

Digital Realty Trust, Inc.
Form 10-K
March 01, 2007
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

x Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2006.

.. Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Transition Period From to .

Commission file number 001-32336

DIGITAL REALTY TRUST, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
Incorporation or organization)

560 Mission Street, Suite 2900
San Francisco, CA
(Address of principal executive offices)

26-0081711
(IRS employer
identification number)

94105
(Zip Code)

Registrant's telephone number, including area code (415) 738-6500

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

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Title of each class	Name of each exchange on which registered
Common stock, \$0.01 par value	New York Stock Exchange
Series A cumulative redeemable preferred stock, \$0.01 par value	New York Stock Exchange
Series B cumulative redeemable preferred stock, \$0.01 par value	New York Stock Exchange

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large-accelerated filer Accelerated filer Non-accelerated filer

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

As of June 30, 2006, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$866.5 million based on the closing sale price as reported on the New York Stock Exchange.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Class	Outstanding at February 23, 2007
Common Stock, \$.01 par value per share	55,594,397

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement with respect to its 2007 Annual Meeting of Stockholders to be filed not later than 120 days after the end of the registrant's fiscal year are incorporated by reference into Part III hereof.

Table of Contents

DIGITAL REALTY TRUST, INC.

FORM 10-K

FOR THE YEAR ENDED DECEMBER 31, 2006

TABLE OF CONTENTS

	PAGE NO.
PART I.	
ITEM 1. <u>Business</u>	1
ITEM 1A. <u>Risk Factors</u>	6
ITEM 1B. <u>Unresolved Staff Comments</u>	23
ITEM 2. <u>Properties</u>	23
ITEM 3. <u>Legal Proceedings</u>	28
ITEM 4. <u>Submission of Matters to a Vote of Security Holders</u>	28
PART II.	
ITEM 5. <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	29
ITEM 6. <u>Selected Financial Data</u>	31
ITEM 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	34
ITEM 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	54
ITEM 8. <u>Financial Statements and Supplementary Data</u>	56
ITEM 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	99
ITEM 9A. <u>Controls and Procedures</u>	99
ITEM 9B. <u>Other Information</u>	99
PART III.	
ITEM 10. <u>Directors, Executive Officers and Corporate Governance</u>	100
ITEM 11. <u>Executive Compensation</u>	100
ITEM 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	100
ITEM 13. <u>Certain Relationships and Related Transactions and Director Independence</u>	100
ITEM 14. <u>Principal Accounting Fees and Services</u>	100
PART IV.	
ITEM 15. <u>Exhibits and Financial Statement Schedules</u>	101

Table of Contents

PART 1

ITEM 1. BUSINESS

General

As used herein, the terms we, our, us, the company and our company refer to Digital Realty Trust, Inc., a Maryland corporation, together with our consolidated subsidiaries, including Digital Realty Trust, L.P., a Maryland limited partnership of which we are the sole general partner and which we refer to as our operating partnership. We target high-quality, strategically located properties containing applications and operations critical to the day-to-day operations of technology industry tenants and corporate enterprise datacenter users, including the information technology, or IT, departments of Fortune 1000 and financial services companies. Our tenant base is diversified and reflects a broad spectrum of regional, national and international tenants that are leaders in their respective areas. We operate as a real estate investment trust, or REIT, for federal income tax purposes.

Through our operating partnership, at December 31, 2006 we owned 59 properties, excluding one property held as an investment in an unconsolidated joint venture. Our properties are primarily located throughout North America with seven properties in Europe. Our properties contain a total of approximately 9.4 million net rentable square feet, excluding approximately 1.6 million square feet held for redevelopment. Our operations and acquisition activities are focused on a limited number of markets where technology industry tenants and corporate datacenter users are concentrated, including the Boston, Chicago, Dallas, Los Angeles, New York, San Francisco and Silicon Valley metropolitan areas. As of December 31, 2006, our portfolio, excluding space held for redevelopment, was approximately 95.0% leased at an average gross annualized rent per leased square foot of \$27.73. The types of properties within our focus include:

Internet gateways, which serve as hubs for Internet and data communications within and between major metropolitan areas;

Data centers, which provide secure, continuously available environments for the storage and processing of critical electronic information. Data centers are used for disaster recovery purposes, transaction processing and to house corporate IT operations;

Technology manufacturing properties, which contain highly specialized manufacturing environments for such purposes as disk drive manufacturing, semiconductor manufacturing and specialty pharmaceutical manufacturing; and

Regional or national offices of technology companies that are located in our target markets.

Most of our properties have extensive tenant improvements that have been installed at our tenants' expense. Unlike traditional office and flex/research and development space, the location of and improvements to our facilities are generally essential to our tenants' businesses, which we believe results in high occupancy levels, long lease terms and low tenant turnover. The tenant-installed improvements in our facilities are readily adaptable for use by similar tenants. We also have approximately 1.6 million square feet available for redevelopment at December 31, 2006.

Our portfolio includes 20 properties contributed to us by Global Innovation Partners, LLC, or GI Partners, in connection with our initial public offering in November 2004. GI Partners is a private equity fund that was formed to pursue investment opportunities that intersect the real estate and technology industries. GI Partners was formed in February 2001 after a competitive six-month selection process conducted by the California Public Employees' Retirement System, or CalPERS, the largest U.S. pension fund.

Our principal executive offices are located at 560 Mission Street, Suite 2900, San Francisco, California 94105. Our telephone number at that location is (415) 738-6500. Our website is located at www.digitalrealtytrust.com. The information found on, or otherwise accessible through, our website is not

Table of Contents

incorporated into, and does not form a part of, this annual report on Form 10-K or any other report or document we file with or furnish to the United States Securities and Exchange Commission, or the Securities and Exchange Commission.

Recent Developments

On December 20, 2006 we acquired Unit 9, Blanchardstown Corporate Park, a property located in Dublin, Ireland for approximately 36.5 million (\$47.9 million based on the rate of exchange on December 20, 2006).

On December 5, 2006 we acquired 114 Rue Ambroise Croizat, a property located in Paris, France for approximately 40.4 million (\$53.8 million based on the rate of exchange on December 5, 2006).

On November 1, 2006 we acquired a 49% interest in 2001 Sixth Avenue, a property located in Seattle for approximately \$29.6 million.

On October 24, 2006, we completed the financing of 1100 Space Park Drive in Santa Clara, California. The new loan for \$55.0 million has a 10-year maturity with no principal amortization for three years, and a fixed rate of 5.886%.

On October 17, 2006 we acquired 2055 E. Technology Drive and a related ground lease, a property located in Tempe, Arizona for approximately \$9.7 million.

On October 4, 2006 we issued 9.2 million common shares for net proceeds of \$267.7 million after offering costs. We used proceeds from this issuance to pay \$133.8 million for the redemption of 4.6 million common Operating Partnership units tendered by GI Partners, with the balance being used to pay down our unsecured credit facility.

On October 1, 2006, we acquired three datacenters from AboveNet for approximately \$40.1 million. The purchase included a fee-simple ownership of 1807 Michael Faraday Court in Reston, Virginia and two leasehold interests at 111 Eight Avenue in New York City and 8100 Boone Boulevard in Vienna, Virginia.

Subsequent Events

On February 27, 2007 we acquired 44470 Chillum Place, a property located in Ashburn, Virginia, a suburb of Washington D.C. for approximately \$42.5 million. The acquisition was financed with borrowings under our unsecured credit facility.

On February 15, 2007, we declared the following distributions per share and the Operating Partnership made an equivalent distribution per unit.

Share Class	Series A Preferred Stock	Series B Preferred Stock	Common stock
Dividend and distribution amount	\$0.53125	\$0.49219	\$0.28625
Dividend and distribution payable date	April 2, 2007	April 2, 2007	April 2, 2007
Dividend payable to shareholders of record on	March 15, 2007	March 15, 2007	March 15, 2007
Annual equivalent rate of dividend and distribution	\$2.125	\$1.969	\$1.145

On February 2, 2007 we completed the financing of 150 South First Street in San Jose, California. The new loan for \$53.3 million has a 10-year maturity with no principal amortization for two years, and a fixed rate of 6.2995%.

On January 31, 2007 we completed the financing of 2045 & 2055 LaFayette in Santa Clara, California. The new loan for \$68.0 million has a 10-year maturity with no principal amortization for two years, and a fixed rate of 5.9265%.

Table of Contents

On January 22, 2007 we acquired 3011 LaFayette Street, a property located in Santa Clara, California for approximately \$13.5 million. The acquisition was financed with borrowings under our unsecured credit facility.

On January 5, 2007 we acquired 21110 Ridgetop Circle in Sterling, Virginia, a suburb of Washington, D.C. for approximately \$17.0 million. The acquisition was financed with borrowings under our unsecured credit facility.

Our Competitive Strengths

We believe we distinguish ourselves from other owners, acquirors and managers of technology-related real estate through our competitive strengths, which include:

High-Quality Portfolio that is Difficult to Replicate. Our portfolio contains state-of-the-art facilities with extensive tenant improvements. Based on current market rents and the estimated replacement costs of our properties and their improvements, we believe that they could not be replicated today on a cost-competitive basis. Many of the properties in our portfolio are located on major aggregation points formed by the physical presence of multiple major telecommunications service providers, which reduces our tenants' costs and operational risks and increases the attractiveness of our buildings.

Presence in Key Markets. Our portfolio is located in 25 metropolitan areas, including the Boston, Chicago, Dallas, Los Angeles, New York, San Francisco and Silicon Valley metropolitan areas, and is diversified so that no one market represented more than 20% of the aggregate gross annualized rent of our portfolio as of December 31, 2006.

Long-Term Leases. We have long-term leases with stable cash flows. As of December 31, 2006, our average lease term was in excess of 12.2 years, with an average of 6.9 years remaining, excluding renewal options. Through 2008, leases representing only 6.5% of our net rentable square feet excluding space held for development, or 11.3% of our aggregate gross annualized rent, are scheduled to expire. Moreover, through 2007, leases representing only 2.0% of our net rentable square feet excluding space held for development, or 4.2% of our aggregate gross annualized rent, are scheduled to expire.

Specialized Focus in Dynamic and Growing Industry. We focus solely on technology-related real estate because we believe that the growth of the technology industry, particularly Internet and data communications and corporate datacenter use, will be superior to that of the overall economy. We believe that our specialized understanding of both real estate and technology gives us a significant competitive advantage over less specialized investors. We use our in-depth knowledge of the technology industry, particularly Internet and data communications and corporate datacenter use, to identify strategically located properties, market our properties to tenants with specific technology needs, evaluate tenants' creditworthiness and business models and assess the long-term value of in-place technical improvements.

Proven Acquisition Capability. As of December 31, 2006, our portfolio consists of 59 technology-related real estate properties, excluding one property held as an investment in an unconsolidated joint venture, that we, together with GI Partners, our predecessor, acquired beginning in 2002, (including 37 properties, which contain over 4.5 million net rentable square feet excluding 1.3 million square feet held for redevelopment, since our initial public offering in November 2004), for an aggregate of 9.4 million net rentable square feet, excluding approximately 1.6 million square feet held for redevelopment. Our broad network of contacts within a highly fragmented universe of sellers and brokers of technology-related real estate enables us to capitalize on acquisition opportunities. We have developed detailed, standardized procedures for evaluating acquisitions to ensure that they meet our financial, technical and other criteria, which allows us to evaluate investment opportunities efficiently and, as appropriate, commit and close quickly. We acquired more than half of our properties before they were broadly marketed by real estate brokers.

