this prospectus, unless the context suggests otherwise, references to our company, we, us, and our mean Columbia Equity Trust, Inc. and its subsidiaries, including its operating partnership, Columbia Equity, LP. The historical operations described in this prospectus refer to the historical operations of our predecessor entities. We have described our operations in this prospectus as if the historical operations of our predecessor entities were conducted by us. Unless indicated otherwise, the information included in this prospectus assumes (1) no exercise by the underwriters of the over-allotment option to purchase up to an additional 1,600,000 shares of common stock, (2) that the shares of common stock to be sold in this offering are sold at $15 per share, which is the midpoint of the range indicated on the front cover of this prospectus, (3) that the initial value of a unit of partnership interest in our operating partnership, or operating partnership unit, is equal to the public offering price per share of common stock indicated on the front cover of this prospectus and (4) that a stock split in the form of a stock dividend on the 1,000 shares of our common stock currently issued and outstanding will occur prior to completion of this offering resulting in 63,334 shares of common stock outstanding immediately prior to completion of the offering. Each operating partnership unit is redeemable at the election of the holder beginning one year after completion of the offering for cash, or, at our option, our common stock on a one-for-one basis.*

### Overview

We are a self-advised, self-managed Maryland corporation formed in September 2004 to succeed to the commercial office property business of Carr Capital Corporation, or Carr Capital. Carr Capital is a recognized owner and operator of commercial office properties in the Greater Washington, D.C. area. Carr Capital was founded in 1994 by our chairman, president and chief executive officer, Oliver T. Carr, III, and our senior vice president and director of acquisitions, Clinton D. Fisch. Building on the reputation and extensive relationships created by the Carr family over four generations in the Washington, D.C. real estate market, Carr Capital and its investment partners have acquired 14 commercial office properties having an aggregate investment value of approximately $440 million and containing over 2.0 million square feet in Greater Washington, D.C. s central business district and suburban office sub-markets. Our senior management team has an average of over 18 years of individual experience in real estate and capital markets, including substantial experience investing in, acquiring, financing, repositioning, managing and leasing office properties and raising equity and debt capital. Upon completion of this offering and our formation transactions, our senior management team and directors together will own approximately 4.7% of the fully diluted equity interests in our company.

We intend to build on the success and experience of Carr Capital to become a preeminent owner and operator of small-to-medium size commercial office properties in the Greater Washington, D.C. area. Our primary business will be acquiring, renovating, repositioning, developing, owning, managing and operating commercial office properties that typically have an initial cost between $10 and $60 million, contain between 75,000 and 250,000 net rentable square feet and are well-located in sub-markets that we anticipate will benefit from the positive growth trends in the Greater Washington, D.C. economy. We believe that these properties offer long-term value creation potential and often present opportunities for near-term upside through re-tenanting, re-leasing or re-development. We rely on our management team s extensive market knowledge and long-standing business and personal relationships in the Greater Washington, D.C. office market to identify commercial office properties for acquisition. We will aggressively manage each property in accordance with a strategic plan developed during our pre-acquisition due diligence. Additionally, we intend to enter into strategic joint ventures to enhance our returns and manage the risks associated with the ownership of certain properties that may exceed our targeted investment size or that have significant vacancies at the time of acquisition.

Upon the completion of this offering and our other formation transactions, we will own or have interests in an initial portfolio of 13 commercial office properties located in the Greater Washington, D.C. area, which we refer to as the initial properties. In the aggregate, we will pay approximately $121.8 million in cash (including debt repayment), issue operating partnership units having a value of approximately $15.8 million and assume approximately $96.8 million of indebtedness, including our pro rata share of joint venture indebtedness, in connection with the acquisition of our interests in the initial properties and the other assets we will acquire in our formation transactions. The initial properties contain approximately 2.1 million net rentable square feet. Carr Capital, through its subsidiaries, currently holds an ownership interest in 11 of the initial properties and has under contract the right to purchase ownership interests in two additional office properties, including one in which our investment will take the form of a 40% equity investment in a private REIT that will own the property. These interests comprise all of Carr Capital s office property assets. At March 31, 2005, the occupancy rate for the initial properties was approximately 92%, excluding one property that Carr Capital and its joint venture partners acquired vacant in March 2005 and are in the initial stages of leasing. We will also provide third-party asset management services for three office buildings containing approximately 690,000 net rentable square feet and two hotel properties containing approximately 610 rooms.

We have also identified 17 properties that are under consideration for investment representing an aggregate investment in excess of $730 million. After further analysis and due diligence review, we may elect not to pursue, or we may not be able to complete, any or all of these transactions.

## Our Primary Market

The Greater Washington, D.C. office market is the third largest market in the United States, with approximately 370 million square feet of commercial office space in over 5,600 individual office properties in the following regions:

- the District of Columbia;
- Northern Virginia, including but not limited to Arlington, Fairfax, Loudoun, Prince William and Stafford counties, and all the cities included within these counties; and
- Suburban Maryland, including but not limited to Montgomery, Prince George s, Calvert, Charles and Frederick counties.

The area has approximately 5 million residents and 2.8 million jobs and generated a 2004 gross regional product of approximately $300 billion.

For the period January 1, 2000 to December 31, 2004, the Greater Washington, D.C. commercial office market exceeded by approximately 97.1% the average cumulative return of its peer markets, which is based on investment income and appreciation, as determined by the National Council of Real Estate Investment Fiduciaries. Over a longer timeframe, from January 1, 1985 through December 31, 2004, the Greater Washington, D.C. commercial office market exceeded the average cumulative return of its peer markets by approximately 79.9%. We define our peer markets as the top ten office markets in the United States, excluding Washington, D.C.

## Our Strategy

Our goal is to generate attractive risk-adjusted investment returns for our stockholders through:

- ***Investing in Small-to-Medium Size Office Buildings.*** We will invest principally in small-to-medium size office properties with an initial cost between $10 and $60 million as we believe these properties present opportunities for attractive risk adjusted returns due to the lack of institutional focus on this segment of the office market.
- ***Selective and Strategic Geographic Focus.*** We will focus on the Greater Washington, D.C. commercial office property market to take advantage of the strong economic and demographic

character of that market, leverage our local market expertise and relationships and create economies of scale through the clustering of properties.

***Intensive and Efficient Asset Management.*** We will intensively manage each of our properties through active property leasing and targeted capital improvements, which may include re-positioning or redeveloping certain properties, while maintaining efficiency through the outsourcing of non-strategic property functions.

***Strategic Joint Ventures.*** We will selectively enter into joint ventures where appropriate to leverage our equity returns through fees and disproportionate cash flow distributions, as well as manage the risks associated with certain properties that may be inappropriate to wholly own due to size or vacancy levels. Carr Capital has established joint ventures with institutional investors such as JP Morgan Investment Management, Inc., Aetna Life Insurance Company, Invesco Realty Advisors, Clark Enterprises, Inc. and The Carlyle Group.

***Recycling Capital.*** We intend to continue Carr Capital s successful strategy of opportunistic dispositions or recapitalizations, while actively reviewing our existing properties to assess future potential growth against current market value.

**Competitive Strengths**

We believe we enjoy significant competitive strengths, including:

***Our Local Market Knowledge and Relationships.*** Our management team is intimately familiar with market conditions and investment opportunities in both the central business district and suburban property sub-markets in the Greater Washington, D.C. area and has extensive and long-standing business and personal relationships with property owners, developers, tenants, property managers and brokers established through many years of transactional experience in these sub-markets, which facilitate our access to acquisitions outside the normal auction process.

***Our Quality Portfolio.*** We believe the locations and quality of our properties, our stable and diverse tenant roster of professional service firms, government contractors and U.S. government agencies and the on-going growth of the Greater Washington, D.C. economy will drive continued capital appreciation.

***Our Experience as Value Added Investors.*** Our senior management team has a track record of creating value through acquisition, management, re-leasing and repositioning office properties as evidenced in part by the average internal rate of return of approximately 32% realized from the sale of three previously owned properties.

***Our Focused Strategy.*** We believe that being a locally-based public REIT focused primarily on the ownership, operation, acquisition and development of small-to-medium size commercial office properties in the Greater Washington, D.C. area, one of the largest, most fragmented office markets in the country, we will have numerous high-quality opportunities for investment.

***Our Growth-Oriented Capital Structure.*** Although our organizational documents do not restrict the amount of debt we may incur, we intend to limit our debt, including our pro rata share of joint venture debt, to 55% to 60% of our total market capitalization. Upon completion of this offering and the formation transactions, our initial debt to total market capitalization will be approximately 35% and the improved access to capital we will have as a public company will provide significant capacity for future acquisitions.

***Our Joint Venture Strategy.*** Although we have no current commitments, we believe that our demonstrated access to institutional investors such as JPMorgan Investment Management, Inc., Aetna Life Insurance Company, Invesco Realty Advisors, Clark Enterprises, Inc. and The Carlyle Group, will enhance our ability to compete against less well-capitalized investors.

**Summary Risk Factors**

You should carefully consider the matters discussed in the Risk Factors section beginning on page 17 prior to deciding whether to invest in shares of our common stock. Some of these risks include:

- all of our initial properties are located in the Greater Washington D.C. area, making us vulnerable to changes in economic conditions in that region, including the adverse impact of decreased government spending;
- we have not obtained recent appraisals of the properties and other assets to be contributed to our operating partnership in the formation transactions and the consideration given by us in exchange for these assets was not negotiated at arm s length and may exceed their fair market value or the value that would be determined by third-party appraisals;
- we expect to experience significant growth in the future and may not be able to adapt our management and operational systems to properly integrate the additional properties without unanticipated significant disruption or expense;
- we may be unable to renew expiring leases, lease vacant space or re-lease space on a timely basis or on comparable or better terms, which could significantly decrease our cash flow;
- we may be impacted by our tenants failure to make lease payments, which could cause a significant decrease in our revenues;
- properties owned in joint ventures could be adversely affected by our lack of sole decision-making authority, our reliance on our co-venturer s financial condition and disputes between us and our co-venturers;
- if we are unable to complete the acquisitions of the Loudoun Gateway IV and Barlow Building properties that we have under contract in a timely fashion or at all, we will have no designated use for a portion of the net proceeds of this offering and may experience delays in locating and securing attractive alternative investments which would result in a reduction of the amount of cash available for distribution to our stockholders;
- if the private REIT which owns the Barlow Building fails to qualify as a REIT, we may fail to qualify as a REIT;
- the private REIT that will own the Barlow Building could incur substantial corporate tax on built-in gain in connection with a sale of the Barlow Building before December 31, 2010;
- we could recognize a substantial amount of taxable income in connection with a sale of the Barlow Building, rather than a sale of stock in the private REIT that will own the Barlow Building;
- we may invest in properties in other real estate markets outside the Greater Washington, D.C. area where we have no experience;
- our revenue and cash available for distribution to stockholders could be materially adversely affected if any of our significant tenants were to become bankrupt or insolvent, or suffer a downturn in their business;
- our management has no prior experience operating a REIT or a public company, which could have an adverse effect on our operations;
- we may experience conflicts of interest with our chairman, president and chief executive officer and several of our executive officers relating to their ownership of operating partnership units;
- we depend on key personnel with long-standing business relationships, the loss of whom could threaten our ability to operate our business successfully;
- our performance and stockholder value are subject to risks associated with real estate assets and with the real estate industry; and

if we fail to qualify or remain qualified as a REIT for federal income tax purposes, we will not be able to deduct our dividends, and our income will be subject to taxation.

