CARRAMERICA REALTY CORP
Form 10-K
February 22, 2006
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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 fiscal year ended December 31, 2005

OR

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

For the transition period from __________ to __________

Commission File Number 1-11706

CARRAMERICA REALTY CORPORATION

(Exact name of registrant as specified in its charter)

Maryland **(State of Incorporation)**	**52-1796339** **(I.R.S. Employer Identification No.)**
1850 K Street, N.W. **Washington, D.C.** **(Address of principal executive offices)**	**20006** **(Zip Code)**

Registrant s telephone number, including area code: (202) 729-1700

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

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 Par Value	New York Stock Exchange
Series E Cumulative Redeemable Preferred Stock, $0.01 Par Value	New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes þ No ¨

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

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 þ 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 a 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 þ 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, 2005, the aggregate market value of Common Stock held by non-affiliates of the registrant was approximately $2.0 billion, based upon the closing price of $36.18 on the New York Stock Exchange composite tape on such date.

Number of shares of Common Stock outstanding as of February 10, 2006: 58,834,048

DOCUMENTS INCORPORATED BY REFERENCE: Portions of the proxy statement for the Annual Stockholders Meeting to be held in 2006 are incorporated by reference into Part III.

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PART 1

Item 1. Business

THE COMPANY

General

CarrAmerica Realty Corporation is a fully integrated, self-administered and self-managed publicly traded real estate investment trust (REIT). We focus on the acquisition, development, ownership and operation of office properties, located primarily in selected markets across the United States. As of December 31, 2005, we owned greater than 50% interests in 235 operating office buildings containing a total of approximately 18.4 million square feet of net rentable area. The operating buildings in which we owned a controlling interest as of December 31, 2005 were 89.4% leased. These properties had approximately 1,254 tenants. As of December 31, 2005, we also owned minority interests (ranging from 15% to 50%) in 50 operating office buildings and one building under development. The 50 operating office buildings contain a total of approximately 7.9 million square feet of net rentable area. The one office building under development will contain approximately 154,000 square feet of net rentable area. The operating buildings in which we owned a minority interest as of December 31, 2005 were 91.4% leased.

We were organized as a Maryland corporation on July 9, 1992. We or our predecessor, The Oliver Carr Company (OCCO), have developed, owned and operated office buildings in the Washington, D.C. metropolitan area for more than 40 years. Our experienced staff of approximately 640 employees, including about 380 on-site building employees, provides a broad range of real estate services. Our principal executive offices are located at 1850 K Street, NW, Washington, D.C. 20006. Our telephone number is 202-729-1700. Our web site can be found at www.carramerica.com.

Business Strategy

Our primary business objectives are to achieve long-term sustainable per share earnings and cash flow growth and to maximize stockholder value by acquiring, developing, owning and operating office properties primarily in markets throughout the United States that we believe exhibit strong, long-term growth characteristics. We believe we utilize our knowledge of our core markets to evaluate market conditions and determine whether those conditions favor acquisition, development or disposition of assets. During the last five years, we have actively deployed capital between acquisitions and development in order to create a portfolio that we believe demonstrates strong long-term growth prospects. In addition to seeking growth through acquisitions and development, we continue to strive to retain tenants and attract new tenants in our existing portfolio. We believe that our focus on our local relationships in our core markets, on customer service, primarily through superior property management, and our fast and responsive leasing initiatives has enabled us to maintain strong portfolio performance in an improving office market.

Our principal segment of operations is real estate property operations, which consists primarily of commercial property ownership. Approximately 95.0% of our operating revenues for the year ended December 31, 2005 were associated with our real estate property operations. Other business activities, including development and property management services, are included in other operations.

Market Focus

Core Market Data and Outlook

We have properties in 12 U.S. markets. While we are active in all of our markets, our invested capital is concentrated in four markets: Northern California; Washington, D.C.; Southern California; and Seattle, Washington. During 2005, 85.4% of our rental revenue and 88.2% of our total property operating income was derived from these four markets.

Each of our markets is managed by a Market Managing Director (MMD), who is responsible for maximizing returns on our existing portfolio and pursuing investment, development and service opportunities. They ensure that we are consistently meeting the needs of our customers, identifying new growth or capital deployment opportunities and sustaining active relationships with real estate brokers. Because of their ties and experience in the local markets, our MMDs have extensive knowledge of local conditions in their respective markets and are an important part of building our local operations and investment strategies.