Experienced and Committed Management Team. Our senior management team, including our Executive Chairman, has an average of over 23 years of experience in the technology or real estate industries, including experience as investors in, advisors to and founders of technology companies. We

Table of Contents

believe that our senior management team's extensive knowledge of both the real estate and the technology industries provides us with a key competitive advantage. At December 31, 2006 our senior management team collectively owned a common equity interest in our company of approximately 2.7%, which aligns management's interests with those of our stockholders.

Proven ability to sign new leases. We have considerable experience in identifying and leasing to new tenants. The combination of our specialized datacenter leasing team, external resources and customer referrals provided a robust funnel of new tenants in 2006. During the year ended December 31, 2006 we leased approximately 455,000 square feet to new tenants which resulted in gross annualized rent on a straight line basis of \$31.0 million.

Business and Growth Strategies

Our primary business objectives are to maximize sustainable long-term growth in earnings, funds from operations and cash flow per share and to maximize returns to our stockholders. Our business strategies to achieve these objectives are:

Capitalize on Acquisition Opportunities. We believe that acquisitions enable us to increase cash flow and create long-term stockholder value. Our relationships with corporate information technology groups, technology tenants and real estate brokers who are dedicated to serving these tenants provide us with ongoing access to potential acquisitions and often enable us to avoid competitive bidding. Furthermore, the specialized nature of technology-related real estate makes it more difficult for traditional real estate investors to understand, which fosters reduced competition for acquisitions relative to other property types. We believe this dynamic creates an opportunity for us to obtain better risk-adjusted returns on our capital.

Maximize the Cash Flow of our Properties. We aggressively manage and lease our assets to increase their cash flow. We often acquire properties with substantial in-place cash flow and some vacancy, which enables us to create upside through lease-up. Our portfolio, excluding space held for redevelopment, was approximately 95.0% leased as of December 31, 2006, leaving approximately 0.5 million square feet of net rentable space available for lease-up and approximately 1.6 million square feet held for redevelopment. Moreover, many of our properties contain extensive in-place infrastructure or buildout which may result in higher rents when leased to tenants seeking these improvements. We control our costs by negotiating expense pass-through provisions in tenant leases for operating expenses and certain capital expenditures. Leases covering more than 95% of the leased net rentable square feet in our portfolio as of December 31, 2006 required tenants to pay all or a portion of increases in operating expenses, including real estate taxes, insurance, common area charges and other expenses. Since our initial public offering in November 2004, we have executed leases for approximately 820,000 square feet of technical space at an average gross annualized rent of \$59.19 per square foot and approximately 399,000 square feet of nontechnical space at an average gross annualized rent of \$22.49 per square foot, in each case including lease renewals and expansions commencing in 2004 through 2019.

Develop and obtain optimal returns on our space held for redevelopment. At December 31, 2006 we had approximately 1.6 million square feet held for redevelopment. We intend to redevelop this space for lease when justified by anticipated returns. The rate of return on our initial capital investment will be subject to many factors and we currently expect to obtain a 10% annual return on our investment.

Subdivide Improved Space for Turn-Key Datacenter Use. Turn-Key Datacenter space is move-in-ready space for the placement of computer and network equipment required to provide a datacenter environment. We own approximately 850,000 net rentable square feet of turn-key datacenter space with extensive datacenter improvements. We had leased approximately 681,000 square feet of this space at December 31, 2006. Rather than leasing all of this space to large single tenants, we are subdividing some of it for multi-tenant turn-key datacenter use, with tenants averaging between 100 and 15,000 square feet of net rentable space. Multi-tenant turn-key datacenters are effective solutions for

Table of Contents

tenants who lack the expertise or capital budget to provide their own extensive datacenter infrastructure and security. As experts in datacenter construction and operations, we are able to lease space to these tenants at a significant premium over other uses.

Leverage Strong Industry Relationships. We use our strong industry relationships with national and regional corporate enterprise information technology groups and technology-intensive companies to identify and comprehensively respond to their real estate needs. Our leasing and sales professionals are real estate and technology industry specialists who can develop complex facility solutions for the most demanding corporate datacenter and other technology tenants.

Use Capital Efficiently. We intend to occasionally sell our assets held for investment opportunistically. We believe that we can increase stockholder returns by effectively redeploying asset sales proceeds into new investment opportunities. Recently, datacenters have been particularly attractive candidates for sale to owner/users, as the cost of acquisition is usually substantially lower than the cost to construct a new facility. We will occasionally seek such opportunities to realize gains from these investment assets and reinvest our capital.

Competition

We compete with numerous regional developers, owners and operators of office and commercial real estate, many of which own properties similar to ours in the same submarkets in which our properties are located. If our competitors offer space at rental rates below current market rates, or below the rental rates we currently charge our tenants, we may lose potential tenants and we may be pressured to reduce our rental rates below those we currently charge in order to retain tenants when our tenants' leases expire. In addition, developers and operators may compete with us for acquisitions.

Regulation

General

Office properties in our submarkets are subject to various laws, ordinances and regulations, including regulations relating to common areas. We believe that each of our properties as of December 31, 2006 has the necessary permits and approvals to operate its business.

Americans With Disabilities Act

Our properties must comply with Title III of the Americans with Disabilities Act of 1990, or ADA, to the extent that such properties are public accommodations as defined by the ADA. The ADA may require removal of structural barriers to access by persons with disabilities in certain public areas of our properties where such removal is readily achievable. We believe that our properties are in substantial compliance with the ADA and that we will not be required to make substantial capital expenditures to address the requirements of the ADA. However, noncompliance with the ADA could result in imposition of fines or an award of damages to private litigants. The obligation to make readily achievable accommodations is an ongoing one, and we will continue to assess our properties and to make alterations as appropriate in this respect.

Environmental Matters

Under various laws relating to the protection of the environment, a current or previous owner or operator of real estate may be liable for contamination resulting from the presence or discharge of hazardous or toxic substances at that property, and may be required to investigate and clean up such contamination at that property or emanating from that property. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence of the contaminants, and the liability may be joint and several. Previous owners used some of our properties for industrial and retail purposes, so those properties may contain some level of environmental contamination. The presence of contamination or the failure to remediate

Table of Contents

contamination at our properties may expose us to third-party liability or materially adversely affect our ability to sell, lease or develop the real estate or to borrow using the real estate as collateral.

Some of the properties may contain asbestos-containing building materials. Environmental laws require that asbestos-containing building materials be properly managed and maintained, and may impose fines and penalties on building owners or operators for failure to comply with these requirements. These laws may also allow third parties to seek recovery from owners or operators for personal injury associated with exposure to asbestos-containing building materials.

In addition, some of our tenants, particularly those in the biotechnology and life sciences industry and those in the technology manufacturing industry, routinely handle hazardous substances and wastes as part of their operations at our properties. Environmental laws and regulations subject our tenants, and potentially us, to liability resulting from these activities or from previous industrial or retail uses of those properties. Environmental liabilities could also affect a tenant's ability to make rental payments to us. We require our tenants to comply with these environmental laws and regulations and to indemnify us for any related liabilities.

Independent environmental consultants have conducted Phase I or similar environmental site assessments on all of the properties in our portfolio. Site assessments are intended to discover and evaluate information regarding the environmental condition of the surveyed property and surrounding properties. These assessments do not generally include soil samplings, subsurface investigations or an asbestos survey. None of the recent site assessments revealed any past or present environmental liability that we believe would have a material adverse effect on our business, assets or results of operations. 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 review was completed or may arise in the future; and future laws, ordinances or regulations may impose material additional environmental liability.

Insurance

We carry comprehensive liability, fire, extended coverage, earthquake, business interruption and rental loss insurance covering all of the properties in our portfolio under a blanket policy. We select policy specifications and insured limits which we believe to be appropriate given the relative risk of loss, the cost of the coverage and industry practice and, in the opinion of our company's management, the properties in our portfolio are currently adequately insured. We do not carry insurance for generally uninsured losses such as loss from riots, war, terrorist threats or nuclear reaction. In addition, we carry earthquake insurance on our properties in an amount and with deductibles which we believe are commercially reasonable. Certain of the properties in our portfolio are located in areas known to be seismically active. See **Risk Factors** **Risks Related to Our Business and Operations** Potential losses may not be covered by insurance.

Employees

As of December 31, 2006 we had 109 employees. None of these employees is represented by a labor union.

Offices

Our headquarters is located in San Francisco. We have regional offices in Boston, Chicago, Dallas, Los Angeles, New York and international offices in London and Dublin, Ireland.

ITEM 1A. RISK FACTORS

For purposes of this section, the term **stockholders** means the holders of shares of our common stock and of our preferred stock. Set forth below are the risks that we believe are material to our stockholders. You should carefully consider the following factors in evaluating our company, our properties and our business. The

Table of Contents

occurrence of any of the following risks might cause our stockholders to lose all or a part of their investment. Some statements in this report including statements in the following risk factors constitute forward-looking statements. Please refer to the section entitled "Forward-Looking Statements" on page 20.

Risks Related to Our Business and Operations

Our properties depend upon the demand for technology-related real estate.

Our portfolio of properties consists primarily of technology-related real estate. A decrease in the demand for or adoption of datacenter space, Internet gateway facilities or other technology-related real estate could have a greater adverse effect on our business and financial condition than if we owned a portfolio with a more diversified tenant base. We are susceptible to adverse developments in the corporate datacenter, Internet and data communications and broader technology industries (such as reduced corporate IT budgets, business layoffs or downsizing, industry slowdowns, relocations of businesses, costs of complying with government regulations or increased regulation and other factors) and the technology-related real estate market (such as oversupply of or reduced demand for space). Changes in technology or industry practice could reduce demand for the physical datacenter space we provide or make the tenant improvements in our facilities obsolete or in need of significant upgrades to remain viable. In addition, the development of new technologies, the adoption of new industry standards or other factors could render many of our tenants' current products and services obsolete or unmarketable and contribute to a downturn in their businesses, thereby increasing the likelihood that they default under their leases, become insolvent or file for bankruptcy.

We depend on significant tenants, and many of our properties are single-tenant properties or are currently occupied by single tenants.

As of December 31, 2006, the 15 largest tenants in our property portfolio represented approximately 50% of the total gross annualized rent generated by our properties. Our largest tenants by gross annualized rent are Savvis Communications and Qwest Communications International. Savvis Communications leased approximately 1.4 million square feet of net rentable space as of December 31, 2006, representing approximately 11.9% of the total gross annualized rent generated by our properties. Qwest Communications International leased approximately 685,000 square feet of net rentable space as of December 31, 2006, representing approximately 7.7% of the total gross annualized rent generated by our properties. In addition, 26 of our 59 properties are occupied by single tenants, including properties occupied solely by Savvis Communications and Qwest Communications International. Our tenants may experience a downturn in their businesses, which may weaken their financial condition and result in their failure to make timely rental payments or their default under their leases. If any tenant defaults or fails to make timely rent payments, we may experience delays in enforcing our rights as landlord and may incur substantial costs in protecting our investment.

The bankruptcy or insolvency of a major tenant may adversely affect the income produced by our properties.

If any tenant becomes a debtor in a case under the federal 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. In either case, our claim for unpaid rent would likely not be paid in full. At December 31, 2006, we had no tenants in bankruptcy.

Our revenue and cash available for distribution, including cash available to pay dividends to our preferred stockholders or pay distributions to our common stockholders, could be materially adversely affected if any of our significant tenants were to become bankrupt or insolvent, or suffer a downturn in its business, or fail to renew its lease or renew on terms less favorable to us than its current terms.