**Our Initial Properties**

Upon completion of this offering and our other formation transactions, we will own or have interests in a portfolio of 13 commercial office properties located in the Greater Washington, D.C. area containing an aggregate of approximately 2.1 million net rentable square feet. We refer to these properties as our initial properties. The following table provides summary information regarding our initial properties as of March 31, 2005:

| Property | Location/ Sub-Market | Percentage Ownership After Formation Transactions | Year Built/ Renovated(1) | Year Acquired By Predecessor | Net Rentable Square Feet | Occupancy(2) | Annualized Base Rent(3) | Primary Tenants(4) |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | (in thousands) | |
| ***Wholly Owned:*** | | | | | | | | |
| Fair Oaks | Northern Virginia/Fairfax Center | 100% | 1985 | 2001 | 126,949 | 90% | $ 2,664 | J Spargo & Associates<br>SCA Direct |
| Greenbriar | Northern Virginia/ Fairfax Center | 100 | 1985/1998 | 2001 | 111,721 | 59 | 1,368 | Long & Foster<br>Shapiro & Burson |
| Meadows IV | Northern Virginia/Westfields | 100 | 1988/1997 | 2004 | 148,160 | 100 | 3,031 | CACI International<br>Online Resources |
| Sherwood Plaza | Northern Virginia/Fairfax Center | 100 | 1984 | 2000 | 92,960 | 91 | 1,894 | Chadwick Washington<br>Leros Technologies |
| Loudoun Gateway IV | Northern Virginia/ Dulles | 100 | 2002 | N/A(5) | 102,987 | 100 | 1,532(6) | America Online |
| ***Joint Venture:*** | | | | | | | | |
| King Street(7) | Northern Virginia/ Alexandria | 50 | 1984/2004 | 1999 | 149,080 | 89 | 3,696 | Preferred Office Club<br>Sciences International |
| Madison Place(7) | Northern Virginia/Alexandria | 50 | 1989 | 2003 | 107,960 | 72 | 2,083 | Personal Communications<br>Assoc. of Clinical Research |
| Atrium(8) | Northern Virginia/ Alexandria | 37 | 1978/1999 | 2004 | 138,507 | 100 | 3,906 | Oliff & Berridge<br>Communities in Schools<br>Natl Assoc of Temp & Staffing |
| Independence Center(9) | Northern Virginia/ Westfields | 15 | 1999 | 2002 | 275,002 | 90 | 5,433 | Northrop Grumman<br>Titan Corp |
| 1575 Eye Street(10) | Washington, D.C./ Central Business District | 9 | 1979 | 2002 | 210,372 | 99 | 7,637 | Federal Aviation Administration<br>Veterans Administration |
| Victory Point(9) | Northern Virginia/ Westfields | 10 | 1989 | 2005 | 147,743 | 0 | 0 | N/A |
| Suffolk Building(11) | Northern Virginia/ Skyline | 37 | 1964/2003 | 2005 | 257,425 | 100 | 6,245 | General Services Administration<br>TKC Communications |
| Barlow Building(12) | Suburban Maryland/ Chevy Chase | 40 | 1966/1988 and 2001 | N/A(9) | 270,480 | 97 | 8,162 | Abacus Technology<br>Cellular One |
| Total/ Weighted Average | | | | | 2,139,346 | 92%(13) | $47,651 | |

(1) Includes the year in which construction was completed and, where applicable, the year of most recent major renovation.

(2) Calculated as a weighted average based on net rentable square feet.

(3) Calculated as actual March 2005 base rent multiplied by 12. Because annualized base rental revenue is not derived from historical results that were accounted for in accordance with generally accepted accounting principles, historical results differ from the annualized amounts.

(4) Represents major tenants in each property based on annualized base rent.

(5) We expect to acquire a 100% interest in this property from an unaffiliated third party in the formation transactions.

(6) Base rent for Loudoun Gateway IV is net of operating expenses.

(7) Aetna Life Insurance Company owns the remaining joint venture interests in this property.

(8) Aetna Life Insurance Company, Clark/Carr Investments, LLC and Holualoa $K^3$ Atrium VA, LLC own the remaining joint venture interests in this property.

(9) An affiliate of JPMorgan Investment Management, Inc. will own the remaining joint venture interests in this property.

(10) Aetna Life Insurance Company, American Society of Association Executives and other third party investors, including approximately 12 individuals, own the remaining joint venture interests in the property.

(11) An affiliate of JPMorgan Investment Management, Inc. and Clark/Carr Investments, LLC will own the remaining joint venture interests in this property.

(12) In the formation transactions, we will acquire a 40% interest in a joint venture that will own a more than 99% interest in a private REIT that will own this property.

(13) Excludes the occupancy of the Victory Point property that Carr Capital and its joint venture partners acquired vacant and are in the initial stages of leasing. The weighted average occupancy including the Victory Point property was approximately 86%.

**Our Investment Criteria**

We follow a disciplined approach to evaluating investment opportunities, targeting office assets that meet the following investment criteria:

$10 to $60 million in initial cost;

75,000 to 250,000 net rentable square feet;

well-located within sub-market;

purchase price typically equal to or below replacement cost; and

high-quality design and construction.

Our investment strategy focuses on office properties that generally fall into one of the following two categories:

***Value-Added.*** We generally define value-added office properties to be properties which have: (1) a moderate-to-high risk profile due to current vacancy levels or a relatively high level of near-term lease expirations, (2) a lower percentage of investment returns received from current income and (3) greater potential for near-to-intermediate-term capital appreciation as compared to a core property, described below. The additional risk associated with value-added investments generally results from identifiable issues such as market inefficiencies or historically substandard management.

***Core.*** We generally define core office properties to be properties which have: (1) a lower risk profile due to limited near-term leasing risk, (2) a higher percentage of investment return received from current income and (3) the potential for long-term capital appreciation.

**Formation Transactions**

In connection with this offering, we will complete the transactions described below to acquire all of the interests in our initial properties held by Carr Capital and its affiliates and to acquire interests in other properties and assets as described below. We refer to these transactions as our formation transactions. We, Carr Capital and its affiliates have structured the formation transactions for the purpose of aggregating interests in our initial properties in a tax efficient manner into a single public REIT with improved access to capital and increased flexibility to execute Carr Capital s growth strategy. These transactions are described in more detail in Formation Transactions. Upon completion of the offering, we will complete the following formation transactions:

we will sell 10,666,666 shares of common stock in this offering;

we will contribute the net proceeds of this offering to Columbia Equity, LP, our operating partnership. In return for our contribution, we will receive 10,666,666 units of partnership interest in our operating partnership, or operating partnership units, and will own an approximate 88.8% interest in our operating partnership;

our operating partnership will acquire a 100% ownership interest in the Greenbriar, Sherwood Plaza, Fair Oaks, Meadows IV and Loudoun Gateway IV properties for an aggregate of approximately $39.5 million in cash payable to unaffiliated third parties, operating partnership units having a value of approximately $57,000 issuable to an unaffiliated third party, and operating partnership units having a value of approximately $2.1 million issuable to affiliates of Carr Capital;

in connection with our acquisition of the five properties described above, we will repay approximately $40.8 million of outstanding debt, interest and prepayment penalties on these properties and assume $19.0 million of first mortgage indebtedness on the Meadows IV property;

our operating partnership will acquire a 50% ownership interest in the King Street property for an aggregate of approximately $5.4 million in cash payable to unaffiliated third parties, operating partnership units having a value of approximately $2.9 million issuable to affiliates of Carr Capital in exchange for their 17.6% interest in this property and operating partnership units having a value of approximately $82,000 issuable to unaffiliated third parties. The property will continue to be subject to approximately $22.0 million of first mortgage indebtedness;

our operating partnership will acquire a 50% ownership interest in the Madison Place property for an aggregate of approximately $5.8 million in cash payable to unaffiliated third parties, and operating partnership units having a value of approximately $674,000 issuable to an affiliate of Carr Capital in exchange for its 5.27% interest in this property. The property will continue to be subject to approximately $15.5 million of first mortgage indebtedness;

our operating partnership will acquire a 37% ownership interest in the Atrium property for an aggregate of approximately $4.7 million in cash payable to unaffiliated third parties, and operating partnership units having a value of approximately $412,000 issuable to affiliates of Carr Capital. The property will continue to be subject to approximately $24.3 million of mortgage indebtedness;

our operating partnership will acquire a 14.7% ownership interest in the Independence Center property for an aggregate of approximately $1.9 million in cash payable to unaffiliated third parties and operating partnership units having a value of approximately $2.8 million issuable to affiliates of Carr Capital in exchange for their 8.7% interest in this property. The property will continue to be subject to approximately $31.5 million of first mortgage indebtedness;

our operating partnership will acquire a 9.2% ownership interest in the 1575 Eye Street property for operating partnership units having a value of approximately $2.6 million issuable to affiliates of Carr Capital. The property will continue to be subject to approximately $42.2 million of first mortgage indebtedness;

our operating partnership will acquire a 10% ownership interest in the Victory Point property for an aggregate of approximately $834,000 in cash payable to unaffiliated third parties and operating partnership units having a value of approximately $100,000 issuable to an affiliate of Carr Capital in exchange for its 1% interest in this property. The property will continue to be subject to approximately $14.8 million of first mortgage indebtedness;

our operating partnership will acquire a 36.5% interest in the Suffolk Building property for an aggregate of approximately $9.6 million in cash payable to unaffiliated third parties and operating partnership units having a value of $417,000 issuable to affiliates of Carr Capital in exchange for their 1.5% interest in this property. The property will continue to be subject to approximately $42.0 million of first mortgage indebtedness;

our operating partnership will contribute approximately $13.3 million in cash for a 40% interest in a limited liability company that will acquire the Barlow Building property. The limited liability company will acquire more than 99% of the capital stock of the corporation that owns the Barlow Building from unaffiliated third parties in a cash merger transaction. The property will be subject to approximately $61.8 million of first mortgage indebtedness;

our operating partnership will acquire from Carr Capital agreements pursuant to which Carr Capital provides certain asset management services for our initial properties as well as five third-party asset management agreements and certain other tangible and intangible assets for operating partnership units and shares of our common stock having a value of $3.7 million;

our operating partnership will acquire from Carr Capital furniture, fixtures and equipment for $25,000 in cash; and

all of the employees of Carr Capital will become employees of our company.

Our agreements to acquire equity interests in the entities that own the Fair Oaks, Meadows IV, Suffolk Building, Victory Point and Atrium properties provide that the value of the interests will be based on a negotiated rate of return on the owners investment during the period of their investment. The rate of return is based on the amount of the aggregate investment, cash distributions to equity investors during the holding period and the net proceeds from the sale of the property distributable to equity investors. The values described above are based, in part, on the negotiated rate of return as of March 31, 2005. As a result, the amount of cash we will pay and the number of operating partnership units and shares of common stock we will issue to acquire these interests may be higher or lower than shown above. In addition, our agreements to acquire equity interests in the entities that own the King Street, Madison Place, Atrium, Independence Center, 1575 Eye Street and Suffolk Building properties provide that the value of the interests will be based on a fixed value plus the net working capital held by the entity that owns the property at the time of completion of the formation transactions. The values described above for these interests are based on the net working capital held by these entities as of March 31, 2005. As a result, the amount of cash we will pay and the number of units we will issue in our acquisition of these interests may be higher or lower than shown above. We do not anticipate that the adjustments described above will be material.