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Our property operating income by market for the year ended December 31, 2005 was as follows:

Market	Percent of Property Operating[1] Income for the Year Ended 12/31/2005
Washington, D.C. Metro	35.7
Northern California	31.8
San Diego	9.3
Seattle	5.6
Orange County, CA	3.6
Denver	2.8
Chicago	2.7
Salt Lake City	2.4
Los Angeles	2.2
Dallas	2.0
Portland	1.0
Austin	0.9
	100.0

1 Property operating income is total property operations revenue less property operating expenses (excludes all properties sold in 2005).

After several years of adverse conditions in the commercial office real estate markets, vacancy rates peaked in the majority of our markets in 2003 and then began to improve. At the end of 2005, vacancy rates in all of our markets were declining due to continuing positive net absorption. As a result of improved office job growth, we believe leasing activity is up significantly, and we believe that market rental rates have stabilized in all of our markets and have improved in many of our markets, including Washington, D.C. and Southern California. We anticipate rental economics will continue to improve in the majority of our markets in 2006.

As a result of the improving market conditions described above, our occupancy in our consolidated portfolio of operating properties increased to 89.4% at December 31, 2005 compared to 88.2% at December 31, 2004 and 87.8% at December 31, 2003. If demand continues to improve in 2006, we expect our occupancy to improve further. Our occupancy improved in 2005 over 2004 due to improving rental markets. Our same store (properties we owned in both years) occupancy was 90.3% at December 31, 2005 compared to 89.4% at December 31 2004. We earned $3.3 million of lease termination fees in 2005 compared to $7.0 million in 2004. These fees are non-recurring in nature and we cannot determine at this time what termination fees, if any, we will generate in 2006.

Not withstanding the improving markets for office space and declining vacancy rates in most of our markets, rental rates on space that was re-leased in 2005 decreased an average of 16.9% as compared to rates under expiring leases. While we believe market rental rates have stabilized and are improving in many of our markets, rental rates for in-place leases in certain markets, particularly in our Northern California market, remain significantly above current market rental rates. We estimate that market rental rates on leased space expiring in 2006 will be, on average, approximately 10%-12% lower than straight-lined rents on expiring leases. We have 2.5 million square feet of space on which leases are currently scheduled to expire in 2006, including 1.0 million square feet of space in Northern California where we expect the largest roll-down of rents to occur on expiring leases.

We are currently marketing or anticipate marketing several properties for sale. There can be no assurance any of these sales will be consummated. We plan to use any proceeds resulting from the sale of any property for the acquisition or development of other properties or for general corporate purposes, including ongoing tenant improvements and the funding of cash flow shortfalls in order to maintain and pay dividends on our common and preferred stock and distributions to third party unitholders in certain of our subsidiaries.

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We have decided, based on current returns and other market factors to market for sale the majority of our wholly-owned properties in Chicago and Denver, and we began these efforts in the first quarter of 2006. We intend to reinvest the proceeds from the sale of Chicago and Denver in our other markets where we believe we will recognize a greater return on our invested capital. The properties did not meet our criteria to be classified as held for sale for financial reporting purposes as of December 31, 2005. There can be no assurance that these dispositions will be consummated on favorable terms, if at all. A summary of the net book value of the assets and the operating results of our Chicago and Denver properties as of and for the twelve months ended December 31, 2005 is as follows:

	Amount	% of Portfolio Total
	(In thousands)	
Assets (net book value)	$ 202,924	6.4%
Rental revenue	33,486	7.5%
Property operating income[1]	18,080	6.2%

[1] Property operating income is property operations revenue less property operating expenses.

Market Strategy

While we believe that most of our core markets provide opportunities for strong returns on investment, we believe that the supply and demand characteristics of our four largest markets will result in higher returns from long term ownership. We regularly re-evaluate our investment focus between our markets and periodically reallocate capital between them. As part of our continuing evaluation of our portfolio, we have determined that we will be better positioned in this market environment by concentrating our focus in markets where we have greater scale and market penetration, which we believe will enable us to reduce overhead while maintaining our growth initiatives and the diversification of our tenant base.

Disciplined Investment Strategy

We have established a set of physical, geographic and financial criteria to evaluate how we allocate our capital resources among investment choices. Our disciplined investment strategy is adjusted from time to time in response to market changes or corporate priorities between markets or asset types depending upon the market or the investment opportunity. In general, we focus our investing on high quality assets that improve our quality of cash flows through the geographic location of the asset/physical characteristics and/or the creditworthiness of tenants. Consistent with this strategy, we are seeking to upgrade our portfolio by acquiring or developing Class A properties located primarily in the Washington, D.C. metro area, Northern and Southern California and Seattle, Washington and by pursuing investment and development opportunities in our other markets. In late 2006 and into 2007, we anticipate commencing construction activities in various markets where we currently own or are seeking to purchase land suitable for development.