Table of Contents**Our portfolio of properties depends upon local economic conditions and is geographically concentrated in certain locations.**

Our properties are located in 25 metropolitan areas. We depend upon the local economic conditions in these markets, including local real estate conditions. Many of these markets experienced downturns within recent years. Our operations may also be affected if too many competing properties are built in any of these markets. If there is a downturn in the economy in any of these markets, our operations and our revenue and cash available for distribution, including cash available to pay dividends to our preferred stockholders or pay distributions to our common stockholders, could be materially adversely affected. We cannot assure you that these markets will grow or will remain favorable to technology-related real estate.

In addition, our portfolio is geographically concentrated in the following metropolitan markets.

Metropolitan Market	Percentage of 12/31/06 total gross annualized rent ⁽¹⁾
Silicon Valley	16.9%
Dallas	13.0%
Chicago	11.4%
New York	8.1%
San Francisco	6.5%
Los Angeles	6.4%
Boston	4.7%
Other	33.0%
	100.0%

(1) Gross annualized rent is monthly contractual rent under existing leases as of December 31, 2006 multiplied by 12. Any negative changes in real estate, technology or economic conditions in these markets in particular could negatively impact our performance.

We have owned our properties for a limited time.

We owned 59 properties at December 31, 2006, excluding one property held as an investment in an unconsolidated joint venture. These properties are primarily located throughout North America and seven properties are located in Europe. The properties contain a total of approximately 9.4 million net rentable square feet, excluding 1.6 million square feet held for redevelopment. All the properties have been under our management for less than five years, and we have owned 17 of the properties for less than one year at December 31, 2006. The properties may have characteristics or deficiencies unknown to us that could affect their valuation or revenue potential. We cannot assure you that the operating performance of the properties will not decline under our management.

We have space available for redevelopment that may be difficult to redevelop or successfully lease to tenants.

We have approximately 1.6 million square feet held for redevelopment at December 31, 2006 including 4 vacant buildings. Successful redevelopment of this space depends on numerous factors including success in engaging contractors, obtaining permits and availability of financing. We are and intend to continue building out a large portion of this space on a speculative basis at significant cost. In addition there can be no assurance that once completed we will be able to successfully lease redeveloped space to new or existing tenants. If we are not able to lease redevelopment space, or lease it at rates below those we expected to achieve when we started the project, our financial performance would be materially adversely affected.

Table of Contents

We may have difficulty managing our growth.

We have significantly expanded the size of our company. For example, during 2006, we acquired 16 properties, including five properties outside the United States, and our number of employees increased from 53 to 109. The growth in our company may significantly strain our management, operational and financial resources and systems. In addition, as a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, and the rules and regulations of the NYSE. The requirements of these rules and regulations have increased our accounting, legal and financial compliance costs and may strain our management and financial, legal and operational resources and systems. An inability to manage our growth effectively or the increased strain on management of our resources and systems could result in deficiencies in our disclosure controls and procedures or our internal control over financial reporting and could negatively impact our cash available for distribution, including cash available to pay preferred stock dividends to our preferred stockholders or pay distributions to our common stockholders.

We have limited operating history as a REIT and as a public company.

We were formed in March 2004 and have limited operating history as a REIT and as a public company. We cannot assure you that our past experience will be sufficient to successfully operate our company as a REIT or as a public company. Failure to maintain REIT status or failure to meet the requirements of being a public company would have an adverse effect on our cash available for distribution, including cash available to pay dividends to our preferred stockholders or pay distributions to our common stockholders.

Tax protection provisions on certain properties could limit our operating flexibility.

We have agreed with the third-party contributors who contributed the direct and indirect interests in the 200 Paul Avenue 1-4 and 1100 Space Park Drive properties to indemnify them against adverse tax consequences if we were to sell, convey, transfer or otherwise dispose of all or any portion of these interests, in a taxable transaction, in these properties. However, we can sell these properties in a taxable transaction if we pay the contributors cash in the amount of their tax liabilities arising from the transaction and tax payments. The 200 Paul Avenue 1-4 and 1100 Space Park Drive properties represented 9.3% of our portfolio's gross annualized rent as of December 31, 2006. These tax protection provisions apply for a period expiring on the earlier of November 3, 2013 and the date on which these contributors (or certain transferees) hold less than 25% of the units issued to them in connection with the contribution of these properties to our operating partnership. Although it may be in our stockholders' best interest that we sell a property, it may be economically disadvantageous for us to do so because of these obligations. We have also agreed to make up to \$20.0 million of debt available for these contributors to guarantee. We agreed to these provisions in order to assist these contributors in preserving their tax position after their contributions.

Potential losses may not be covered by insurance.

We carry comprehensive liability, fire, extended coverage, earthquake, business interruption and rental loss insurance covering all of the properties in our portfolio under various insurance policies. We select policy specifications and insured limits which we believe to be appropriate and adequate given the relative risk of loss, the cost of the coverage and industry practice. We do not carry insurance for generally uninsured losses such as loss from riots, terrorist threats, war or nuclear reaction. Most of our policies, like those covering losses due to floods, are insured subject to limitations involving large deductibles or co-payments and policy limits which may not be sufficient to cover losses. A substantial portion of the properties we own are located in California, an area especially subject to earthquakes. Together, these properties represented approximately 30% of our portfolio's gross annualized rent as of December 31, 2006. While we carry earthquake insurance on our properties, the amount of our earthquake insurance coverage may not be sufficient to fully cover losses from earthquakes. In addition, we may discontinue earthquake or other insurance on some or all of our properties in the future if the cost of premiums for any of these policies exceeds, in our judgment, the value of the coverage relative to the risk of loss.

Table of Contents

In addition, many of our buildings contain extensive and highly valuable technology-related improvements. Under the terms of our leases, tenants generally retain title to such improvements and are obligated to maintain adequate insurance coverage applicable to such improvements and under most circumstances use their insurance proceeds to restore such improvements after a casualty. In the event of a casualty or other loss involving one of our buildings with extensive installed tenant improvements, our tenants may have the right to terminate their leases if we do not rebuild the base building within prescribed times. In such cases, the proceeds from tenants' insurance will not be available to us to restore the improvements, and our insurance coverage may be insufficient to replicate the technology-related improvements made by such tenants. Furthermore, the terms of our mortgage indebtedness at certain of our properties may require us to pay insurance proceeds over to our lenders under certain circumstances, rather than use the proceeds to repair the property.

If we or one or more of our tenants experiences a loss which is uninsured or which exceeds policy limits, we could lose the capital invested in the damaged properties as well as the anticipated future cash flows from those properties. In addition, if the damaged properties are subject to recourse indebtedness, we would continue to be liable for the indebtedness, even if these properties were irreparably damaged.

Payments on our debt reduce cash available for distribution and may expose us to the risk of default under our debt obligations.

Our total consolidated indebtedness at December 31, 2006 was approximately \$1,122.6 million, and we may incur significant additional debt to finance future acquisition and development activities. We also have an unsecured credit facility which has a borrowing limit based upon a percentage of the value of our unsecured properties included in the facility's borrowing base. At December 31, 2006, \$148.0 million was available under this facility. In addition, under our contribution agreement with respect to the 200 Paul Avenue 1-4 and 1100 Space Park Drive properties, we have agreed to make available for guarantee up to \$20.0 million of indebtedness and may enter into similar agreements in the future.

Payments of principal and interest on borrowings may leave us with insufficient cash resources to operate our properties, pay the dividends to our preferred stockholders or pay distributions to our common stockholders necessary to maintain our REIT qualification. Our level of debt and the limitations imposed on us by our debt agreements could have significant adverse consequences, including the following:

our cash flow may be insufficient to meet our required principal and interest payments;

we may be unable to borrow additional funds as needed or on favorable terms;

we may be unable to refinance our indebtedness at maturity or the refinancing terms may be less favorable than the terms of our original indebtedness;

because a significant portion of our debt bears interest at variable rates, increases in interest rates could materially increase our interest expense;

we may be forced to dispose of one or more of our properties, possibly on disadvantageous terms;

we may default on our obligations and the lenders or mortgagees may foreclose on our properties or our interests in the entities that own the properties that secure their loans and receive an assignment of rents and leases;

we may violate restrictive covenants in our loan documents, which would entitle the lenders to accelerate our debt obligations; and

our default under any one of our mortgage loans with cross default provisions could result in a default on other indebtedness.

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If any one of these events were to occur, our financial condition, results of operations, cash flow, cash available for distribution, including cash available to pay dividends to our preferred stockholders or pay distributions to our common stockholders, per share trading price of our common stock or preferred stock, and

Table of Contents

our ability to satisfy our debt service obligations could be materially adversely affected. Furthermore, foreclosures could create taxable income without accompanying cash proceeds, a circumstance which could hinder our ability to meet the REIT distribution requirements imposed by the Internal Revenue Code of 1986 as amended (the Code).

We may be unable to identify and complete acquisitions and successfully operate acquired properties.

We continually evaluate the market of available properties and may acquire additional technology-related real estate when opportunities exist. Our ability to acquire properties on favorable terms and successfully operate them may be exposed to the following significant risks:

we may be unable to acquire a desired property because of competition from other real estate investors with significant capital, including both publicly traded REITs and institutional investment funds;

even if we are able to acquire a desired property, competition from other potential acquirors may significantly increase the purchase price or result in other less favorable terms;

even if we enter into agreements for the acquisition of technology-related real estate, these agreements are subject to customary conditions to closing, including completion of due diligence investigations to our satisfaction;

we may be unable to finance acquisitions on favorable terms or at all;

we may spend more than budgeted amounts to make necessary improvements or renovations to acquired properties;

we may be unable to integrate new acquisitions quickly and efficiently, particularly acquisitions of operating businesses or portfolios of properties, into our existing operations, and our results of operations and financial condition could be adversely affected;

acquired properties may be subject to reassessment, which may result in higher than expected property tax payments;

market conditions may result in higher than expected vacancy rates and lower than expected rental rates; and

we may acquire properties subject to liabilities and without any recourse, or with only limited recourse, with respect to unknown liabilities such as liabilities for clean-up of undisclosed environmental contamination, claims by tenants, vendors or other persons dealing with the former owners of the properties and claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties.

If we cannot finance property acquisitions on favorable terms, or operate acquired properties to meet our financial expectations, our financial condition, results of operations, cash flow, cash available for distribution, including cash available to pay dividends to our preferred stockholders or pay distributions to our common stockholders, per share trading price of our common stock or preferred stock, and ability to satisfy our debt service obligations could be materially adversely affected.

We may be unable to source off-market deal flow in the future.

A key component of our growth strategy is to continue to acquire additional technology-related real estate. To date, more than half of our acquisitions were acquired before they were widely marketed by real estate brokers, or off-market. Properties that are acquired off-market are typically more attractive to us as a purchaser because of the absence of competitive bidding, which could potentially lead to higher prices. We

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obtain access to off-market deal flow from numerous sources. If we cannot obtain off-market deal flow in the future, our ability to locate and acquire additional properties at attractive prices could be adversely affected.

Table of Contents

We face significant competition, which may decrease or prevent increases of the occupancy and rental rates of our properties.

We compete with numerous regional developers, owners and operators of real estate, many of which own properties similar to ours in the same submarkets in which our properties are located. If our competitors offer space at rental rates below current market rates, or below the rental rates we currently charge our tenants, we may lose potential tenants and we may be pressured to reduce our rental rates below those we currently charge in order to retain tenants when our tenants' leases expire. As a result, our financial condition, results of operations, cash flow, cash available for distribution, including cash available to pay dividends to our preferred stockholders or pay distributions to our common stockholders, per share trading price of our common stock or preferred stock, and ability to satisfy our debt service obligations could be materially adversely affected.