Holders of operating partnership units will have the right, beginning one year after completion of the offering, to tender such units to our operating partnership for redemption. At our option, we may redeem such units for shares of our common stock on a one-for-one basis, subject to adjustments for stock splits, dividends, recapitalizations and similar events, or for an equivalent amount of cash. Limited partners will receive distributions per operating partnership unit equivalent to the per share distributions we make to holders of shares of our common stock, but holders of operating partnership units will have no voting rights, except in certain limited circumstances. See Partnership Agreement. Throughout the prospectus, in any discussion of our acquisition of interests in our initial properties, the number of operating partnership units and shares of common stock issuable in the formation transactions is based on the expected public offering price for our common stock of $15, the midpoint of the price range on the front cover of this prospectus. If the actual public offering price is greater or less than $15, the number of operating partnership units included in the consideration paid for the initial properties will be decreased or increased accordingly.

The amount of consideration to be paid by us to Carr Capital and its affiliates (Carr Holdings, LLC, Carr Capital Real Estate Investments, LLC and The Oliver Carr Company) in the formation transactions was derived from our management team s estimates of the fair market value of the interests being acquired based on comparable transactions in the market, as well as negotiations with third party owners of interests in the initial properties. Oliver T. Carr, III and Clinton D. Fisch, each of whom is an executive officer of our company, will beneficially own 263,741 and 118,934 operating partnership units, respectively, upon completion of this offering and the formation transactions. These officers, who are also officers and owners of Carr Capital and own interests in certain of the initial properties, negotiated the consideration to be paid for each of our initial properties with unaffiliated third parties and Carr Capital and its affiliates. As a result, these parties had a conflict of interest in negotiating the consideration to be paid and the other terms of the contributions and acquisitions. We have not obtained any recent third-party appraisals of the initial properties, or any other independent third-party valuations or fairness opinions in connection with the formation transactions. As a result, the consideration to be paid by us for these properties in the formation transactions may exceed their fair market value. See Formation Transactions and Certain Relationships and Related Party Transactions.

**Our Structure**

Upon completion of the formation transactions, all of our interests in our initial properties will be held by, and our operations will be conducted by, our operating partnership, Columbia Equity, LP, and its subsidiaries. We will be the sole general partner of our operating partnership. As the sole general partner of our operating partnership, we have the exclusive power to manage and conduct our operating partnership s business, subject to the limitations described in the Amended and Restated Agreement of Limited Partnership of our operating partnership, which is filed as an exhibit to the registration statement of which this prospectus is a part. We will contribute the net proceeds of this offering to the operating partnership in exchange for operating partnership units and will own an approximate 88.8% interest in our operating partnership upon completion of the formation transactions. The remaining interests in our operating partnership will be owned by limited partners, including affiliates of Carr Capital and certain members of our senior management team, who contributed interests in the initial properties and other assets to our operating partnership in exchange for operating partnership units as well as each of our directors, executive officers and certain of our employees and consultants who will receive LTIP units concurrent with completion of this offering.

We have formed Columbia TRS Corporation, or Columbia TRS, as our taxable REIT subsidiary. We intend to conduct asset management, development and other activities through Columbia TRS to the extent necessary to maintain our REIT status. The income of our taxable REIT subsidiaries will be subject to taxation at normal corporate rates.

The following chart illustrates the structure of our company following completion of the offering and our other formation transactions:

**Our Principal Office**

Our principal executive offices are located at 1750 H Street, N.W., Suite 500, Washington, D.C. 20006. Our telephone number is (202) 303-3080. Our internet address is www.columbiareit.com. Our internet website and the information contained therein or connected thereto does not constitute a part of this prospectus.

**Conflicts of Interest**

Conflicts of interest exist between our chairman and certain members of our senior management team, on the one hand, and us and our stockholders, on the other, which could result in decisions not in your best interest.

Mr. Carr, our chairman, our president and chief executive officer, and Mr. Fisch, our senior vice president and director of acquisitions, beneficially own equity interests in our initial properties and other assets that will be contributed in our formation transactions. In the formation transactions, Messrs. Carr and Fisch and affiliated entities, including Carr Capital, will receive operating partnership units in exchange for these interests in the initial properties and other assets. Mr. Carr beneficially will own 263,741 operating partnership units and Mr. Fisch beneficially will own 118,934 operating partnership units representing approximately 2.2% and 1.0%, respectively, of the fully-diluted interests in our company upon completion of this offering and the formation transactions. Carr Capital will also receive additional operating partnership units to the extent that Carr Capital acquires additional properties prior to completion of this offering that it contributes to our operating partnership. By contributing ownership interests in the entities owning the initial properties to our operating partnership in exchange for operating partnership units, Messrs. Carr and Fisch and affiliated entities will have the ability to defer any taxable gain that they might otherwise recognize upon the transfer of these properties. Certain future transactions that we might undertake with regard to these properties, including a disposition or refinancing, could cause Messrs. Carr and Fisch to recognize part or all of any taxable gain that was deferred. Messrs. Carr and Fisch may have a conflict of interest in any decision with respect to a proposed disposition or refinancing of these properties that might be in our stockholders best interests because of the tax liability that could be recognized by Messrs. Carr and Fisch. However, we have no contractual restrictions or limitations with Messrs. Carr and Fisch or any other limited partner of our operating partnership that would inhibit our ability to dispose of or refinance any of our initial properties.

As part of their employment agreements, Messrs. Carr and Fisch will agree not to compete with us by working with or investing in any business or enterprise which acquires, generates or develops office properties in the Greater Washington, D.C. area. See Management Employment Agreements.

Upon completion of the formation transactions, we will be a party to an agreement with The Oliver Carr Company for office space and certain administrative services. We will also be a party to asset management agreements for three office buildings and two hotel properties in which The Oliver Carr Company owns an interest. The Oliver Carr Company is controlled by Oliver T. Carr, Jr., the father of Oliver T. Carr, III. PBC King, LLC, which is controlled by Oliver T. Carr, Jr., and is referred to herein as Preferred Office Club, is a tenant of the King Street property. Oliver T. Carr, III may have a conflict of interest when determining whether to extend, terminate, amend or enforce these agreements.

Our directors and executive officers may have conflicting duties because, in their capacities as our directors and executive officers, they have a duty to us, while at the same time, in our capacity as general partner of our operating partnership, they have a fiduciary duty to the limited partners. Conflicts may arise when our interests and the interests of the limited partners of our operating partnership diverge, particularly in circumstances in which there may be an adverse tax consequence to the limited partners, such as upon the sale of a property or the repayment of indebtedness. The Amended and Restated Agreement of Limited Partnership of our operating partnership provides that in the event of a conflict of interest between our stockholders and the limited partners of our operating partnership, we shall endeavor in good faith to resolve the conflict in a manner not adverse to either us or the limited partners of our operating partnership, and, if we, in our sole discretion as general partner of the operating partnership, determine that a conflict cannot be resolved in a manner not adverse to either us or the limited partners of our operating partnership, the conflict will be resolved in favor of us. In addition, our board of directors will adopt a policy that any decision regarding disposition, acquisition or refinancing of a property in which a director has an interest, will be made by a majority of the disinterested directors.

**Distribution Policy**

To qualify as a REIT, we intend to make regular quarterly distributions to our stockholders of at least 90% of our REIT taxable income determined without regard to the dividends paid deduction and excluding any net capital gains. We intend to commence making quarterly distributions to stockholders after the quarter ending June 30, 2005, or sooner if required to qualify for REIT tax status under the Internal Revenue Code. Distributions will be authorized by our board of directors based upon a number of factors, including:

- the amount of our funds from operations;
- our overall financial condition;
- our debt service requirements;
- our capital expenditure requirements;
- our taxable income;
- the annual distribution requirements under the REIT provisions of the Internal Revenue Code; and
- other factors our directors deem relevant.

Distributions to our stockholders generally will be taxable to our stockholders as ordinary income. Because a significant portion of our investments will be equity ownership interests in commercial office properties, which will result in depreciation and non-cash charges against our taxable income, our distributions in excess of our current and accumulated earnings may constitute a tax-free return of capital rather than taxable dividends.

Our ability to make distributions to our stockholders will depend on our receipt of distributions from our operating partnership, which in turn depend upon the receipt of lease payments from our tenants, our operating expenses and our debt service and capital expenditure requirements, among other factors. Our cash available for distribution may be less than the amount required to meet the distribution requirements for REITs under the Internal Revenue Code, and we may be required to borrow money or sell assets to pay out enough money to satisfy the distribution requirements.

**Our Tax Status**

We will elect to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code, commencing with our short taxable year beginning on the business day prior to the closing of this offering and ending on December 31, 2005. We believe that our organization and proposed method of operation will enable us to meet the requirements for qualification and taxation as a REIT for federal income tax purposes. To qualify for and maintain REIT status, we must meet a number of organizational and operational requirements, including a requirement that we annually distribute to our stockholders at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction and excluding any net capital gains. As a REIT, we generally will not be subject to federal income tax on REIT taxable income we currently distribute to our stockholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates. Even if we qualify for taxation as a REIT, we may be subject to some federal, state and local taxes on our income or property and the income of our taxable REIT subsidiary, Columbia TRS, will be subject to taxation at normal corporate rates. See Federal Income Tax Considerations.

In connection with this offering, Hunton & Williams LLP is rendering an opinion, which will be filed as an exhibit to the registration statement of which this prospectus is a part, that, commencing with our short taxable year beginning on the business day prior to the closing of this offering and ending on December 31, 2005, assuming that we complete the elections and other procedural steps described herein under Federal Income Tax Considerations in a timely fashion, we will be organized in conformity with the requirements for qualification and taxation as a REIT under the federal income tax laws, and our proposed method of operation will enable us to meet the requirements for qualification and taxation as a REIT under the federal income tax laws for our short taxable year ending December 31, 2005 and for future years. This opinion, however, is based upon factual assumptions and representations made by us. Moreover, such qualification and taxation as a REIT depend upon our ability to meet, for each taxable year, various tests imposed under the Internal Revenue Code as discussed below. Those qualification tests involve the percentage of income that we earn from specified sources, the percentage of our assets that falls within specified categories, the diversity of our share ownership, and the percentage of our earnings that we distribute. Hunton & Williams LLP will not review our compliance with those tests on a continuing basis. Accordingly, with respect to our current and future taxable years, no assurance can be given that the actual results of our operation will satisfy such requirements. For a discussion of the tax consequences of our failure to qualify as a REIT. See Federal Income Tax Considerations Failure to Qualify.