Acquisitions and Dispositions

From time to time, we have been very active in acquiring office properties. We believe that our responsiveness to seller timing and structural parameters helps provide us with a competitive advantage in consummating acquisitions in a highly-competitive marketplace. During 2005, we acquired eight operating properties from third parties. The acquisitions involved properties totaling approximately 1.4 million rentable square feet and our total investment was approximately $394.1 million. The acquisition environment has become more competitive over the last several years and it has become increasingly difficult to find acquisitions that meet our financial return objectives. However, we will continue to selectively pursue acquisitions in our markets where attractive opportunities exist, particularly when pricing yields make acquisitions of existing properties attractive in comparison to new property development. In addition, we will continue to pursue our strategy of recycling capital out of underperforming properties and redeploying such capital primarily into our Washington, D.C., Northern and Southern California and Seattle, Washington markets, either through acquisitions or development.

We also may dispose of assets that become inconsistent with our long-term strategic or return objectives. We may then redeploy the proceeds from the dispositions into other office properties, use them to fund development operations or to support other corporate needs. We also may contribute properties that we own to joint ventures with third parties. We expect dispositions to approximately equal acquisitions in 2006.

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Development

Development of office properties is a component of our long-term growth strategy. We believe that long-term investment returns resulting from stabilized properties we develop should generally exceed those from properties we acquire. We seek to control development risks by:

- Employing extensively trained and experienced development personnel;
- Entering into guaranteed maximum price construction contracts with seasoned and credible contractors;
- Focusing on pre-leasing space and build-to-suit opportunities where appropriate; and
- Analyzing the supply and demand characteristics of a market before commencing inventory development in that market.

The competitive acquisition environment has driven acquisition prices in some markets to at or above replacement cost. As a result, in order to continue to seek to drive rental revenue growth in the long term, we have commenced development on one office property in a joint venture and plan development on other projects. Our plans include a project in Washington, D.C., the redevelopment of a property in Seattle, Washington which we acquired in January 2006 and other possible projects in Seattle, Washington; San Diego, California; Austin, Texas; Dallas, Texas and Salt Lake City, Utah. We are also actively searching for additional land sites suitable for development.

Financing

We manage our capital structure to reflect a flexible, long-term investment approach, generally seeking to match the stable return nature of our assets with a mix of equity and various debt instruments. We mainly use fixed rate debt instruments in order to match the returns from our real estate assets. We also utilize variable rate debt for short-term financing purposes or to protect against the risk, that at certain times, fixed rates may overstate our long-term costs of borrowing if assumed inflation or growth in the economy implicit in higher fixed interest rates do not materialize. At times, our mix of variable and fixed rate debt may not suit our needs. At those times, we use derivative financial instruments, including interest rate swaps and caps, forward interest rate options or interest rate options in order to assist us in managing our debt mix. We will either hedge our variable rate debt to give it a fixed interest rate or hedge fixed rate debt to give it a variable interest rate.

We anticipate that our cash flow from operations will be adversely affected in 2006 by declining rental rates in certain of our markets with expiring leases, particularly in Northern California, rent abatement features in many of the new leases at our properties, and most significantly, our estimated tenant-related and other capital expenditures associated with new leases. We anticipate that, in order to maintain our expected quarterly dividend, we will be required to fund a shortfall of cash from operations of approximately $75 to $90 million in 2006. In order to satisfy this shortfall, we currently expect to be required to borrow under our line of credit and/or dispose of properties we otherwise would choose not to sell. In addition, our ability to borrow under our line of credit to fund these anticipated levels of tenant and other capital expenditures and to pay our expected dividend may be limited by the terms of our debt covenants.

There can be no assurance that circumstances may not change and as a result of poorer than expected operating results or the inability to obtain financing on favorable terms, or at all, that we will not later reduce our dividend below the current rate. We generally are restricted from paying dividends that would exceed 90% of our funds from operations during any four-quarter period.

Joint Ventures

We use joint venture arrangements selectively to reduce investment risk by diversifying capital deployment and to enhance returns on invested capital through fee income derived from service arrangements with joint ventures. During 2005, we entered into a new joint venture arrangement with institutional investors advised by JPMorgan Asset Management. The joint venture, in which we are a 20% partner, acquired a three building 984,000

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rentable square foot property in Addison, Texas for approximately $153.5 million. Our equity investment, net of debt used to finance the acquisition, was $10.4 million in cash.