We may be unable to renew leases, lease vacant space or re-lease space as leases expire.

As of December 31, 2006, leases representing 2.0% of the square footage of the properties in our portfolio, excluding space held for redevelopment were scheduled to expire in 2007, and an additional 5.0% of the net rentable square footage excluding space held for redevelopment was available to be leased. We cannot assure you that leases will be renewed or that our properties will be re-leased at net effective rental rates equal to or above the current average net effective rental rates. If the rental rates for our properties decrease, our existing tenants do not renew their leases or we do not re-lease a significant portion of our available space and space for which leases are scheduled to expire, our financial condition, results of operations, cash flow, cash available for distribution, including cash available to pay dividends to our preferred stockholders or pay distributions to our common stockholders, per share trading price of our common stock or preferred stock, and our ability to satisfy our debt service obligations could be materially adversely affected.

In addition at December 31, 2006 we owned approximately 1.6 million square feet held for redevelopment. Successful redevelopment of this space depends on numerous factors including success in engaging contractors, obtaining environmental and legal permits and availability of financing. In addition, there can be no assurance that once we have redeveloped a space we will be able to successfully lease to new or existing tenants. If we are not able to successfully redevelop this space, if redevelopment costs are higher than we currently estimate, or if we are not able to lease space that has been redeveloped, our revenue and operating results could be adversely effected.

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 Code to annually distribute at least 90% of our net taxable income, determined without regard to the dividends paid deduction and excluding any net capital gain. In addition, we will be subject to income tax at regular corporate rates to the extent that we distribute less than 100% of our net taxable income, including any net capital gains. Because of these distribution requirements, we may not be able to fund future capital needs, including any necessary acquisition or redevelopment financing, from operating cash flow. Consequently, we rely on third-party sources to fund our capital needs. We may not be able to obtain the 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 business prospects and 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 and preferred stock.

Table of Contents

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.

Our unsecured credit facility restricts our ability to engage in some business activities.

Our unsecured credit facility contains negative covenants and other financial and operating covenants that, among other things:

restrict our ability to incur additional indebtedness;

restrict our ability to make certain investments;

restrict our ability to merge with another company;

restrict our ability to create, incur or assume liens;

restrict our ability to make distributions to our stockholders;

require us to maintain financial coverage ratios; and

require us to maintain a pool of unencumbered assets approved by the lenders.

These restrictions could cause us to default on our unsecured credit facility or negatively affect our operations and our ability to pay dividends to our preferred stockholders or distributions to our common stockholders.

The exchange and repurchase rights of our exchangeable debentures may be detrimental to holders of common stock.

Our operating partnership has \$172.5 million principal amount of 4.125% Exchangeable Senior Debentures due 2026, which we refer to as the exchangeable debentures. The exchangeable debentures may under certain circumstances, be exchanged for cash (up to the principal amount of the exchangeable debentures) and, with respect to any excess exchange value, into cash, shares of our common stock or a combination of cash and shares of our common stock at an initial exchange rate of 30.6828 shares per \$1,000 principal amount of exchangeable debentures. At the initial exchange rate, the exchangeable debentures are exchangeable for our common stock at an exchange price of approximately \$32.5916 per share. The exchange rate of the exchangeable debentures is subject to adjustment for certain events, including, but not limited to, certain dividends on our common stock in excess of \$0.265 per share per quarter, the issuance of certain rights, options or warrants to holders of our common stock, subdivisions or combinations of our common stock, certain distributions of assets, debt securities, capital stock or cash to holders of our common stock and certain tender or exchange offers. The exchangeable debentures are redeemable at the Company's option for cash at any time on or after August 18, 2011 and are subject to repurchase for cash at the option of the holder on August 15 in the years 2011, 2016 and 2021, or upon the occurrence of certain events. The exchangeable debentures are our senior unsecured and unsubordinated obligations.

The exchange of exchangeable debentures for our common stock would dilute stockholder ownership in our company, and could adversely affect the market price of our common stock and could impair our ability to raise capital through the sale of additional equity securities. Any adjustments to the exchange rate of the exchangeable debentures would exacerbate their dilutive effect. If the exchangeable debentures are not exchanged, the repurchase rights of holder of the exchangeable debentures may discourage or impede transactions that might otherwise be in the interest of holders of common stock. Further, these exchange or repurchase rights might be triggered in situations where we need to conserve our cash reserves, in which event such repurchase might adversely affect us and our stockholders.

Joint venture investments could be adversely affected by our lack of sole decision-making authority, our reliance on co-venturers financial condition and disputes between us and our co-venturers.

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We currently and may in the future 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

Table of Contents

of a property, partnership, joint venture or other entity. In that event, we would not be in a position to exercise sole decision-making authority regarding the property, partnership, joint venture or other entity. Investments in partnerships, joint ventures, or other entities may, under certain circumstances, involve risks not present when a third party is not involved, including the possibility that partners or co-venturers might become bankrupt or fail to fund their share of required capital contributions. Partners or co-venturers may have economic, tax or other business interests or goals which are inconsistent with our business interests or goals, and may be in a position to take actions contrary to our policies or objectives. Our joint venture partners may take actions that are not within our control, which would require us to dispose of the joint venture asset or transfer it to a taxable REIT subsidiary in order to maintain our status as a REIT. Such investments may also lead to impasses, for example, as to whether to sell a property, because neither we nor the partner or co-venturer would have full control over the partnership or joint venture. Disputes between us and partners or co-venturers may result in litigation or arbitration that would increase our expenses and prevent our officers and/or directors from focusing their time and effort on our day-to-day business. Consequently, actions by or disputes with partners or co-venturers may subject properties owned by the partnership or joint venture to additional risk. In addition, we may in certain circumstances be liable for the actions of our third-party partners or co-venturers. Each of these factors may result in returns on these investments being less than we expect or in losses and our financial and operating results may be adversely effected.

Our success depends on key personnel whose continued service is not guaranteed.

We depend on the efforts of key personnel, particularly Michael Foust, our Chief Executive Officer, A. William Stein, our Chief Financial Officer and Chief Investment Officer, Scott Peterson, our Senior Vice President, Acquisitions, Christopher Crosby, our Senior Vice President, Sales and Technical Services and James R. Trout, our Senior Vice President of Portfolio and Technical Operations. They are important to our success for many reasons, including that each has a national or regional reputation in our industry and the investment community that attracts investors and business and investment opportunities and assists us in negotiations with investors, lenders, existing and potential tenants and industry personnel. If we lost their services, our business and investment opportunities and our relationships with lenders and other capital markets participants, existing and prospective tenants and industry personnel could suffer. Many of our other senior executives also have strong technology and real estate industry reputations. As a result, we have greater access to potential acquisitions and leasing and other opportunities, and are better able to negotiate with tenants. The loss of any of these key personnel would result in the loss of these and other benefits and could materially and adversely affect our results of operations.

Failure to hedge effectively against interest rate changes may adversely affect results of operations.

We seek to manage our exposure to interest rate volatility by using interest rate hedging arrangements, such as interest cap and interest rate swap agreements. These agreements involve risks, such as the risk that counterparties may fail to honor their obligations under these arrangements, that these arrangements may not be effective in reducing our exposure to interest rate changes and that a court could rule that such an agreement is not legally enforceable. Our policy is to use derivatives only to hedge interest rate risks related to our borrowings, not for speculative or trading purposes, and to enter into contracts only with major financial institutions based on their credit ratings and other factors. However, we may choose to change this policy in the future. Including loans currently subject to interest rate swaps, approximately 87% of our total indebtedness as of December 31, 2006 was subject to fixed interest rates. We do not currently hedge our unsecured credit facility and as our borrowings under our unsecured credit facility increases, so will our percentage of indebtedness not subject to fixed rates and our exposure to interest rates increases. Hedging may reduce the overall returns on our investments. Failure to hedge effectively against interest rate changes may materially adversely affect our results of operations.

Our properties may not be suitable for lease to traditional datacenter or technology office tenants without significant expenditures or renovations.

Because many of our properties contain extensive tenant improvements installed at our tenants' expense, they may be better suited for a specific corporate enterprise datacenter user or technology industry tenant and could require modification in order for us to re-lease vacant space to another corporate enterprise datacenter user.

Table of Contents

or technology industry tenant. The tenant improvements may also become outdated or obsolete as the result of technological change, the passage of time or other factors. In addition, our redevelopment space will generally require substantial improvement to be suitable for datacenter use. For the same reason, our properties also may not be suitable for lease to traditional office tenants without significant expenditures or renovations. As a result, we may be required to invest significant amounts or offer significant discounts to tenants in order to lease or re-lease that space, either of which could adversely effect our financial and operating results.

Ownership of properties located outside of the United States subjects us to foreign currency and related risks which may adversely impact our ability to make distributions.

We owned eight properties located outside of the U.S. at December 31, 2006 and have a right of first offer with respect to another property. In addition, we are currently considering, and will in the future consider, additional international acquisitions.

The ownership of properties located outside of the U.S. subjects us to risk from fluctuations in exchange rates between foreign currencies and the U.S. dollar. We expect that our principal foreign currency exposure will be to the British pound and the Euro. Changes in the relation of these currencies to U.S. dollars will affect our revenues and operating margins, may materially adversely impact our financial condition, results of operations, cash flow, cash available for distribution, including cash available to pay dividends to our preferred stockholders or pay distributions to our common stockholders, per share trading price of our common stock or preferred stock, ability to satisfy our debt obligations and ability to qualify as a REIT.

We may attempt to mitigate some or all of the risk of currency fluctuation by financing our properties in the local currency denominations, although we cannot assure you that we will be able to do so or that this will be effective. We may also engage in direct hedging activities to mitigate the risks of exchange rate fluctuations.

Any foreign currency gain recognized with respect to changes in exchange rates as well as any income recognized with respect to foreign currency exchange rate hedging activities may not qualify under the 75% gross income test or the 95% gross income test that we must satisfy annually in order to qualify and maintain our status as a REIT.

Acquisition and ownership of foreign properties involve risks greater than those faced by us in the U.S.

Foreign real estate investments usually involve risks not generally associated with investments in the United States. Our international acquisitions and operations are subject to a number of risks, including:

acquisition risk resulting from our lack of knowledge of local real estate markets, economies and business practices and customs;

our limited knowledge of and relationships with sellers and tenants in these markets;

due diligence, transaction and structuring costs higher than those we may face in the U.S.;

complexity and costs associated with managing international operations;

difficulty in hiring qualified management, sales personnel and service providers in a timely fashion;

multiple, conflicting and changing legal, regulatory, tax and treaty environments;

exposure to increased taxation, confiscation or expropriation;

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currency transfer restrictions and limitations on our ability to distribute cash earned in foreign jurisdictions to the U.S.;

difficulty in enforcing agreements in non-U.S. jurisdictions, including those entered into in connection with our acquisitions or in the event of a default by one or more of our tenants; and

political and economic instability in certain geographic regions.

Table of Contents

Our inability to overcome these risks could adversely affect our foreign operations and could harm our business and results of operations.

Risks Related to the Real Estate Industry

Our performance and value are subject to risks associated with real estate assets and with the real estate industry.