**The Offering**

| | |
|---|---|
| Shares of common stock offered by us | 10,666,666(1) |
| Shares of common stock and operating partnership units to be outstanding after this offering | 10,730,000 shares(1)(2) and 1,344,149 units(3) |
| Use of proceeds | We estimate that the net proceeds from this offering will be approximately $144.9 million after deducting the underwriting discount, financial advisory fees and estimated offering fees and expenses payable by us, estimated to be approximately $3.9 million, including reimbursement to Carr Capital for organization and offering expenses incurred on our behalf. If the underwriters exercise in full their option to purchase up to an additional 1,600,000 shares of our common stock to cover over-allotments, if any, our net proceeds will be approximately $167.2 million. We will contribute the net proceeds from this offering to our operating partnership in exchange for operating partnership units. Our operating partnership expects to use the net proceeds as follows:<br><br>approximately $81.0 million to purchase ownership interests in the initial properties;<br><br>approximately $40.8 million to repay outstanding indebtedness, interest and prepayment penalties on the initial properties;<br><br>up to $1.0 million for an equity contribution to a joint venture that we expect to develop a new commercial office building adjacent to one of our initial properties; and<br><br>the balance for general corporate and working capital purposes, including future investments in office properties.<br><br>Pending these uses, we intend to invest the net offering proceeds in interest-bearing, short-term, marketable investment grade securities or money market accounts that are consistent with our intention to qualify as a REIT. |
| Proposed New York Stock Exchange symbol | COE |

(1) Excludes up to 1,600,000 shares of common stock that may be issued by us upon exercise of the underwriters over-allotment option. Includes approximately 853,333 shares of common stock to be sold in this offering and reserved for sale to our directors, officers, employees, business associates and related persons through a directed share program at the offering price.

(2) Includes 63,334 shares of our common stock outstanding prior to the offering. If the underwriters over-allotment option is exercised in full, 12,330,000 shares of common stock will be outstanding upon completion of this offering.

(3) Includes 1,054,149 operating partnership units that will be issued in connection with our formation transactions and 290,000 LTIP units that will be issued to our directors and executive officers and certain of our employees and consultants upon completion of this offering.

**Summary Financial and Other Data**

The following table sets forth summary financial and other data on an historical basis for our predecessor entity, which we refer to as Columbia Equity Trust Predecessor, and on a pro forma basis for Columbia Equity Trust, Inc. We have not presented historical financial information for Columbia Equity Trust, Inc. in this table because we have not had any activity since our formation on September 23, 2004. The historical combined financial information of Columbia Equity Trust Predecessor includes:

- the percentage ownership interest in the activities of Carr Capital FOCC, L.P. ( Fair Oaks ), Carr Capital Greenbriar, LLC ( Greenbriar ), Holualoa/Carr Capital Sherwood Plaza, LLC ( Sherwood Plaza ), Carr Capital 1575 Eye Street Associates, LLC ( 1575 Eye Street ), 15036 Conference Center Drive, LLC ( Independence Center ), King I, LLC ( King Street ), Atrium, LLC ( Atrium ), Madison Place, LLC ( Madison Place ) and Meadows IV, LLC ( Meadows IV ) owned by Carr Capital and its affiliates that we will acquire in the formation transactions; and

- the management services business of Carr Capital.

The Columbia Equity Trust Predecessor s historical combined balance sheet data as of December 31, 2004 and 2003, and combined statement of operations data for the years ended December 31, 2004, 2003 and 2002, have been derived from the audited historical combined financial statements.

The Columbia Equity Trust Predecessor s unaudited historical combined balance sheet data as of March 31, 2005 and the unaudited historical combined statement of operations data for the three months ended March 31, 2005 and 2004 are derived from the unaudited historical combined financial statements of the Columbia Equity Trust Predecessor. In the opinion of management of the Columbia Equity Trust Predecessor, the unaudited historical combined balance sheet data as of March 31, 2005 and the historical combined statements of operations for the three months ended March 31, 2005 and 2004 include all adjustments, consisting only of normal and recurring adjustments, necessary for a fair presentation of the results for those periods.

The unaudited selected pro forma consolidated financial data for Columbia Equity Trust, Inc. as of and for the three months ended March 31, 2005 and for the year ended December 31, 2004, assume that completion of the formation transactions occurred on March 31, 2005 for the pro forma balance sheet data and as of January 1, 2004 for the pro forma statement of operations data.

The historical combined financial data for the Columbia Equity Trust Predecessor included below and set forth elsewhere in this prospectus and the pro forma data for Columbia Equity Trust, Inc. are not necessarily indicative of our future performance. The pro forma data does not purport to represent our financial condition or results of operations that would actually have occurred assuming the completion of the formation transactions had all transactions occurred on the dates indicated.

You should read the following summary financial and other data together with Our Business and Properties, Management s Discussion and Analysis of Financial Condition and Results of Operations and the historical financial statements for Columbia Equity Trust Predecessor and Other Historical Financial Statements and related notes appearing elsewhere in this prospectus.

**Columbia Equity Trust, Inc. (Pro Forma) and the Columbia Equity Trust Predecessor (Historical)**

| | Three months ended March 31, | | | Year ended December 31, | | | |
|---|---|---|---|---|---|---|---|
| | Columbia Equity Trust, Inc. | Columbia Equity Trust Predecessor | | Columbia Equity Trust, Inc. | Columbia Equity Trust Predecessor | | |
| | Pro forma | Historical | | Pro forma | Historical | | |
| | 2005 | 2005 | 2004 | 2004 | 2004 | 2003 | 2002 |
| | (Dollars in thousands, except per share and square feet data) | | | | | | |
| **Statement of Operations Data:** | | | | | | | |
| Revenues: | | | | | | | |
| Rental | $ 2,593 | $ | $ | $ 7,607 | $ | $ | $ |
| Fee income, primarily from related parties | 518 | 622 | 118 | 957 | 1,897 | 1,923 | 2,098 |
| Total revenues | 3,111 | 622 | 118 | 8,564 | 1,897 | 1,923 | 2,098 |
| Expenses: | | | | | | | |
| Operating and other expenses | 1,142 | | | 2,986 | | | |
| General and administrative | 606 | 379 | 359 | 4,120 | 1,727 | 1,673 | 1,900 |
| Depreciation and amortization | 1,495 | 3 | 2 | 7,400 | 12 | 10 | 8 |
| Total operating expenses | 3,243 | 382 | 361 | 14,506 | 1,739 | 1,683 | 1,908 |
| Income (loss) from operations | (132) | 240 | (243) | (5,942) | 158 | 240 | 190 |
| Other income and expense | | | | | | | |
| Interest income | 5 | 5 | 3 | 16 | 16 | 15 | 20 |
| Interest expense | (237) | (2) | (2) | (950) | (9) | (9) | (9) |
| Equity in net income of real estate entities | 90 | 103 | 132 | 644 | 411 | 2,931 | 245 |
| Minority interest | 26 | | | 602 | | | |
| Income (loss) before income taxes | (248) | 346 | (110) | (5,630) | 576 | 3,177 | 446 |
| Provision for income taxes | 34 | 34 | 3 | 7 | 7 | 55 | |
| Net income (loss) | $ (282) | $ 312 | $ (113) | $ (5,637) | $ 569 | $ 3,122 | $ 446 |
| Pro forma basic loss per share | $ (0.02) | | | $ (0.48) | | | |
| Pro forma diluted loss per share | $ (0.02) | | | $ (0.48) | | | |
| **Balance Sheet Data (as of end of period):** | | | | | | | |
| Real estate | $ 80,380 | $ | | | $ | $ | $ |
| Investments in real estate entities | 44,445 | 4,324 | | | 4,190 | 3,105 | 3,285 |
| Other assets, net | 47,051 | 4,175 | | | 2,824 | 1,988 | 1,223 |
| Total assets | $ 171,876 | $ 8,499 | | | $ 7,014 | $ 5,093 | $ 4,508 |
| Mortgage notes | $ 19,000 | $ | | | $ | $ | $ |
| Other liabilities | 3,149 | 2,625 | | | 1,392 | 340 | 303 |
| Total liabilities | 22,149 | 2,625 | | | 1,392 | 340 | 303 |
| Minority interest | 13,872 | | | | | | |
| Owners equity | 135,855 | 5,874 | | | 5,622 | 4,753 | 4,205 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Total liabilities and owners equity | $ 171,876 | $ 8,499 | | | $ 7,014 | $ 5,093 | $ 4,508 |
| **Other Data:** | | | | | | | |
| Income (loss) from operations | $ (132) | $ 240 | $ (243) | $ (5,942) | $ 158 | $ 240 | $ 190 |
| Funds from operations(1) | 2,135 | | | 4,631 | | | |
| Number of properties owned by real estate entities | | | | | | | |
| Wholly Owned | 5 | | | 5 | | | |
| Joint Venture | 8 | 9 | 7 | 8 | 9 | 7 | 6 |
| Total | 13 | 9 | 7 | 13 | 9 | 7 | 6 |
| Net Rentable square feet (end of period) | | | | | | | |
| Wholly Owned | 582,777 | | | 582,777 | | | |
| Joint Venture | 1,556,569 | 1,360,711 | 1,074,044 | 1,556,569 | 1,360,711 | 1,074,044 | 966,084 |
| Total | 2,139,346 | 1,360,711 | 1,074,044 | 2,139,346 | 1,360,711 | 1,074,044 | 966,084 |

| | Three months ended March 31, | | | Year ended December 31, | | | |
|---|---|---|---|---|---|---|---|
| | Columbia Equity Trust, Inc. | Columbia Equity Trust Predecessor | | Columbia Equity Trust, Inc. | Columbia Equity Trust Predecessor | | |
| | | Historical | | | Historical | | |
| | Pro forma 2005 | 2005 | 2004 | Pro forma 2004 | 2004 | 2003 | 2002 |
| | (Dollars in thousands, except per share and square feet data) | | | | | | |
| **Cash Flow Data:** | | | | | | | |
| Net cash flow provided by (used in): | | | | | | | |
| Operating activities | | $(302) | $(139) | | $(110) | $ 765 | $ 414 |
| Investing activities | | (51) | 178 | | (754) | 2,578 | (2,458) |
| Financing activities | | (60) | (158) | | 301 | (2,577) | 2,190 |
| **Reconciliation of Net Income to FFO** | | | | | | | |
| Net loss | $ (282) | | | $(5,637) | | | |
| Plus: | | | | | | | |
| Depreciation and amortization on wholly owned properties | 1,495 | | | 7,400 | | | |
| Depreciation and amortization attributable to uncombined real estate entities | 948 | | | 3,470 | | | |
| Minority interest | (26) | | | (602) | | | |
| FFO | $2,135 | | | $ 4,631 | | | |

(1) Funds from operations, or FFO, is a widely recognized measure of REIT performance. Although FFO is not computed in accordance with generally accepted accounting principles, or GAAP, we believe that information regarding FFO is helpful to stockholders and potential investors because it facilitates an understanding of the operating performance of our properties without giving effect to real estate depreciation and amortization, which assumes that the value of real estate assets diminishes ratably over time. Because real estate values have historically increased or decreased with market conditions, we believe that FFO provides a more meaningful and accurate indication of our performance. We calculate FFO in accordance with the April 2002 National Policy Bulletin of the National Association of Real Estate Investment Trusts, or NAREIT, which we refer to as the White Paper. The White Paper defines FFO as net income (computed in accordance with GAAP), excluding gains (or losses) on sales of depreciable operating property and extraordinary items (computed in accordance with GAAP), plus real estate related depreciation and amortization (excluding amortization of deferred financing costs), and after adjustments for unconsolidated partnerships and joint ventures. Our interpretation of the NAREIT definition is that minority interest in net income (loss) should be added back (deducted) from net income (loss) as part of reconciling net income (loss) to FFO. Our FFO computation may not be comparable to FFO reported by other REITS that do not compute FFO in accordance with the NAREIT definition, or that interpret the NAREIT definition differently than we do. The GAAP measure that we believe to be most directly comparable to FFO, net income (loss), includes depreciation and amortization expenses, gains or losses on property sales and minority interest. In computing FFO, we eliminate these items because, in our view, they are not indicative of the results from our property operations. To facilitate a clear understanding of our historical operating result, FFO should be examined in conjunction with net income (determined in accordance with GAAP) as presented in the financial statements included elsewhere in this prospectus. FFO does not represent cash generated from operating activities in accordance with GAAP and should not be considered to be an alternative to net income (loss) (determined in accordance with GAAP) as a measure of our liquidity, nor is it indicative of funds available for our cash needs, including cash distributions to stockholders.

## RISK FACTORS

### Risk Related to Our Business and Properties

**All of our initial properties are located in the Greater Washington, D.C. area, making us vulnerable to changes in economic conditions in that region, including the adverse impact of decreased government spending.**

All of our initial properties are located in the Greater Washington, D.C. area which exposes us to greater economic risks than if we owned properties in several geographic regions. The economic condition of this region may depend on one or more industries and, therefore, an economic downturn in one of these industry sectors may significantly affect the occupancy, rental rates and value of our properties. In particular, economic conditions in our market are directly affected by federal government spending. Any resulting oversupply or reduced demand for commercial office space in the Greater Washington, D.C. area would therefore have a disproportionate negative impact on our profitability and limit our ability to make distributions to our stockholders.

Recently, the United States Department of Defense indicated that it plans to reduce the amount of space that it leases within the Greater Washington, D.C. area, which may result in a significant reduction in the demand for leased office space in certain sub-markets.

Specifically, in May 2005, the Department of Defense recommended that the Missile Defense Agency be relocated to the Redstone Arsenal in Alabama as part of the Base Realignment and Closure initiative ( BRAC ). The General Services Administration leases approximately 144,551 square feet of space at the Suffolk Building for use by the Missile Defense Agency, representing approximately 56% of the property s square footage. In addition, TKC Communications, under an exclusive contract with the Missile Defense Agency, leases the remaining 112,874 square feet in the Suffolk Building, representing approximately 44% of the property s square footage.

If the BRAC recommendation for vacating the Suffolk Building is followed, it is unlikely that TKC Communications will renew its lease upon expiration on June 30, 2009. It is also likely that the General Services Administration will elect to terminate its lease, pursuant to the terms of the lease, at any time after December 16, 2010, upon six months notice. If we are unable to locate suitable replacement tenants for the Suffolk Building, our profitability and ability to make distributions to our stockholders will be adversely affected.

**We have not obtained recent appraisals of the properties and other assets to be contributed to our operating partnership in the formation transactions and the consideration given by us in exchange for these assets was not negotiated at arm s length and may exceed their fair market value or the value that would be determined by third-party appraisals.**

We have not obtained any recent third-party appraisals of the initial properties and other assets to be contributed to our operating partnership for cash or operating partnership units in the formation transactions, nor any independent third-party valuations or fairness opinions in connection with the formation transactions. The amount of consideration to be paid by us in each of these transactions was based upon management s estimates of the fair market value of these properties and interests and not arms-length negotiations and were not approved by any independent directors. In addition, certain of our senior executive officers, who had significant influence in structuring the formation transactions, had pre-existing ownership interests in those properties and assets and will receive substantial economic benefits as a result of the formation transactions. In the course of structuring the formation transactions, these officers had the ability to influence the type and level of benefits that they and our other executive officers will receive from us. It is possible that the consideration we will pay for the initial properties and assets may exceed their fair market value and that we could realize less value from these assets than we would have if the assets had been acquired after arms-length negotiation or if we had obtained independent appraisals for these assets. See Certain Relationships and Related Party Transactions.

**We expect to experience significant growth in the future and may not be able to adapt our management and operational systems to properly integrate the additional properties without unanticipated significant disruption or expense.**

We intend to make a significant number of investments in office properties in our first 24 months of operation as a public company. As a result of the anticipated future growth, we cannot assure you that we will be able to adapt our management, administrative, accounting and operational systems or hire and retain sufficient operational staff to integrate the initial properties into our portfolio and manage any future acquisitions of additional properties without operating disruptions or unanticipated costs. Our future acquisitions will generate additional operating expenses that we will be required to pay. As we acquire additional properties, we will be subject to risks associated with managing new properties, including tenant retention and mortgage default. In addition, acquisitions may cause disruptions in our operations and divert management s attention away from day-to-day operations, which could impair our relationships with our current tenants and employees. Our failure to successfully integrate any future property acquisitions into our portfolio could cause significant disruption or costs, which in turn could reduce our profitability and limit our ability to make distributions to our stockholders.

**We may be unable to renew expiring leases, lease vacant space or re-lease space on a timely basis or on comparable or better terms, which could significantly decrease our cash flow.**

Leases representing approximately 6.9% of our annualized contractual base rent on a pro rata basis at March 31, 2005, expire on or before December 31, 2005. Current tenants may not renew their leases upon the expiration of their terms. Alternatively, current tenants may attempt to terminate their leases prior to the expiration of their current terms. If non-renewals or terminations occur, we may not be able to locate qualified replacement tenants and, as a result, we could lose a significant source of revenue while remaining responsible for the payment of our obligations. Moreover, the terms of a renewal or new lease may be less favorable than the current lease terms. Any of these factors could cause a decline in lease revenue, which could have a negative impact on our profitability and limit our ability to make distributions to our stockholders.

**We may be impacted by our tenants failure to make lease payments, which could cause a significant decrease in our revenues.**

Our tenants may experience a downturn in their businesses, which may weaken their financial condition, result in their failure to make timely rental payments or their default under their leases. In particular, local economic conditions and factors affecting the industries in which our tenants operate may affect our tenants ability to make lease payments to us. From time to time, one or more tenants may be in default under their leases with us. Currently, tenants representing an immaterial amount of lease revenue at our initial properties are in default under their leases. Upon a tenant default, we may experience delays in enforcing our rights as landlord and may incur substantial costs in protecting our investment.

We cannot assure you that our tenants will not default on their leases and fail to make rental payments to us or that existing tenants in default will cure such default. Moreover, we may be unable to locate a replacement tenant in a timely manner or on comparable or better terms if a tenant defaults on its lease. The loss of rental revenues from a number of our tenants and our inability to replace such tenants may negatively impact our profitability and our ability to meet our financial obligations.

**Properties owned in joint ventures could be adversely affected by our lack of sole decision-making authority, our reliance on our co-venturer s financial condition and disputes between us and our co-venturers.**

Upon completion of the formation transactions, we will have investments in eight joint ventures, none of which we will control. We may also co-invest in the future with third parties through partnerships, joint ventures or other entities, acquiring non-controlling interests in or sharing responsibility for managing the affairs of a property, partnership, joint venture or other entity. These investments involve risks not present with a property wholly owned by us. Risks related to these investments include:

- one or more of our partners or co-venturers might become bankrupt or fail to fund their share of required capital contributions (in which event we and any other remaining general partners, members or co-venturers would generally remain liable for the liabilities of the partnership, joint venture or other entity);

- one or more of our partners or co-venturers may have economic or other business interests or goals which are inconsistent with our business interests or goals;

- one or more of our partners or co-venturers may be in a position to take actions contrary to our instructions, requests, policies or objectives (including those related to our qualification as a REIT for tax purposes);

- disputes between us and our partners or co-venturers may result in litigation or arbitration that would increase our expenses and prevent our officers and directors from focusing their time and effort on our business; or

- in addition, most of our joint venture agreements contain provisions that could require us to buy our partner s interest or sell our interest or the property or project at a time we do not deem favorable for financial or other reasons, including the availability of cash at such time and the impact of tax consequences resulting from any sale.

Our organizational documents do not limit the amount of available funds that we may invest in partnerships, limited liability companies or joint ventures. The occurrence of one or more of the events described above could cause unanticipated significant disruption to our operations or unanticipated costs and liability, which could in turn adversely affect our financial condition, results of operations and cash flow and thereby limit our ability to make distributions to our stockholders.

Ownership interests in our joint ventures generally are non-transferable to unaffiliated third parties unless all partners consent to the transfer. Pursuant to our joint venture agreements for the Independence Center, Victory Point and Suffolk Building properties, a change in control of our company is defined as a non-transferable event requiring the prior consent of our joint venture partners. As a result, the ownership interest transfer restrictions pursuant to the joint venture agreements for the Independence Center, Victory Point and Suffolk Building properties may have the effect of discouraging a third party from acquiring us, which could result in our stockholders receiving less than our then-prevailing market price.

**If we are unable to complete the acquisitions of the initial properties that we currently have under contract in a timely fashion or at all, we will have no designated use for a portion of the net proceeds of this offering and may experience delays in locating and securing attractive alternative investments, which would result in a reduction of the amount of cash available to our stockholders.**

We anticipate that the closing of the acquisition of Loudoun Gateway IV will occur on or about July 13, 2005 and the closing of the acquisition of Barlow Building will occur on or about July 15, 2005, which dates are after the expected closing date of this offering. However, we cannot assure you that we will acquire either of these properties because each proposed acquisition is subject to a variety of factors, such as the satisfaction of closing conditions, including the receipt of third-party consents and approvals.

In addition, many of the agreements pursuant to which interests in the entities that own a substantial number of the initial properties will be contributed or purchased expire according to their terms on June 30, 2005, which is approximately five days before we expect to close the sale of the shares in this offering and these formation transactions. While we have not obtained formal amendments to these agreements to extend the closing date, the parties to these agreements, most of whom are affiliates of our executive officers, have indicated to us that they intend to close under the terms of the agreements in connection with the closing of this offering. However, we cannot assure you that we will acquire all of the interests in these properties because some or all of these parties may choose not to extend the closing and not contribute or sell their interests to us.

If we do not complete these acquisitions within our anticipated time frame or at all, we may experience delays in locating and securing attractive alternative investments. These delays would result in our future operating results not meeting expectations and adversely affect our ability to make distributions to our stockholders. If we are unable to complete the purchase of the Loudoun Gateway IV and Barlow Building properties that we have under contract, we will have no specific designated use for a portion of the net proceeds from this offering and investors will be unable to evaluate in advance the manner in which we invest these net proceeds or the economic merits of the properties we may ultimately acquire with the net proceeds.

**If the Barlow Corporation fails to qualify as a REIT, we may fail to qualify as a REIT.**

As part of the formation transactions, we will acquire a 40% interest in a limited liability company that will own more than 99% of the Barlow Corporation, which owns the Barlow Building. The Barlow Corporation will elect to be taxed as a REIT. If the Barlow Corporation fails to qualify as a REIT, we would fail to satisfy the 10% REIT asset test and, if we are not entitled to certain relief provisions, we would not qualify as a REIT for that year. Any such failure to qualify also may prevent us from qualifying as a REIT for any of the following four taxable years.

**The substantial corporate tax on built-in gain that would be recognized in connection with a sale of the Barlow Building before December 31, 2010 would substantially reduce the funds available for distribution to our stockholders.**

The Barlow Building is owned by the Barlow Corporation, which currently is a subchapter S corporation. In connection with our acquisition, through a joint venture interest, of an approximate 40% interest in the Barlow Corporation, the subchapter S election will terminate and the Barlow Corporation will make an election to be taxed as a REIT. If the Barlow Corporation disposes of the Barlow Building in a taxable transaction before December 31, 2010, the Barlow Corporation will pay a substantial corporate level tax on its built-in gain (approximately $40 million) that existed when the Barlow Corporation made the S election. That corporate level tax would reduce the funds that the Barlow Corporation has to distribute to the limited liability company through which we will own our 40% interest and, in turn, would reduce the funds that we have available for distribution to you.