Our ability to pay dividends to our preferred stockholders or pay distributions to our common stockholders depends on our ability to generate revenues in excess of expenses, scheduled principal payments on debt and capital expenditure requirements. Events and conditions generally applicable to owners and operators of real property that are beyond our control may decrease cash available for distribution, including cash available to pay dividends to our preferred stockholders or pay distributions to our common stockholders, and the value of our properties. These events and conditions include:

local oversupply, increased competition or reduction in demand for technology-related space;

inability to collect rent from tenants;

vacancies or our inability to rent space on favorable terms;

inability to finance property development and acquisitions on favorable terms;

increased operating costs, including insurance premiums, utilities and real estate taxes;

costs of complying with changes in governmental regulations; and

the relative illiquidity of real estate investments.

In addition, periods of economic slowdown or recession, rising interest rates or declining demand for real estate, or the public perception that any of these events may occur, could result in a general decline in rents or an increased incidence of defaults under existing leases, which would materially adversely affect our financial condition, results of operations, cash flow, cash available for distribution, including cash available to pay dividends to our preferred stockholders or pay distributions to our common stockholders, per share trading price of our common stock or preferred stock and ability to satisfy our debt service obligations.

Illiquidity of real estate investments could significantly impede our ability to respond to adverse changes in the performance of our properties and harm our financial condition.

Because real estate investments are relatively illiquid, our ability to promptly sell properties in our portfolio in response to adverse changes in their performance may be limited, which may harm our financial condition. The real estate market is affected by many factors that are beyond our control, including:

adverse changes in national and local economic and market conditions;

changes in interest rates and in the availability, cost and terms of debt financing;

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changes in laws and regulations, fiscal policies and zoning ordinances and costs of compliance with laws and regulations, fiscal policies and ordinances;

the ongoing need for capital improvements, particularly in older structures;

changes in operating expenses; and

civil unrest, acts of war, terrorist attacks and natural disasters, including earthquakes and floods, which may result in uninsured and underinsured losses.

We could incur significant costs related to government regulation and private litigation over environmental matters.

Under various laws relating to the protection of the environment, a current or previous owner or operator of real estate may be liable for contamination resulting from the presence or discharge of hazardous or toxic

Table of Contents

substances at that property, and may be required to investigate and clean up such contamination at or emanating from that property. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence of the contaminants, and the liability may be joint and several. Previous owners used some of our properties for industrial and retail purposes, so those properties may contain some level of environmental contamination. The presence of contamination or the failure to remediate contamination at our properties may expose us to third-party liability or materially adversely affect our ability to sell, lease or develop the real estate or to borrow using the real estate as collateral.

Some of the properties may contain asbestos-containing building materials. Environmental laws require that asbestos-containing building materials be properly managed and maintained, and may impose fines and penalties on building owners or operators for failure to comply with these requirements. These laws may also allow third parties to seek recovery from owners or operators for personal injury associated with exposure to asbestos-containing building materials.

In addition, some of our tenants, particularly those in the biotechnology and life sciences industry and those in the technology manufacturing industry, routinely handle hazardous substances and wastes as part of their operations at our properties. Environmental laws and regulations subject our tenants, and potentially us, to liability resulting from these activities or from previous industrial or retail uses of those properties. Environmental liabilities could also affect a tenant's ability to make rental payments to us.

Existing conditions at some of our properties may expose us to liability related to environmental matters.

Independent environmental consultants have conducted Phase I or similar environmental site assessments on all of the properties in our portfolio. Site assessments are intended to discover and evaluate information regarding the environmental condition of the surveyed property and surrounding properties. These assessments do not generally include soil samplings, subsurface investigations or an asbestos survey and the assessments may fail to reveal all environmental conditions, liabilities or compliance concerns. In addition material environmental conditions, liabilities or compliance concerns may arise after these reviews are completed or may arise in the future. Future laws, ordinances or regulations may impose additional material environmental liability.

We cannot assure you that costs of future environmental compliance will not affect our ability to pay dividends to our preferred stockholders or pay distributions to our common stockholders or that such costs or other remedial measures will not have a material adverse effect on our business, assets or results of operations.

Our properties may contain or develop harmful mold or suffer from other air quality issues, which could lead to liability for adverse health effects and costs to remedy the problem.

When excessive moisture accumulates in buildings or on building materials, mold may grow, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Indoor air quality issues can also stem from inadequate ventilation, chemical contamination from indoor or outdoor sources and other biological contaminants such as pollen, viruses and bacteria. Indoor exposure to airborne toxins or irritants above certain levels can be alleged to cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, the presence of significant mold or other airborne contaminants at any of our properties could require us to undertake a costly remediation program to contain or remove the mold or other airborne contaminants from the affected property or increase indoor ventilation. In addition, the presence of significant mold or other airborne contaminants could expose us to liability from our tenants, employees of our tenants and others if property damage or health concerns arise.

We may incur significant costs complying with the Americans with Disabilities Act and similar laws.

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. We have not conducted an audit or investigation of all of our properties to determine our compliance with the ADA. If one or more of the properties

Table of Contents

in our portfolio does not comply with the ADA, 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 cost of compliance with the ADA or other legislation. If we incur substantial costs to comply with the ADA and any other similar legislation, our financial condition, results of operations, cash flow, cash available for distribution, including cash available to pay dividends to our preferred stockholders or pay distributions to our common stockholders, per share trading price of our common stock or preferred stock and our ability to satisfy our debt service obligations could be materially adversely affected.

We may incur significant costs complying with other regulations.

The properties in our portfolio are subject to various federal, state and local regulations, such as state and local fire and life safety regulations. If we fail to comply with these various regulations, we may have to pay fines or private damage awards. In addition, we do not know whether existing regulations will change or whether future regulations will require us to make significant unanticipated expenditures that will materially adversely impact our financial condition, results of operations, cash flow, cash available for distribution, including cash available to pay dividends to our preferred stockholders or pay distributions to our common stockholders, per share trading price of our common stock or preferred stock and our ability to satisfy our debt service obligations.

Risks Related to Our Organizational Structure

Conflicts of interest may exist or could arise in the future with holders of units in our operating partnership.

Conflicts of interest may exist or could arise in the future as a result of the relationships between us and our affiliates, on the one hand, and our operating partnership or any partner thereof, on the other. Our directors and officers have duties to our company and our stockholders under Maryland law in connection with their management of our company. At the same time, we, as general partner, have fiduciary duties under Maryland law to our operating partnership and to the limited partners in connection with the management of our operating partnership. Our duties as general partner to our operating partnership and its partners may come into conflict with the duties of our directors and officers to our company and our stockholders. Under Maryland law, a general partner of a Maryland limited partnership owes its limited partners the duties of good faith, fairness and loyalty, unless the partnership agreement provides otherwise. The partnership agreement of our operating partnership provides that for so long as we own a controlling interest in our operating partnership, any conflict that cannot be resolved in a manner not adverse to either our stockholders or the limited partners will be resolved in favor of our stockholders.

The provisions of Maryland law that allow the fiduciary duties of a general partner to be modified by a partnership agreement have not been tested in a court of law, and we have not obtained an opinion of counsel covering the provisions set forth in the partnership agreement that purport to waive or restrict our fiduciary duties.

We are also subject to the following additional conflicts of interest with holders of units in our operating partnership:

We may pursue less vigorous enforcement of terms of certain agreements because of conflicts of interest with GI Partners and certain of our officers. GI Partners and its related funds, which collectively owned a 9.5% interest in our operating partnership at December 31, 2006, owns a property on which we have a right of first offer. In addition, GI Partners owns The Linc Group, a provider of operations and maintenance repair services for mechanical, electrical, plumbing and general building service systems that we have contracted with to provide these services at five of our properties. GI Partners Fund II, LLP, or GI Partners II, owns The tel(x) Group, an operator of Meet-Me-Room network interconnection facilities that leases 87,305 square feet from us under ten lease agreements. Richard Magnuson, the Chairman of our board of directors, is also, and will continue to be, the chief executive officer of the advisor to GI Partners and GI Partners II. In the future, we may enter into additional

Table of Contents

agreements with The Linc Group, The tel(x) Group or other companies owned by GI Partners or GI Partners II. We may choose not to enforce, or to enforce less vigorously, our rights under these agreements because of our desire to maintain our ongoing relationship with GI Partners and the other individuals involved.

Tax consequences upon sale or refinancing. Sales of properties and repayment of related indebtedness will affect holders of common units in our operating partnership and our stockholders differently. The parties who contributed the 200 Paul Avenue 1-4 and 1100 Space Park Drive properties to our operating partnership would incur adverse tax consequences upon the sale of these properties and on the repayment of related debt which differ from the tax consequences to us and our stockholders. Consequently, these holders of common units in our operating partnership may have different objectives regarding the appropriate pricing and timing of any such sale or repayment of debt. While we have exclusive authority under the limited partnership agreement of our operating partnership to determine when to refinance or repay debt or whether, when, and on what terms to sell a property, any such decision would require the approval of our board of directors. Certain of our directors and executive officers could exercise their influence in a manner inconsistent with the interests of some, or a majority, of our stockholders, including in a manner which could prevent completion of a sale of a property or the repayment of indebtedness.

Our charter and Maryland law contain provisions that may delay, defer or prevent a change of control transaction.

Our charter and the articles supplementary with respect to the preferred stock contain 9.8% ownership limits. Our charter, subject to certain exceptions, authorizes our directors to take such actions as are necessary and desirable to preserve our qualification as a REIT and to limit any person to actual or constructive ownership of no more than 9.8% (by value or by number of shares, whichever is more restrictive) of the outstanding shares of our common stock, 9.8% (by value or by number of shares, whichever is more restrictive) of the outstanding shares of any series of preferred stock and 9.8% of the value of our outstanding capital stock. Our board of directors, in its sole discretion, may exempt a proposed transferee from the ownership limit. However, our board of directors may not grant an exemption from the ownership limit to any proposed transferee whose direct or indirect ownership of more than 9.8% of the outstanding shares of our common stock, more than of 9.8% of the outstanding shares of any series of preferred stock or more than 9.8% of the value of our outstanding capital stock could jeopardize our status as a REIT. These restrictions on transferability and ownership will not apply if our board of directors determines that it is no longer in our best interests to attempt to qualify, or to continue to qualify, as a REIT. The ownership limit may delay, defer or prevent a transaction or a change of control that might be in the best interest of our common or preferred stockholders.

We could increase the number of authorized shares of stock and issue stock without stockholder approval. Our charter authorizes our board of directors, without stockholder approval, to increase the aggregate number of authorized shares of stock or the number of authorized shares of stock of any class or series, to issue authorized but unissued shares of our common stock or preferred stock and, subject to the voting rights of holders of preferred stock, to classify or reclassify any unissued shares of our common stock or preferred stock and to set the preferences, rights and other terms of such classified or reclassified shares. Although our board of directors has no such intention at the present time, it could establish a series of preferred stock that could, depending on the terms of such series, delay, defer or prevent a transaction or a change of control that might be in the best interest of our common or preferred stockholders.

Certain provisions of Maryland law could inhibit changes in control. Certain provisions of the MGCL may have the effect of impeding a third party from making a proposal to acquire us or of impeding a change of control under circumstances that otherwise could be in the best interests of our common or preferred stockholders, including:

business combination provisions that, subject to limitations, prohibit certain business combinations between us and an interested stockholder (defined generally as any person who beneficially owns 10%

Table of Contents

or more of the voting power of our shares or an affiliate or associate of ours who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of our then outstanding voting shares) or an affiliate thereof for five years after the most recent date on which the stockholder becomes an interested stockholder, and thereafter imposes special appraisal rights and special stockholder voting requirements on these combinations; and

control share provisions that provide that control shares of our company (defined as shares which, when aggregated with other shares controlled by the stockholder, entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a control share acquisition (defined as the direct or indirect acquisition of ownership or control of control shares) have no voting rights except to the extent approved by our stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares.