**We could recognize a substantial amount of taxable income in connection with a sale of the Barlow Building, rather than a sale of stock in the Barlow Corporation.**

We will acquire our interest in the Barlow Building in the formation transactions through an investment in a 40% interest in a limited liability company that will own more than 99% of the outstanding shares of the Barlow Corporation. A subsidiary of the limited liability company will merge into the Barlow Corporation in a cash merger that is treated for tax purposes as the acquisition by the joint venture of the shares of the Barlow Corporation. As a result, the tax basis of the Barlow Building will not be stepped up to fair market value and is substantially below the price being paid for the Barlow Building. Due to the low tax basis on the Barlow Building, if the Barlow Corporation disposes of the Barlow Building in a taxable transaction, we would recognize a substantial amount of taxable income that could exceed our share of the net cash proceeds from the sale. Furthermore, because the other investors in the Barlow Corporation are expected to be tax exempt investors, such investors will likely be less sensitive to the tax implications of a sale of the Barlow Building and may seek a sale of the Barlow Building by the Barlow Corporation, even if such a sale is not in our best interest.

In order to avoid the adverse tax impact of a sale of the Barlow Building by the Barlow Corporation, our most efficient liquidity event with respect to our investment in the Barlow Building will be a sale of our limited liability company interests in the joint venture that will own more than 99% of the outstanding stock of the Barlow Corporation or the limited liability company s sale of the stock of the Barlow Corporation. Our interests in the limited liability company or the stock of the Barlow Corporation may not be readily marketable. We expect to have a right to sell our interests in the limited liability company to the 60% joint venture partner, an affiliate of JPMorgan Investment Management Inc. There can be no assurance that our joint venture partner will honor its obligations to purchase our interests in the limited liability company or that the price we will receive for such interests will represent fair value.

**The representations and warranties in the merger agreement for the Barlow Building do not survive closing and we may have no recourse against the sellers for breaches of the representations and warranties or unknown liabilities.**

In the formation transactions, we will acquire a 40% interest in a new limited liability company that will form a subsidiary to merge with the Barlow Corporation. The Barlow Corporation owns the Barlow Building and will survive the merger. The Barlow Corporation has elected to be taxed as an S corporation. The Barlow Corporation has made certain representations and warranties as to its tax status and other matters in the merger agreement. However, pursuant to the terms of the merger agreement, the representations and warranties of the Barlow Corporation will not survive the closing of the merger. As a result, neither we nor the limited liability company in which we will invest will have recourse against the stockholders of the Barlow Corporation for breaches of representations and warranties in the merger agreement which may become known following the closing of the merger. Specifically, the Barlow Corporation was organized over 40 years ago, and while its current principal business is ownership of the Barlow Building, the Barlow Corporation has been engaged in other businesses and had other assets and liabilities during its history and there can be no assurance that there are no contingent or unknown liabilities that will survive the merger, including tax liabilities for failure to qualify as an S corporation. Contingent and unknown liabilities of the Barlow Corporation could adversely affect the value of our investment in the Barlow Building.

**The bankruptcy or insolvency of any of our significant tenants, or a downturn in their business, could disrupt or cause a significant decline in our revenue and cash available for distribution to our stockholders.**

Our five largest tenants represent approximately 32.1% of the pro rata annualized contractual base rent for our initial properties as of March 31, 2005 accounting for approximately 7.5%, 7.0%, 6.3%, 6.2% and 5.1%, respectively, of such annualized contractual rent on a pro rata basis.

The bankruptcy or insolvency of a major tenant also may adversely affect the income produced by our properties. If any tenant becomes a debtor in a case under the Bankruptcy Code, we cannot evict the tenant solely because of the bankruptcy. In addition, the bankruptcy court might authorize the tenant to reject and terminate its lease with us. Our claim against the tenant for unpaid, future rent would be subject to a statutory cap that might be substantially less than the remaining rent actually owed under the lease. Even so, our claim for unpaid rent would likely not be paid in full. The bankruptcy or insolvency of any of our significant tenants, or a downturn in their business, could disrupt or cause a significant decline in our revenue and cash available for distribution to our stockholders.

**We compete with other parties for tenants and property acquisitions, and many of these parties have substantially greater resources than we have.**

Our business strategy contemplates expansion through acquisition. The commercial real estate industry is highly competitive, and we compete with substantially larger companies, including substantially larger REITs, for the acquisition, development and leasing of properties. Some of these companies are national or regional operators with far greater resources than we have. Competition may make it more difficult or costly for us to make suitable investments on favorable terms in the future. Competition in a particular area also could negatively impact our ability to lease our properties or to increase or maintain rental rates. If we are unable to make suitable investments on favorable terms, experience lower occupancy or are unable to increase or maintain rental rates, our returns on investment and profitability may be reduced.

**We may not be successful in identifying suitable acquisitions that meet our criteria, which may impede our growth.**

A central part of our business strategy is expansion through acquisitions, which requires us to identify suitable acquisition candidates or investment opportunities that meet our criteria and are compatible with our growth strategy. We may not be successful in identifying suitable real estate properties or other assets that meet our acquisition criteria or in completing acquisitions or investments on satisfactory terms. Failure to identify or complete acquisitions could slow our growth, which could in turn reduce the amount of cash available for distributions to our stockholders.

A key component of our growth strategy is to acquire commercial office properties directly from sellers or through brokers before they are widely marketed to other potential buyers. However, because the market for attractive commercial office investment opportunities in the Greater Washington, D.C. market is very competitive, we cannot assure you that we will be successful in locating these types of acquisitions in the future, and our inability to locate and acquire additional properties at attractive prices could impede our growth and limit our ability to increase our cash flows.

**We may invest in properties in other real estate markets outside the Greater Washington, D.C. area where we have no experience.**

We may make selected acquisitions or develop properties outside our focus market of Greater Washington, D.C. from time to time as appropriate opportunities arise. Our historical experience is in the Greater Washington, D.C. market and we may not be able to operate successfully in other market areas. We may be exposed to a variety of risks if we choose to enter new markets. These risks include:

- a lack of market knowledge and understanding of the local economies;
- an inability to identify promising acquisition or development opportunities;
- an inability to obtain qualified development and construction personnel; and
- an unfamiliarity with local government and permitting procedures.

Any of these factors could cause us to incur costs greater than anticipated outside our focus market and limit the success of our acquisition and development strategy, which could in turn reduce our profitability and limit our growth.

**Certain of the joint venture agreements to which we will be a party will restrict our ability to make investments within geographic markets in which the joint venture owns property which could restrict our ability to make attractive investments.**

Our joint venture agreements with JP Morgan Investment Management, Inc, or JPMIM, contain provisions that restrict our ability to engage in new business ventures, including acquisitions or developments of commercial office properties, within specified market areas in proximity to the property owned by the joint venture. In particular, we cannot undertake investments or development of properties within these specific areas unless we first offer the investment opportunity to JPMIM on terms similar to those in our existing joint ventures with JPMIM. As a result, we may be unable to pursue attractive investment opportunities on a wholly owned basis or with other joint venture partners in these specified areas which may limit our acquisition and development activities in attractive sub-markets within the greater Washington, D.C. area.

**We have no operating history as a REIT, and therefore the operating results and financial data in this prospectus may not be useful in assessing our likely future performance.**

We were organized in September 2004 and have no financial or operating history on which you can evaluate our ability to successfully and profitably operate our business. Consequently, the historical operating results and financial data of our predecessor entities set forth in this prospectus may not be useful in assessing our likely future performance. In addition, our operating results and financial data may vary materially from the pro forma information set forth in this prospectus because of a number of factors. See A Warning About Forward-Looking Statements. We cannot assure you that we will be able to generate sufficient cash flow from operations to make distributions to our stockholders.

**Our executive officers have no experience operating a public company or a REIT, which could increase our general and administrative costs and reduce our cash available for distributions.**

None of our senior executive officers has any experience operating a public company or a REIT. Qualification as a REIT involves the application of highly technical and complex Internal Revenue Code provisions. In addition, managing a public company requires compliance with numerous laws and regulations which may not be applicable to a private company. As a result, we may initially incur higher general and administrative expenses than our competitors that are managed by persons with experience operating a public company or a REIT, which would reduce our net income and cash available for distribution.

**Development and construction risks could adversely affect our profitability.**

We may selectively develop new properties in the future. Our renovation, redevelopment, development and related construction activities may subject us to the following risks:

- we may be unable to obtain, or may suffer delays in obtaining, necessary zoning, land-use, building, occupancy and other required governmental permits and authorizations, which could result in increased costs or our abandonment of these projects;

- we may incur construction costs for property which exceed our original estimates due to increased costs for materials or labor or other costs that we did not anticipate;

- we may not be able to obtain financing on favorable terms, which may render us unable to proceed with our development activities; and

- we may be unable to complete construction and lease-up of a property on schedule, which could result in increased debt service expense or construction costs.

Additionally, the time frame required for development, construction and lease-up of these properties means that we may have to wait years for significant cash returns. Because we are required to make cash distributions to our stockholders, if the cash flow from operations or refinancing is not sufficient, we may be forced to borrow additional money to fund such distributions.

**Newly developed and acquired properties may not produce the cash flow that we expect, which could harm our overall financial performance.**

We intend to continue Carr Capital s acquisition and development strategies for commercial office properties in the future. In deciding whether to acquire or develop a particular property, we make assumptions regarding the expected future performance of that property. In particular, we estimate the return on our investment based on expected occupancy and rental rates. If our financial projections with respect to a new property are inaccurate, and the property is unable to achieve the expected occupancy and rental rates, it may fail to perform as we expected in analyzing our investment. When we acquire a property, we often plan to reposition or redevelop that property with the goal of increasing profitability. Our estimate of the costs of repositioning or redeveloping an acquired property may prove to be inaccurate, which may result in our failure to meet our profitability goals. Additionally, we may acquire new properties not fully leased, and the cash flow from existing operations may be insufficient to pay the operating expenses and debt service associated with that property. Any of these factors could result in our overpayment for a property, which could in turn reduce our profitability and returns on investment.

**We have agreements for the management of certain of our properties, for certain corporate and administrative services and for corporate headquarters space. The termination of one or more of these agreements could cause us to pay higher costs for those services and office space.**

In June 2004, we entered into a non-exclusive arrangement with the Trammell Crow Company, to perform all routine day-to-day property management functions for certain of our properties. Under individual property management agreements, the Trammell Crow Company is responsible, with our oversight, for all property level accounting, risk management (insurance), lease administration, and physical maintenance and repairs for a particular property. The joint ventures that own two of the initial properties, in which we will own an interest, have agreements with CarrAmerica Realty Corporation to provide asset management and/or leasing services for these properties. A sibling of our chairman, president and chief executive officer is chairman and chief executive officer of CarrAmerica Realty Corporation. We also will have an agreement with The Oliver Carr Company, which is owned by the father of our chairman, president and chief executive officer, for office space and certain administrative functions. If one or all of these agreements are terminated, we could face a substantial disruption in our operations and an increase in costs incurred for management of our properties, for certain corporate and administrative services and for corporate headquarters space. Such an increase could negatively impact our financial condition and limit the amount of cash available for distribution to our stockholders.