We have opted out of these provisions of the MGCL, in the case of the business combination provisions of the MGCL by resolution of our board of directors, and in the case of the control share provisions of the MGCL pursuant to a provision in our bylaws. However, our board of directors may by resolution elect to opt in to the business combination provisions of the MGCL and we may, by amendment to our bylaws, opt in to the control share provisions of the MGCL in the future.

The provisions of our charter on removal of directors and the advance notice provisions of the bylaws could delay, defer or prevent a transaction or a change of control of our company that might be in the best interest of our common or preferred stockholders. Likewise, if our company's board of directors were to opt in to the business combination provisions of the MGCL or the provisions of Title 3, Subtitle 8 of the MGCL, or if the provision in our bylaws opting out of the control share acquisition provisions of the MGCL were rescinded, these provisions of the MGCL could have similar anti-takeover effects. Further, our partnership agreement provides that our company may not engage in any merger, consolidation or other combination with or into another person, sale of all or substantially all of our assets or any reclassification or any recapitalization or change in outstanding shares of our common stock, unless in connection with such transaction we obtain the consent of the holders of at least 35% of our operating partnership's common and long-term incentive units (including units held by us), and certain other conditions are met.

Our board of directors may change our investment and financing policies without stockholder approval and we may become more highly leveraged, which may increase our risk of default under our debt obligations.

Our board of directors adopted a policy of limiting our indebtedness to 60% of our total market capitalization. Our total market capitalization is defined as the sum of the market value of our outstanding common stock (which may decrease, thereby increasing our debt to total capitalization ratio), excluding options issued under our incentive award plan, plus the aggregate value of the units not held by us, plus the liquidation preference of outstanding preferred stock, plus the book value of our total consolidated indebtedness. However, our organizational documents do not limit the amount or percentage of indebtedness, funded or otherwise, that we may incur. Our board of directors may alter or eliminate our current policy on borrowing at any time without stockholder approval. If this policy changed, we could become more highly leveraged which could result in an increase in our debt service and which could materially adversely affect our cash flow and our ability to make distributions, including cash available to pay dividends to our preferred stockholders or pay distribution to our common stockholders. Higher leverage also increases the risk of default on our obligations.

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

Maryland law provides that our directors and officers have no liability in their capacities as directors or officers if they perform their duties in good faith, in a manner they reasonably believe to be in our best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. As permitted

Table of Contents

by the MGCL, our charter limits the liability of our directors and officers to us and our stockholders for money damages, except for liability resulting from:

actual receipt of an improper benefit or profit in money, property or services; or

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.

In addition, our charter authorizes us to obligate our company, and our bylaws require us, to indemnify our directors and officers for actions taken by them in those capacities to the maximum extent permitted by Maryland law and we have entered in indemnification agreements with our officers and directors. As a result, we and our stockholders may have more limited rights against our directors and officers than might otherwise exist under common law. Accordingly, in the event that actions taken in good faith by any of our directors or officers impede the performance of our company, your ability to recover damages from that director or officer will be limited.

Risks Related to Our Status as a REIT

Failure to qualify as a REIT would have significant adverse consequences to us and the value of our stock.

We have operated and intend to continue operating in a manner that we believe will allow us to qualify as a REIT for federal income tax purposes under the Code. We have not requested and do not plan to request a ruling from the IRS that we qualify as a REIT. If we lose our REIT status, we will face serious tax consequences that would substantially reduce our cash available for distribution, including cash available to pay dividends to our preferred stockholders or pay distributions to our common stockholders, for each of the years involved because:

we would not be allowed a deduction for distributions to stockholders in computing our taxable income and would be subject to federal income tax at regular corporate rates;

we also could be subject to the federal alternative minimum tax and possibly increased state and local taxes; and

unless we are entitled to relief under applicable statutory provisions, we could not elect to be taxed as a REIT for four taxable years following the year during which we were disqualified.

In addition, if we fail to qualify as a REIT, we will not be required to make distributions to stockholders. As a result of all these factors, our failure to qualify as a REIT also could impair our ability to expand our business and raise capital, and would materially adversely affect the value of our capital stock.

Qualification as a REIT involves the application of highly technical and complex Code provisions for which there are only limited judicial and administrative interpretations. The complexity of these provisions and of the applicable Treasury Regulations that have been promulgated under the Code is greater in the case of a REIT that, like us, holds its assets through a partnership. Our ability to qualify as a REIT may be affected by facts and circumstances that are not entirely within our control. In order to qualify as a REIT, we must satisfy a number of requirements, including requirements regarding the composition of our assets and a requirement that at least 95% of our gross income in any year must be derived from qualifying sources, such as rents from real property. Also, we must make distributions to stockholders aggregating annually at least 90% of our net taxable income, excluding net capital gains. In addition, legislation, new regulations, administrative interpretations or court decisions may materially adversely affect our investors, our ability to qualify as a REIT for federal income tax purposes or the desirability of an investment in a REIT relative to other investments.

Even if we qualify as a REIT for federal income tax purposes, we may be subject to some federal, state and local taxes on our income or property and, in certain cases, a 100% penalty tax, in the event we sell property as a dealer. In addition, our domestic taxable REIT subsidiary could be subject to Federal and state taxes, and our foreign properties and companies are subject to tax in the jurisdictions in which they operate and are located.

Table of Contents

To maintain our REIT status, we may be forced to borrow funds on a short-term basis during unfavorable market conditions.

To qualify as a REIT, we generally must distribute to our stockholders at least 90% of our net taxable income each year, excluding capital gains, and we will be subject to regular corporate income taxes to the extent that we distribute less than 100% of our net taxable income each year. In addition, we will be subject to a 4% nondeductible excise tax on the amount, if any, by which distributions paid by us in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income and 100% of our undistributed income from prior years. In order to maintain our REIT status and avoid the payment of income and excise taxes, we may need to borrow funds on a short-term basis to meet the REIT distribution requirements even if the then prevailing market conditions are not favorable for these borrowings. These short-term borrowing needs could result from differences in timing between the actual receipt of cash and inclusion of income for federal income tax purposes, or the effect of non-deductible capital expenditures, the creation of reserves or required debt or amortization payments.

The ability of our board of directors to revoke our REIT election without stockholder approval may cause adverse consequences to our stockholders.

Our charter provides that our board of directors may revoke or otherwise terminate our REIT election, without the approval of our stockholders, if it determines that it is no longer in our best interests to continue to qualify as a REIT. If we cease to qualify as a REIT, we would become subject to U.S. federal income tax on our taxable income and we would no longer be required to distribute most of our taxable income to our stockholders, which may have adverse consequences on the total return to our common or preferred stockholders.

Forward-Looking Statements

We make statements in this report that are forward-looking statements within the meaning of the federal securities laws. In particular, statements pertaining to our capital resources, portfolio performance and results of operations contain forward-looking statements. Likewise, all of our statements regarding anticipated market conditions, demographics and results of operations are forward-looking statements. You can identify forward-looking statements by the use of forward-looking terminology such as believes, expects, may, will, should, seeks, approximately, intends, plans, pro forma, estimates or anticipates or the negative of these words and phrases or similar words or phrases which are predictions or indicate future events or trends and which do not relate solely to historical matters. You can also identify forward looking statements by discussions of strategy, plans or intentions.

Forward-looking statements involve numerous risks and uncertainties and you should not rely on them as predictions of future events. Forward-looking statements depend on assumptions, data or methods which may be incorrect or imprecise and we may not be able to realize them. We do not guarantee that the transactions and events described will happen as described (or that they will happen at all). The following factors, among others, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements:

adverse economic or real estate developments in our markets or the technology industry;

our dependence upon significant tenants;

our inability to comply with the rules and regulations applicable to public companies or to manage our growth effectively;

difficulty acquiring or operating properties in foreign jurisdictions;

defaults on or non-renewal of leases by tenants;

increased interest rates and operating costs;

Table of Contents

our failure to obtain necessary outside financing;

decreased rental rates or increased vacancy rates;

difficulties in identifying properties to acquire and completing acquisitions;

our failure to successfully operate acquired properties and operations;

our failure to maintain our status as a REIT;

possible adverse changes to tax laws;

environmental uncertainties and risks related to natural disasters;

financial market fluctuations;

changes in foreign currency exchange rates;

changes in foreign laws and regulations, including those related to taxation and real estate ownership and operation;

changes in real estate and zoning laws and increases in real property tax rates; and

inability to successfully redevelop and lease space held for redevelopment.

While forward-looking statements reflect our good faith beliefs, they are not guaranties of future performance. We disclaim any obligation to publicly update or revise any forward-looking statement to reflect changes in underlying assumptions or factors, new information, data or methods, future events or other changes. For a further discussion of these and other factors that could impact our future results, performance or transactions, see the sections above.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our Portfolio

As of December 31, 2006, we owned 59 properties through our operating partnership, excluding one property held as an investment in an unconsolidated joint venture. These properties are primarily located throughout North America, with seven properties located in Europe, and contain a total of approximately 9.4 million net rentable square feet excluding 1.6 million square feet held for redevelopment. The following

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table presents an overview of our portfolio of properties excluding the one property held as an investment in a joint venture, based on information as of December 31, 2006.

Table of Contents

Property (1)	Acquisition Date	Metropolitan Area	Net			Gross Annualized Rent (\$000) ⁽⁵⁾	Gross Annualized Rent per Square Foot (\$) ⁽⁶⁾
			Rentable Square Feet Excluding Redevelopment Space ⁽²⁾	Redevelopment Space ⁽³⁾	Percent Leased ⁽⁴⁾		
Internet Gateways							
350 East Cermak Road	May-05	Chicago	892,843	240,896	94.2%	23,282	27.69
200 Paul Avenue 1-4	Nov-04	San Francisco	501,761	25,919	97.2%	16,037	32.90
2323 Bryan Street	Jan-02	Dallas	457,217	19,890	83.7%	11,899	31.11
600 West Seventh Street	May-04	Los Angeles	444,001	45,721	97.8%	11,049	25.46
1100 Space Park Drive	Nov-04	Silicon Valley	165,297		97.6%	6,953	43.10
6 Braham Street ⁽⁷⁾	Jul-02	London, England	63,233		100.0%	6,434	101.75
600-780 S. Federal	Sep-05	Chicago	161,547		83.6%	4,895	36.24
12001 North Freeway	Apr-06	Houston	281,426	19,279	98.1%	4,185	15.15
36 NE 2nd Street	Jan-02	Miami	162,140		95.9%	4,166	26.81
731 East Trade Street	Aug-05	Charlotte	40,879		100.0%	1,098	26.86
113 North Myers	Aug-05	Charlotte	20,086	9,132	100.0%	690	34.35
125 North Myers	Aug-05	Charlotte	12,160	13,242	100.0%	309	25.41
			3,202,590	374,079	94.0%	90,997	30.24
Datacenters							
300 Boulevard East	Nov-02	New York	311,950		99.7%	12,199	39.22
833 Chestnut Street	Mar-05	Philadelphia	535,098	119,660	78.6%	8,727	20.75
111 Eighth Avenue ⁽⁸⁾	Oct-06	New York	83,137		100.0%	7,725	92.92
Unit 9, Blanchardstown Corporate Park ⁽⁷⁾	Dec-06	Dublin, Ireland	120,000		85.9%	7,363	71.41
2045 & 2055 LaFayette Street	May-04	Silicon Valley	300,000		100.0%	6,120	20.40
120 E. Van Buren Street	Jul-06	Phoenix	206,359	81,155	96.8%	21,521	107.78
11830 Webb Chapel Road	Aug-04	Dallas	365,647		95.0%	5,716	16.46
150 South First Street	Sep-04	Silicon Valley	179,761		100.0%	4,913	27.33
14901 FAA Boulevard	Jun-06	Dallas	263,700		100.0%	4,364	16.55
2334 Lundy Place	Dec-02	Silicon Valley	130,752		100.0%	4,090	31.28
114 Rue Amboise Croizat ⁽⁷⁾	Dec-06	Paris, France	122,627	229,519	56.0%	3,471	50.51
2401 Walsh Street	Jun-05	Silicon Valley	167,932		100.0%	3,118	18.57
200 North Nash Street	Jun-05	Los Angeles	113,606		100.0%	2,110	18.57
Gyroscoopweg 2E-2F ⁽⁷⁾	Jul-06	Amsterdam, Netherlands	55,585		100.0%	2,093	37.65
2403 Walsh Street	Jun-05	Silicon Valley	103,940		100.0%	1,930	18.57
4025 Midway Road	Jan-06	Dallas	36,856	63,734	100.0%	1,862	50.52
Paul van Vlissingenstraat 16 ⁽⁷⁾	Aug-05	Amsterdam, Netherlands	77,472	35,000	58.8%	1,810	39.74
4700 Old Ironsides Drive	Jun-05	Silicon Valley	90,139		100.0%	1,674	18.57
8534 Concord Center Drive	Jun-05	Denver	82,229		100.0%	1,567	19.06
6800 Millcreek Drive	Apr-06	Toronto, Canada	83,758		100.0%	1,530	18.27