**Our debt service obligations may have a negative impact on our ability to make distributions to our stockholders, pursue our business plan and maintain our REIT status and our management and board of directors have discretion to increase the amount of our outstanding debt at any time without approval of our stockholders.**

We do not have a policy limiting the amount of debt that we may incur, although we have established 55% - 60% as the target range for our total debt-to-market capitalization, including our pro rata share of joint venture debt. Accordingly, our management and board of directors have discretion to increase the amount of our outstanding debt at any time without approval by our stockholders. Upon completion of the formation transactions, our total indebtedness will be approximately $96.8 million, including our pro rata share of joint venture indebtedness, and we may incur significant additional debt to finance future acquisition and development activities. Following the offering, we intend to enter into a secured revolving credit facility. Many of our debt obligations will require lump-sum principal payments in the future instead of, or in addition to, periodic principal payments pursuant to a fixed amortization schedule. Payments of principal and interest on borrowings may leave us with insufficient cash resources to operate our properties or to pay the distributions currently contemplated or necessary to maintain our REIT qualification.

**If we were to default on our secured debt in the future, the loss of any property securing the debt would adversely affect our business.**

We expect that a substantial portion of our debt will be secured by first mortgage deeds of trust on our properties. Our cash flow may be insufficient to make required payments of principal and interest on our debt. Any default in payment of our indebtedness or violation of any covenants in our loan documents could result in our debt obligations being immediately due and payable and possible loss of property to foreclosure. A default under a loan with cross default provisions could result in default on other indebtedness. For tax purposes, a foreclosure on any of our properties would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure but would not receive any cash proceeds which could hinder our ability to meet the REIT distribution requirements imposed by the Internal Revenue Code.

**We may be unable to refinance some or all of our indebtedness, or any refinancing may not be on terms as favorable as those of the existing indebtedness.**

If we do not have sufficient funds to repay our debt at maturity, it may be necessary to refinance the debt through additional debt financing, private or public offerings of debt securities, or additional equity financings. If, at the time of any refinancing, prevailing interest rates or other factors result in higher interest rates on refinancings, increases in interest expense could adversely affect our cash flow, and, consequently, our cash available for distribution to our stockholders. If we are unable to refinance our debt on acceptable terms, we may be forced to dispose of some of our properties on disadvantageous terms, potentially resulting in losses.

**We may be unable to borrow additional funds as needed or on favorable terms.**

Upon completion of the formation transactions, our total debt-to-market capitalization, including our pro rata share of joint venture debt, will be approximately 35% based on an assumed public offering price for our common stock of $15. Our leverage levels may make it difficult to obtain additional debt financing based on our initial portfolio or to refinance existing debt on favorable terms or at all. In addition, the terms of the revolving credit facility that we intend to enter into will likely limit the amount of indebtedness that we may incur. Failure to obtain additional financing could impede our ability to grow and develop our business. Our leverage levels also may adversely affect the market price of our common stock if an investment in our company is perceived to be more risky than an investment in other companies.

**Our debt agreements will impose limits on our operations and our ability to make distributions to our stockholders.**

The agreements relating to the debt we incur may contain financial and operating covenants, including net worth requirements, debt service coverage and other debt ratios, and other limitations on our ability to make distributions or other payments to our stockholders, sell assets or engage in mergers, consolidations or make certain acquisitions. Failure to comply with these covenants could result from, among other things, changes in our results of operations, incurrence of debt or changes in general economic conditions. Borrowings under credit facilities may be subject to borrowing base requirements and other covenants. These covenants may restrict our ability to fund our operations and conduct our business. Failure to comply with any of these covenants could result in a default under one or more of our debt agreements. A default could cause one or more of our lenders to accelerate the timing of payments which could force us to dispose of one or more of our properties, possibly on disadvantageous terms.

**Variable rate debt subjects us to interest rate risk.**

We expect to enter into a revolving credit facility that will bear interest at a variable rate. We may incur additional variable rate debt in the future. If so, increases in interest rates on variable rate debt would increase our interest expense, which could reduce our net earnings and cash available for payment of our debt obligations and distributions to our stockholders.

**Risks Related to Our Organization and Structure**

**We may experience conflicts of interest with our chairman, president and chief executive officer and several of our executive officers relating to their ownership of operating partnership units.**

Our chairman, president and chief executive officer and several of our executive officers may have conflicting duties because, in their capacities as our directors and executive officers, they have a duty to us, and in our capacity as general partner of our operating partnership, they have a fiduciary duty to the limited partners. These conflicts of interest could lead to decisions that are not in our best interest. Conflicts may arise when our interests and the interests of the limited partners of the operating partnership diverge, particularly in circumstances in which there may be an adverse tax consequence to the limited partners, such as upon the sale of certain properties or the repayment of indebtedness.

We may experience conflicts of interest with several members of our senior management team who will be limited partners in our operating partnership relating to the disposition and operation of our initial properties. Messrs. Carr and Fisch will receive, directly or indirectly through their affiliates, 228,741 and 97,267 operating partnership units, respectively, in exchange for our acquisition of their interests in our initial properties, representing approximately 30.9% of the outstanding operating partnership units, excluding LTIP units, held by limited partners other than us and our subsidiaries upon completion of this offering and the formation acquisitions. The terms of the agreements relating to these transactions were not negotiated at arm s length and it is possible that we could realize less value from these transactions than we would have achieved had the transactions been entered into with an unrelated third party. Messrs. Carr and Fisch have unrealized gains associated with their interests in our initial properties, and, as a result, any sale of such assets or refinancing or prepayment of principal on the indebtedness assumed by us in purchasing such assets may cause adverse tax consequences to Messrs. Carr and Fisch. These individuals may not recommend or otherwise be supportive of the taxable disposition or refinancing of the properties when it might otherwise be in our interest to do so.

In addition, under the terms of the partnership agreement of our operating partnership, the consent of limited partners (other than us and our subsidiaries) holding a majority of the outstanding operating partnership units is required to amend the partnership agreement in a manner that adversely affects the rights of the limited partners. As limited partners, Messrs. Carr and Fisch may not approve any such amendment to the partnership agreement even if such amendment might otherwise be in our best interest.

While we expect to adopt a code of ethics for our company following completion of this offering that will address conflicts of interest, we do not currently have a conflicts of interest policy or other procedures in place to resolve conflicts of interest.

**We depend on key personnel with long-standing business relationships, the loss of whom could threaten our ability to operate our business successfully.**

Our future success depends, to a significant extent, upon the continued services of our senior management team, including Messrs. Carr and Fisch, our senior vice president and director of acquisitions, Christian H. Clifford, our chief financial officer, John A. Schissel, and our chief accounting officer, John M. Novack. In particular, the relationships that Messrs. Carr, Fisch, Clifford and Schissel have developed in the real estate community in our markets and with financing sources are critically important to the success of our business. Although we have employment agreements with Messrs. Carr, Fisch, Clifford, Schissel and Novack, there is no guarantee that such executive officers or other key employees will remain employed with us. We do not maintain key person life insurance on any of our officers. The loss of services of one or more members of our senior management team would harm our business and prospects. Further, loss of a key member of our senior management team could be negatively perceived in the capital markets, which could cause a decline in the market price of our common stock.

**Our executive officers will have agreements that provide them with benefits in the event of a change in control of our company or if their employment agreement is not renewed, which could deter a change in control that could be beneficial to our stockholders.**

We will enter into employment agreements with Messrs. Carr, Schissel, Fisch, Clifford and Novack that provide them with severance benefits if their employment ends under certain circumstances following a change in control of our company or if the executive officer resigns for good reason as defined in the employment agreements. See Management Employment Agreements. These benefits could increase the cost to a potential acquiror of our company and thereby prevent or deter a change in control of the company that might involve a premium price for shares of our common stock or otherwise be in the interests of our stockholders.

**Our growth depends on external sources of capital which are outside of our control.**

In order to maintain our qualification as a REIT, we are required under the Internal Revenue Code to distribute annually to our stockholders 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 acquisitions, from operating cash flow. Consequently, we rely on third-party sources to fund our capital needs and 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 distributions 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 or develop properties when strategic opportunities exist, satisfy our debt service obligations or make the cash distributions to our stockholders necessary to maintain our qualification as a REIT. We may be required to borrow money or sell assets in order to fund distributions sufficient to satisfy our REIT distribution requirements.

**Our rights and the rights of our stockholders to take action against our directors and officers are limited, which could limit your recourse in the event of actions not in stockholders best interests.**

Our charter limits the liability of our directors and officers for money damages, except for liability resulting from actual receipt of an improper benefit or profit in money, property or services, or a final judgment based upon a finding of active and deliberate dishonesty by the director or officer that was material to the cause of action adjudicated. Our charter authorizes us to indemnify our directors and officers for actions taken by them in those capacities to the fullest extent permitted by Maryland law. Our bylaws require us to indemnify each director or officer who has been successful, on the merits or otherwise, in the defense of any proceeding to which he or she is made a party, or threatened to be made a party, by reason of his or her service to us. In addition, we may be obligated to fund the defense costs incurred by our directors and officers. See  Certain Provisions of Maryland Law and of our Amended and Restated Charter and Amended and Restated Bylaws  Limitation of Liability and Indemnification.

**Our board of directors may approve the issuance of preferred stock with terms that may discourage a third party from acquiring us.**

Our charter permits our board of directors to authorize the issuance of shares of preferred stock, in one or more classes or series. Our board of directors may also classify or reclassify any unissued shares of preferred stock and establish the preferences and rights (including the right to vote, participate in earnings and to convert into shares of our common stock) of any such shares of preferred stock, which rights may be superior to those of shares of our common stock. Thus, our board of directors could authorize the issuance of shares of preferred stock with terms and conditions which could have the effect of discouraging a takeover or other transaction in which holders of some or a majority of the outstanding shares of our common stock might receive a premium for their shares over the then current market price of our common stock. See  Description of Our Common Stock  Preferred Stock and Power to Reclassify Shares of Our Common Stock.

**Our ownership limitations may restrict business combination opportunities.**

To qualify as a REIT under the Internal Revenue Code, no more than 50% of the value of our outstanding shares of capital stock may be owned, directly or under applicable attribution rules, by five or fewer individuals (as defined to include certain entities) during the last half of each taxable year (other than our first REIT taxable year). To preserve our REIT qualification, our charter generally prohibits direct or indirect ownership by any person, other than Oliver T. Carr, Jr., of (i) more than 9.1% in number or value of our outstanding shares of common stock or (ii) more than 9.1% in value of our outstanding shares of all classes. Our charter provides that Mr. Carr, the father of our chairman and chief executive officer, may own up to 13.0% of our outstanding common stock. Generally, shares owned by affiliated owners will be aggregated for purposes of the ownership limitation. Any transfer of shares of our common stock that would violate the ownership limitation will be null and void, and the intended transferee will acquire no rights in such shares. Shares of common stock that would otherwise be held in violation of the ownership limit will be designated as  shares-in-trust  and transferred automatically to a trust effective on the day before the purported transfer or other event giving rise to such excess ownership. The beneficiary of the trust will be one or more charitable organizations named by us. The ownership limitation could have the effect of delaying, deferring or preventing a change in control or other transaction in which holders of shares of common stock might receive a premium for their shares of common stock over the then current market price or that such holders might believe to be otherwise in their best interests. The ownership limitation provisions also may make our shares of common stock an unsuitable investment vehicle for any person seeking to obtain, either alone or with others as a group, ownership of (i) more than 9.1% of the number or value of our outstanding shares of common stock or (ii) more than 9.1% in value of our outstanding shares of all classes.