Table of Contents

Property (1)	Acquisition Date	Metropolitan Area	Net			Gross Annualized Rent (\$000) ⁽⁵⁾	Gross Annualized Rent per Square Foot (\$) ⁽⁶⁾
			Rentable Square Feet Excluding Redevelopment Space ⁽²⁾	Redevelopment Space ⁽³⁾	Percent Leased ⁽⁴⁾		
3065 Gold Camp Drive	Oct-04	Sacramento	62,957		100.0%	1,494	23.73
3015 Winona Avenue	Dec-04	Los Angeles	82,911		100.0%	1,457	17.57
251 Exchange Place	Nov-05	Northern Virginia	70,982		100.0%	1,415	19.93
101 Aquila Way	Apr-06	Atlanta	313,581		100.0%	1,411	4.50
8100 Boone Boulevard ⁽⁸⁾	Oct-06	Northern Virginia	17,015		100.0%	1,379	81.05
1125 Energy Park Drive	Mar-05	Minneapolis/St. Paul	112,827		100.0%	1,340	11.88
Chemin de l'Epinglier 2 ⁽⁷⁾	Nov-05	Geneva, Switzerland	59,190		100.0%	1,328	22.44
3300 East Birch Street	Aug-03	Los Angeles	68,807		100.0%	1,277	18.56
Clonshaugh Industrial Estate ⁽⁷⁾	Feb-06	Dublin, Ireland	20,000		100.0%	1,201	60.05
375 Riverside Parkway	Jun-03	Atlanta	126,300	123,891	100.0%	1,179	9.33
2440 Marsh Lane	Jan-03	Dallas	6,705	128,545	100.0%	960	143.18
600 Winter Street	Sep-06	Boston	30,400		100.0%	748	24.61
7620 Metro Center Drive	Dec-05	Austin	45,000		100.0%	605	13.44
2300 NW 89th Place	Sep-06	Miami	64,174		100.0%	564	8.79
1807 Michael Faraday Court	Oct-06	Northern Virginia	19,237		100.0%	1,918	99.70
7500 Metro Center Drive	Dec-05	Austin		74,962			
3 Corporate Place	Dec-05	New York		283,124			
115 Second Avenue	Oct-05	Boston	10,494	56,236	0.0%		
2055 E. Technology Circle ⁽⁹⁾	Nov-06	Phoenix		76,350			
			4,541,128	1,272,176	94.4%	122,179	28.50
Technology Manufacturing							
34551 Ardenwood Boulevard 1-4	Jan-03	Silicon Valley	307,657		100.0%	7,927	25.76
47700 Kato Road & 1055 Page Avenue	Sep-03	Silicon Valley	183,050		100.0%	3,576	19.54
2010 East Centennial Circle ⁽¹⁰⁾	May-03	Phoenix	113,405		100.0%	2,549	22.48
			604,112		100.0%	14,052	23.26
Technology Office							
100 & 200 Quannapowitt Parkway	Jun-04	Boston	386,956		100.0%	7,203	18.61
4055 Valley View Lane	Sep-03	Dallas	240,153		90.5%	4,507	20.74
100 Technology Center Drive	Feb-04	Boston	197,000		100.0%	3,743	19.00
4849 Alpha Road	Apr-04	Dallas	125,538		100.0%	2,856	22.75
4650 Old Ironsides Drive	Jun-05	Silicon Valley	84,383		100.0%	1,567	18.57
			1,034,030		97.8%	19,876	19.66
Portfolio Total/Weighted Average							
			9,381,860	1,646,255	95.0%	247,104	\$ 27.73

Table of Contents

- (1) We have categorized the properties in our portfolio by their principal use based on gross annualized rent. However, many of our properties support multiple uses.
- (2) Net rentable square feet at a building represents the current square feet at that building under lease as specified in the lease agreements plus management's estimate of space available for lease based on engineering drawings. Net rentable square feet includes tenants' proportional share of common areas but excludes space held for redevelopment.
- (3) Redevelopment space is unoccupied space that requires significant capital investment in order to develop datacenter facilities that are ready for use. Most often this is shell space. However, in certain circumstances this may include partially built datacenter space that was not completed by previous ownership and requires a large capital investment in order to build out the space.
- (4) Excludes space held for redevelopment. Includes unoccupied space for which we are receiving rent and excludes space for which leases had been executed as of December 31, 2006 but for which we are not receiving rent.
- (5) Gross annualized rent represents the monthly contractual rent under existing leases as of December 31, 2006 multiplied by 12.
- (6) Gross annualized rent per square foot represents gross annualized rent as computed above, divided by the total square footage under lease as of the same date.
- (7) Rental amounts for 6 Braham Street were calculated based on the exchange rate in effect on December 31, 2006 of \$1.96 per £1.00 and rental amounts for Unit 9, Blanchardstown Corporate Park, 114 Rue Ambroise Croizat, Gyroscopweg 2E-2F, Paul van Vlissingenstraat 16, Chemin de l'Épinglier 2 and Clonshaugh Industrial Estate were calculated based on the exchange rate in effect on December 31, 2006 of \$1.32 per £1.00. Paul Van Vlissingenstraat 16, Chemin de l'Épinglier 2 and Clonshaugh Industrial Estate are subject to ground leases, which expire in the years 2054, 2074 and 2981, respectively.
- (8) 111 Eighth Avenue and 8100 Boone Boulevard are subject to operating leases, which expire in June 2014 and October 2007, respectively.
- (9) We are party to a ground sublease for this property. The term of the ground sublease expires in September 2083. All of the lease payments were prepaid by prior owner of this property.
- (10) We are party to a ground sublease for this property. The term of the ground sublease expires in the year 2082.

Table of Contents

Tenant Diversification

As of December 31, 2006 our portfolio was leased to more than 426 companies, many of which are nationally recognized firms. The following table sets forth information regarding the 15 largest tenants in our portfolio based on gross annualized rent as of December 31, 2006.

Tenant	Number of Locations	Total Occupied Square Feet ⁽¹⁾	Percentage of Net Rentable Square Feet	Gross Annualized Rent (\$ 000) ⁽²⁾	Percentage of Gross Annualized Rent	Weighted Average Remaining Lease Term in Months
1 Savvis Communications	(3) 11	1,408,809	15.0%	\$ 29,322	11.9%	124
2 Qwest Communications International, Inc.	10	684,691	7.3%	19,115	7.7%	98
3 tel(x) Group, Inc.	10	87,305	0.9%	9,109	3.7%	238
4 Comverse Technology , Inc.	1	367,033	3.9%	6,904	2.8%	49
5 JPMorgan Chase & Co.	2	41,957	0.4%	6,834	2.8%	84
6 Verio, Inc.	(4) 2	241,370	2.6%	6,718	2.7%	69
7 Leslie & Godwin	(5) 1	63,233	0.7%	6,434	2.6%	36
8 Equinix Operating Company, Inc.	2	295,338	3.1%	6,210	2.5%	101
9 Level 3 Communications, LLC.	(6) 11	282,589	3.0%	5,551	2.2%	65
10 AT & T	8	286,454	3.1%	5,513	2.2%	75
11 Amgen, Inc.	1	131,386	1.4%	5,346	2.2%	52
12 AboveNet, Inc.	6	150,661	1.6%	5,207	2.1%	139
13 Thomas Jefferson University	1	179,707	1.9%	3,864	1.6%	46
14 Stone & Webster, Inc.	(7) 1	197,000	2.1%	3,743	1.5%	75
15 Seagate Technology	1	183,050	2.0%	3,576	1.4%	57
Total/Weighted Average		4,600,583	49.0%	\$ 123,446	49.9%	94

- (1) Occupied square footage is defined as leases that have commenced on or before December 31, 2006.
- (2) Gross annualized rent represents the monthly contractual rent under existing leases as of December 31, 2006 multiplied by 12.
- (3) Microsoft subleases 192,000 net rentable square feet (approximately \$3.8 million of gross annualized rent) of this space and has the right to become tenant if the primary lessor defaults.
- (4) Verio is a wholly-owned subsidiary of Nippon Telegraph & Telephone.
- (5) Leslie & Godwin is a UK subsidiary of AON Corporation.
- (6) Level 3 Communications includes Wiltel Communications, OnFiber Communications & Broadwing Communications.
- (7) Stone & Webster is a subsidiary of The Shaw Group.

Lease Distribution

The following table sets forth information relating to the distribution of leases in the properties in our portfolio, based on net rentable square feet (excluding space held for redevelopment) under lease as of December 31, 2006.

Square Feet Under Lease Available ⁽¹⁾	Number of Leases	Percentage of All Leases	Total Net Rentable Square Feet	Percentage of Net Rentable Square Feet	Gross Annualized Rent (\$000)	Percentage of Gross Annualized Rent
2,500 or less	492	62.4%	184,888	2.0%	38,192	15.5%
2,501-10,000	128	16.2%	668,911	7.1%	26,174	10.6%
10,001-20,000	63	8.0%	951,877	10.1%	27,873	11.3%
20,001-40,000	44	5.6%	1,253,361	13.4%	26,401	10.7%
40,001-100,000	39	5.0%	2,463,532	26.3%	62,943	25.5%

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Greater than 100,000	22	2.8%	3,389,238	36.1%	65,521	26.4%
Portfolio Total	788	100.0%	9,381,860	100.0%	\$ 247,104	100.0%

(1) Excludes approximately 1.6 million square feet held for redevelopment at December 31, 2006.

Table of Contents**Lease Expirations**

The following table sets forth a summary schedule of the lease expirations for leases in place as of December 31, 2006 plus available space for each of the next ten full calendar years at the properties in our portfolio. Unless otherwise stated in the footnotes, the information set forth in the table assumes that tenants exercise no renewal options and all early termination rights.