**Our board of directors may change our investment and operational policies and practices without a vote of our common stockholders, which limits your control of our policies and practices.**

Our major policies, including our policies and practices with respect to investments, financing, growth, debt capitalization, REIT qualification and distributions, are determined by our board of directors. Although we have no present intention to do so, our board of directors may amend or revise these and other policies from time to time without a vote of our stockholders. Accordingly, our stockholders will have limited control over changes in our policies.

Our charter and bylaws do not limit the amount of indebtedness that we or our operating partnership may incur. If we become highly leveraged, then the resulting increase in debt service could significantly limit our ability to make payments on our outstanding indebtedness and harm our financial condition.

**Our charter contains provisions that makes removal of our directors difficult, which could make it difficult for our stockholders to effect changes to our management.**

Our charter provides that a director may only be removed for cause and only upon the affirmative vote of at least a majority of the votes entitled to be cast by holders of the outstanding shares of our common stock. Vacancies may be filled only by a majority of the remaining members of the board of directors. This requirement makes it more difficult to change our management by removing and replacing directors.

**Our bylaws may only be amended by our board of directors, which could limit your control of certain aspects of our corporate governance.**

Our charter provides that our board of directors has the sole power to amend our bylaws. Thus, the board is able to amend the bylaws in a way that may be detrimental to your interests.

**Provisions of Maryland law may limit the ability of a third party to acquire control of our company.**

Certain provisions of the Maryland General Corporation Law, or the MGCL, may have the effect of delaying, deferring or preventing a transaction or a change in control of our company that might involve a premium price for holders of our common stock or otherwise be in their best interests, 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 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.

Additionally, Title 3, Subtitle 8 of the MGCL permits our board of directors, without stockholder approval and regardless of what is currently provided in our charter or bylaws, to take certain actions that may have the effect of delaying, deferring or preventing a transaction or a change in control of our company that might involve a premium price for holders of our common stock or otherwise be in their best interest.

Our board of directors has adopted a resolution providing that we are not subject to the business combination provisions of the MGCL. However, our board of directors may elect to make the business combination statute applicable to us at any time, and may do so without stockholder approval. Our bylaws provide that we are not subject to the control share provisions of the MGCL. Our board of directors may elect to make the control share statute applicable to us at any time, and may do so without stockholder approval.

**Risks Related to the Real Estate Industry**

**Terrorist attacks, such as the attacks that occurred in New York and Washington, D.C. on September 11, 2001, and other acts of violence or war may affect any market on which our common stock trades, the markets in which we operate, our operations and our profitability.**

Terrorist attacks may negatively affect our operations and the market price of our common stock. These attacks or armed conflicts may directly impact the value of our properties through damage, destruction, loss or increased security costs. Moreover, all of our properties are currently located in the Greater Washington, D.C. area and there may be a decrease in demand for space in the region because it is considered at risk for future terrorist attacks, and this decrease may reduce our revenues from property rentals.

The United States may enter into armed conflicts in the future. The consequences of any armed conflicts are unpredictable, and we may not be able to foresee events that could have an adverse effect on our business.

Any of these events could result in increased volatility in or damage to the United States and worldwide financial markets and economy. They also could result in a continuation of the current economic uncertainty in the United States or abroad. Adverse economic conditions could affect the ability of our tenants to pay rent, which could have a material adverse effect on our operating results and financial condition, as well as our ability to make distributions to our stockholders, and may result in volatility in the market price for our securities.

**Our insurance may not be adequate to cover losses, including those that result from earthquakes or terrorist acts.**

We carry insurance coverage on our properties of types and in amounts that we believe are in line with coverage customarily obtained by owners of similar properties. In response to the uncertainty in the insurance market following the terrorist attacks of September 11, 2001, the federal Terrorism Risk Insurance Act, or TRIA, was enacted in November 2002 to require regulated insurers to make available coverage for certified acts of terrorism (as defined by the statute) through December 31, 2005. Coverage under TRIA includes only physical damage and does not include losses due to biological, chemical or radioactive contamination. Our current property insurance coverage provides for limits on coverage per occurrence, including coverage for certified acts of terrorism, and such limits could prevent us from full recovery for a loss. Should an uninsured loss or a loss in excess of insured limits occur, we could lose all or a portion of the capital we have invested in a property, as well as the anticipated future revenue from the property. Nevertheless, we might remain obligated for any mortgage debt or other financial obligations related to the property. It is also possible that third-party insurance carriers will not be able to maintain reinsurance sufficient to cover any losses that may be incurred.

**We obtained limited representations and warranties in the contribution and acquisition agreements for the initial properties.**

In the formation transactions, we are acquiring interests in the entities that own our initial properties, rather than acquiring real estate assets. The contribution and other acquisition agreements contain limited representations and warranties regarding the initial properties. There could be unknown liabilities with respect to the initial properties or the entities that own the initial properties, and we will have limited or no recourse against the parties from whom we are acquiring the interests in our initial properties.

**The costs of compliance with or liabilities under environmental laws could significantly reduce our profitability.**

Our operating expenses could be higher than anticipated due to the cost of complying with existing or future environmental laws and regulations. An owner of real property can face liability for environmental contamination created by the presence or discharge of hazardous substances on the property. We may face liability regardless of:

- our lack of knowledge of the contamination;
- the timing of the contamination;
- the cause of the contamination; or
- the party responsible for the contamination of the property.

Environmental laws also impose ongoing compliance requirements on owners and operators of real property. Environmental laws potentially affecting us address a wide variety of matters, including, but not limited to, asbestos-containing building materials, storage tanks, storm water and wastewater discharges, lead-based paint, mold/mildew and hazardous wastes. Failure to comply with these laws could result in fines and penalties and/or expose us to third-party liability. Some of our properties may have conditions that are subject to these requirements, and we could be liable for such fines or penalties and/or liable to third parties, as described below in Our Business and Properties Environmental Matters.

Certain properties in our portfolio may contain, or may have contained, asbestos-containing building materials, or ACBMs. Environmental laws require that ACBMs be properly managed and maintained, and may impose fines and penalties on building owners and operators for failure to comply with these requirements. Also, certain properties have, or may have, or are adjacent to or near other properties that have contained or currently contain storage tanks for the storage of petroleum products or other hazardous or toxic substances. These operations create a potential for the release of petroleum products or other hazardous or toxic substances. Third parties may be permitted by law to seek recovery from owners or operators for property damage and/or personal injury associated with exposure to contaminants, including, but not limited to, petroleum products, hazardous or toxic substances and asbestos fibers.

Independent environmental consultants conducted Phase I environmental site assessments on all of our initial properties. Phase I environmental site assessments are intended to evaluate information regarding the environmental condition of the surveyed property and surrounding properties based generally on visual observations, interviews and certain publicly available databases. These assessments do not typically take into account all environmental issues including, but not limited to, testing of soil or groundwater or the possible presence of asbestos, lead-based paint, radon, wetlands or mold. None of the site assessments revealed any past or present environmental liability that we believe would be material to us. However, the assessments may have failed to reveal all environmental conditions, liabilities or compliance concerns. Material environmental conditions, liabilities or compliance concerns may have arisen after the assessments were conducted or may arise in the future; and future laws, ordinances or regulations may impose material additional environmental liability. We cannot assure you that costs of future environmental compliance will not affect our ability to make distributions or that such costs or other remedial measures will not be material to us.

The presence of hazardous substances on a property may limit our ability to sell the property on favorable terms or at all, and we may incur substantial remediation costs, thus harming our financial condition. In addition, although our leases generally require our tenants to operate in compliance with all applicable laws and to indemnify us against any environmental liabilities arising from a tenant s activities on the property, we could nonetheless be subject to strict liability by virtue of our ownership interest for environmental liabilities created by our tenants, and we cannot be sure that our tenants would satisfy their indemnification obligations under the applicable sales agreement or lease. The discovery of material environmental liabilities attached to our properties could subject us to unanticipated significant costs, which could significantly reduce our profitability and the cash available for distribution to our stockholders.

**Our properties may contain or develop harmful mold, which could lead to liability for adverse health effects and costs of remediating the problem.**

When excessive moisture accumulates in buildings or on building materials, mold growth may occur, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Concern about indoor exposure to mold has been increasing as exposure to mold may cause a variety of adverse health effects and symptoms, including allergic or other reactions. Some of the properties in our portfolio may contain microbial matter such as mold and mildew. The presence of significant mold at any of our properties could require us to undertake a costly remediation program to contain or remove the mold from the affected property. The presence of significant mold could expose us to liability from our tenants, employees of our tenants and others if property damage or health concerns arise. If we become subject to claims in this regard, it could materially affect us and our insurability for such matters.

**Compliance with the Americans with Disabilities Act and fire, safety and other regulations may require us to make unintended expenditures that could significantly reduce the cash available for distribution to our stockholders.**

Under the Americans with Disabilities Act of 1990, or the ADA, all public accommodations must meet federal requirements related to access and use by disabled persons. Although we believe that our initial properties substantially comply with present requirements of the act, we have not conducted an audit or investigation of all of our initial properties to determine our compliance. If one or more of our initial properties or future properties is not in compliance with the act, then we would be required to incur additional costs to bring the property into compliance. Additional federal, state and local laws also may require modifications to our properties, or restrict our ability to renovate our properties. We cannot predict the ultimate amount of the cost of compliance with the act or other legislation.

In addition, our properties are subject to various federal, state and local regulatory requirements, such as state and local fire and life safety requirements. If we fail to comply with these various requirements, we might incur governmental fines or private damage awards. We believe that our initial properties are currently in material compliance with all applicable regulatory requirements. However, we do not know whether existing requirements will change or whether future requirements will require us to make significant unanticipated expenditures. If we incur substantial costs to comply with the ADA or any other legislative or regulatory requirements, our financial condition, results of operations, cash flow, market price of our common stock and our ability to satisfy our debt service obligations and to pay distributions to our stockholders could be adversely affected.

**Tax Risks of our Business and Structure**

**If we fail to qualify or remain qualified as a REIT for federal income tax purposes, we will not be able to deduct our dividends, and our income will be subject to taxation.**

We believe that we will qualify as a REIT under the Internal Revenue Code commencing with our short taxable year beginning on the business day prior to the closing of this offering and ending on December 31, 2005, which will afford us significant tax advantages. The requirements for this qualification, however, are complex and our management has no experience in operating a REIT. If we fail to meet these requirements and do not qualify for certain statutory relief provisions, our distributions to our stockholders will not be deductible by us and we will be subject to a corporate level tax on our taxable income. This would substantially reduce our cash available to make distributions to our stockholders and your yield on your investment. In addition, incurring corporate income tax liability might cause us to borrow funds, liquidate some of our investments or take other steps that could negatively affect our operating results. Moreover, if our REIT status is terminated because of our failure to meet a REIT qualification requirement or if we voluntarily revoke our election, we would be disqualified from electing treatment as a REIT for the four taxable years following the year in which REIT status is lost.

**Distribution requirements relating to qualification as a REIT for federal income tax purposes limit our flexibility in executing our business plan.**

Our business plan contemplates growth through a