Year	Number of Leases Expiring	Square Footage of Expiring Leases	Percentage of Net Rentable Square Feet	Gross Annualized Rent (\$000)	Percentage of Gross Annualized Rent	Gross	Gross	Gross
						Annualized Rent Per Occupied Square Foot	Annualized Rent Per Occupied Square Foot at Expiration	Annualized Rent at Expiration (\$000)
Available ⁽¹⁾		470,053	5.0%	\$	0.0%			
2007	191	188,572	2.0%	10,371	4.2%	\$ 55.00	55.03	10,377
2008	102	421,575	4.5%	17,468	7.1%	\$ 41.44	43.30	18,254
2009	87	506,412	5.4%	22,251	9.0%	\$ 43.94	45.04	22,809
2010	63	864,674	9.2%	22,294	9.0%	\$ 25.78	27.11	23,439
2011	70	1,269,751	13.5%	34,251	13.9%	\$ 26.97	28.85	36,631
2012	38	529,812	5.6%	7,390	3.0%	\$ 13.95	15.74	8,337
2013	26	564,145	6.0%	12,155	4.9%	\$ 21.55	26.53	14,965
2014 ⁽²⁾	32	543,225	5.8%	12,241	5.0%	\$ 22.53	27.79	15,095
2015	72	1,642,474	17.5%	45,400	18.4%	\$ 27.64	33.16	54,464
2016	49	743,571	7.9%	23,093	9.3%	\$ 31.06	38.37	28,530
Thereafter	58	1,637,596	17.6%	40,190	16.2%	\$ 24.54	37.26	61,024
Portfolio Total / Weighted Average	788	9,381,860	100.0%	\$ 247,104	100.0%	\$ 27.73	\$ 32.98	\$ 293,925

(1) Excludes approximately 1.6 million square feet held for redevelopment at December 31, 2006.

(2) Includes 63,233 square feet of net rentable space in 6 Braham Street. This property is subleased by Level 3 Communications from Leslie & Godwin, a United Kingdom subsidiary of AON Corporation, through December 2009. Level 3 Communications has executed a lease that will commence upon expiration of the Leslie & Godwin lease and continue through December 2014. Leslie & Godwin remain liable to us for rents under its lease.

Right of First Offer Property

At December 31, 2006 there is one property located in Germany owned by GI Partners that is subject to right of first offer agreements, whereby we have the right to make the first offer to purchase this property if GI Partners decides to sell it. We acquired one property from GI Partners that was subject to a right of first offer in June 2005.

ITEM 3. LEGAL PROCEEDINGS

In the ordinary course of our business, we may become subject to tort claims and other claims and administrative proceedings. As of December 31, 2006, we were not a party to any legal proceedings which we believe would have a material adverse effect on us.

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

No matters were submitted to a vote of our stockholders during the fourth quarter of the year ended December 31, 2006.

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock has been listed and is traded on the NYSE under the symbol DLR since October 29, 2004. The following table sets forth, for the periods indicated, the high, low and last sale prices in dollars on the NYSE for our common stock and the distributions we declared with respect to the periods indicated.

	High	Low	Last	Dividends Declared
First Quarter 2005	\$ 14.81	\$ 12.50	\$ 14.37	\$ 0.24375
Second Quarter 2005	\$ 17.49	\$ 13.67	\$ 17.38	\$ 0.24375
Third Quarter 2005	\$ 19.97	\$ 16.80	\$ 18.00	\$ 0.24375
Fourth Quarter 2005	\$ 24.70	\$ 17.73	\$ 22.63	\$ 0.26500
First Quarter 2006	\$ 28.59	\$ 22.29	\$ 28.17	\$ 0.26500
Second Quarter 2006	\$ 29.54	\$ 22.66	\$ 24.69	\$ 0.26500
Third Quarter 2006	\$ 31.88	\$ 24.58	\$ 31.32	\$ 0.26500
Fourth Quarter 2006	\$ 37.31	\$ 30.73	\$ 34.23	\$ 0.28625

We intend to continue to declare quarterly dividends on our common stock. The actual amount and timing of dividends, however, will be at the discretion of our board of directors and will depend upon our financial condition in addition to the requirements of the Code, and no assurance can be given as to the amounts or timing of future dividends. The exchange rate on our \$172.5 million principal amount of exchangeable debentures is subject to adjustment for certain events, including, but not limited to, certain dividends on our common stock in excess of \$0.265 per share per quarter. Therefore, increases to our quarterly dividend may increase the dilutive impact of the exchangeable debentures on our common stockholders. See Part I, Item 1A, Risk Factors – Risks Related to Our Business and Operations. The exchange and repurchase rights of our exchangeable debentures may be detrimental to holders of common stock.

Subject to the dividend requirements applicable to REITs under the Code, we intend, to the extent practicable, to invest substantially all of the proceeds from sales and refinancings of our assets in real estate-related assets and other assets. We may, however, under certain circumstances, make a dividend of capital or of assets. Such dividends, if any, will be made at the discretion of our board of directors. Dividends will be made in cash to the extent that cash is available for dividend.

As of February 23, 2007, there were 8 stockholders of record of our common stock. This figure does not reflect the beneficial ownership of shares held in nominee name.

STOCK PERFORMANCE GRAPH

The following graph compares the yearly change in the cumulative total stockholder return on our common stock during the period from November 3, 2004 (the date of our initial public offering) through December 31, 2006, with the cumulative total return on the Morgan Stanley REIT Index (RMS) and the S&P 500 Market Index. The comparison assumes that \$100 was invested on November 3, 2004 in our common stock and in each of these indices and assumes reinvestment of dividends, if any.

Table of Contents

**COMPARE CUMULATIVE TOTAL RETURN
AMONG DIGITAL REALTY TRUST, INC, S&P 500 INDEX AND RMS INDEX**

Assumes \$100 invested on November 3, 2004

Assumes dividends reinvested

Fiscal year ending December 31, 2006

Pricing Date	DLR(\$)	S&P 500	RMS
November 3, 2004	100.0	100.0	100.0
December 31, 2004	113.6	106.3	107.8
December 31, 2005	202.0	111.6	121.5
December 31, 2006	317.5	113.3	164.6

- (1) This graph and the accompanying text is not soliciting material, is not deemed filed with the SEC and is not to be incorporated by reference in any filing by us under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.
- (2) The stock price performance shown on the graph is not necessarily indicative of future price performance.
- (3) The hypothetical investment in our common stock presented in the stock performance graph above is based on an initial price of \$12.00 per share, the price on November 3, 2004, the date of our initial public offering.

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected consolidated financial and operating data on an historical basis for our company and on a combined historical basis for our company's Predecessor. The Predecessor is comprised of the real estate activities and holdings of GI Partners related to the properties in our portfolio. We have not presented historical information for the Company for periods prior to the consummation of our initial public offering because we did not have any corporate activity until the completion of our initial public offering other than the issuance of shares of common stock in connection with the initial capitalization of our company, and because we believe that a discussion of the results of the Company would not be meaningful. The Predecessor's combined historical financial information includes:

the wholly owned real estate subsidiaries and majority-owned real estate joint ventures that GI Partners contributed to our operating partnership in connection with our initial public offering;

an allocation of GI Partners' line of credit to the extent that borrowings and related interest expense relate to (1) borrowings to fund acquisitions of the properties in our portfolio and (2) borrowings to pay asset management fees paid by GI Partners that were allocated to the properties in our portfolio; and

an allocation of the asset management fees paid to a related party and incurred by GI Partners, along with an allocation of the liability for any such fees that were unpaid as of December 31, 2003 and an allocation of GI Partners' general and administrative expenses.

The following data should be read in conjunction with our financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included below in this Form 10-K. Certain prior year amounts have been reclassified to conform to the current year presentation.

Table of Contents**The Company and the Company Predecessor**

(Amounts in thousands, except per share data)

	The Company			The Predecessor		
	Year Ended December 31,		Period from	Period	Year ended	
	2006	2005	November 3, 2004 to December 31,	from January 1, 2004 to November 2,	December 31,	2002
Statement of Operations Data:						
Operating Revenues:						
Rental	\$ 229,742	\$ 158,428	\$ 20,121	\$ 63,748	\$ 48,673	\$ 21,203
Tenant reimbursements	51,796	37,174	3,992	12,012	8,632	3,894
Other	365	5,829			4,283	407
Total operating revenues	281,903	201,431	24,113	75,760	61,588	25,504
Operating Expenses:						
Rental property operating and maintenance	61,052	41,030	4,790	12,291	8,205	4,997
Property taxes	28,052	20,992	1,959	6,642	4,479	2,755
Insurance	3,757	2,728	455	1,296	597	83
Asset management fees to related party				2,655	3,185	3,185
Depreciation and amortization	89,936	59,616	6,983	21,806	15,637	7,659
General and administrative	20,441	12,615	20,766	223	312	249
Other	1,111	1,635	57	1,021	2,459	1,249
Total operating expenses	204,349	138,616	35,010	45,934	34,874	20,177
Operating income (loss)	77,554	62,815	(10,897)	29,826	26,714	5,327
Other Income (Expenses):						
Equity in earnings of unconsolidated joint venture	177					
Interest and other income	1,275	1,274	30	71	45	51
Interest expense	(51,924)	(37,724)	(5,316)	(17,786)	(10,022)	(5,249)
Loss from early extinguishment of debt	(527)	(1,021)	(283)			
Income (loss) from continuing operations before minority interests	26,555	25,344	(16,466)	12,111	16,737	129
Minority interests in consolidated joint ventures of continuing operations			(20)	14	(149)	(190)
Minority interests in continuing operations of operating partnership	(5,383)	(8,818)	10,274			
Income (loss) from continuing operations	21,172	16,526	(6,212)	12,125	16,588	(61)
Income (loss) from discontinued operations before minority interests	(348)	(987)	96	(1,422)	54	
Gain on sale of assets	18,096					
Minority interests attributable to discontinued operations	(7,528)	562	(53)	23		
Income (loss) from discontinued operations	10,220	(425)	43	(1,399)	54	
Net income (loss)	31,392	16,101	(6,169)	\$ 10,726	\$ 16,642	\$ (61)

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Preferred stock dividends	(13,780)	(10,014)	
Net income (loss) available to common stockholders	\$ 17,612	\$ 6,087	\$ (6,169)
Per Share Data:			
Basic income (loss) per share available to common stockholders	\$ 0.49	\$ 0.25	\$ (0.30)
Diluted income (loss) per share available to common stockholders	\$ 0.47	\$ 0.25	\$ (0.30)
Cash dividend per common share	\$ 1.08	\$ 1.00	\$ 0.16
Weighted average common shares outstanding:			
Basic	36,134,983	23,986,288	20,770,875
Diluted	37,442,192	24,221,732	20,770,875

Table of Contents

	2006	The Company December 31, 2005	2004	The Predecessor December 31, 2003	2002
Balance Sheet Data:					
Net investments in real estate	\$ 1,736,802	\$ 1,194,106	\$ 787,412	\$ 391,737	\$ 217,009
Total assets	2,186,219	1,529,170	1,013,287	479,698	269,836
Notes payable under line of credit	145,452	181,000	44,000	44,436	53,000
Mortgages and other secured loans	804,686	568,067	475,498	253,429	103,560
Exchangeable senior debentures	172,500				
Total liabilities	1,338,031	880,228	584,229	328,303	183,524
Minority interests in consolidated joint ventures		206	997	3,444	3,135
Minority interests in operating partnership	138,416	262,239	254,862		
Total stockholders'/owner's equity	709,772	386,497	173,199	147,951	83,177
Total liabilities and stockholders'/owner's equity	\$ 2,186,219	\$ 1,529,170	\$ 1,013,287	\$ 479,698	\$ 269,836

The Company	The Company and the Predecessor	The Predecessor
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