Corporate Structure

We are structured as an umbrella partnership REIT or UPREIT, and substantially all of our business is conducted through our operating partnership, the CarrAmerica Realty Operating Partnership, L.P. (Operating Partnership). Our primary asset is our interest in the Operating Partnership. We believe an UPREIT structure enables us to better compete with other office REITs, many of which are structured as UPREITs, for the acquisition of properties from tax-motivated sellers by allowing the Operating Partnership to issue units of limited partnership interest in the Operating Partnership to these sellers who then contribute properties to the Operating Partnership, thereby enabling those sellers to realize certain tax benefits that would be unavailable if we purchased properties directly for cash.

2005 Activities

Acquisition Activity

During 2005, we made eight acquisitions of operating properties (16 buildings) from third parties. The acquisitions involved properties totaling almost 1.4 million rentable square feet and our investment was approximately $394.1 million. The table below details our 2005 consolidated acquisitions.

Property Name	Market	Month Acquired	Number of Buildings	Rentable Square Footage	Purchase Cost (000)
North Creek Corporate Center	Seattle, WA	Jun-05	3	95,267	$ 16,455
Fairchild Dr.	Northern California	Aug-05	2	131,561	53,461
2711 N. First St.	Northern California	Aug-05	1	74,621	6,185
Park Place	Washington, D.C. Metro	Aug-05	1	166,446	59,685
West Willows	Seattle, WA	Aug-05	3	155,830	35,527
Chancellor Park	San Diego, CA	Sep-05	2	190,946	55,512
Tysons International	Washington, D.C. Metro	Nov-05	2	434,606	122,210
Plaza at North Creek	Seattle, WA	Dec-05	2	193,454	45,068

We also entered into a joint venture arrangement with institutional investors advised by JPMorgan Asset Management. The joint venture, in which we own a 20% interest, acquired a three building 984,000 rentable square foot property in Addison, Texas for approximately $153.5 million. Our equity investment, net of debt used to finance the acquisition, was $10.4 million in cash.

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Disposition Activity

During 2005, we sold 11 operating properties (32 buildings) totaling approximately 2.9 million square feet for approximately $419.9 million in cash, recognizing a total gain on the sales of $120.9 million. The table below details our 2005 dispositions.

2005						
Property Name	**Market**	**Sale Date**	**Number of Buildings**	**Rentable Square Footage**	**Net Cash Proceeds ($000)**	**Gain Recognized ($000)**
Alton Deere	Orange County, CA	Mar-05	6	182,561	31,469	9,009
CarrAmerica Corporate Center[1]	Northern California	Mar-05	7	1,004,679	153,986	77,454
Westlake Spectrum	Los Angeles, CA	Apr-05	2	108,084	20,641	3,792
Hacienda West	Northern California	Sep-05	2	207,518	37,287	10,902
Phoenix[2]	Phoenix, AZ	Sep-05/Oct-05	4	532,506	75,377	25
Valley Business Park II	Northern California	Dec-05	6	166,928	18,246	3,005
Two Mission	Dallas, TX	Dec-05	1	77,359	6,125	931
Quorum North, Quorum Place, 5000 Quorum[3]	Dallas, TX	Dec-05	3	453,451	34,960	63
2600 W. Olive	Los Angeles, CA	Dec-05	1	145,274	41,814	15,689

1 We retained a 20% interest in the property through a joint venture.

2 We recognized an impairment loss of $0.9 million on these properties in the second and third quarters of 2005.

3 We recognized impairment losses of $5.8 million on these properties in the first and fourth quarters of 2005.

In January 2005, a joint venture in which we own a 30% interest sold a condominium interest in a building. We recognized a gain of $1.7 million on this transaction and received cash proceeds of $6.5 million. On March 31, 2005, we had a partial sale of CarrAmerica Corporate Center to a joint venture in return for a 20% interest in the venture and cash, net of an additional capital contribution, of approximately $151.3 million. We recognized a gain of $77.4 million on the transaction. In June 2005, a joint venture in which we own a 35% interest sold an office property. We recognized a gain from this sale of $0.8 million and received cash proceeds of $5.8 million. In October 2005, a joint venture in which we own a 20% interest disposed of its sole operating property. We realized a gain of approximately $7.8 million, net of $4.2 million of tax, from the sale. We received cash proceeds from the sale of $16.6 million.

Development Activity

As of December 31, 2005, we had under development approximately 154,000 rentable square feet of office space in a joint venture project in which we own a minority interest. This project is expected to cost approximately $25.1 million, of which our total investment is expected to be approximately $5.0 million. Through December 31, 2005, approximately $8.1 million, or 32.2%, of total project costs had been expended on this project.

Financing Activity

We issued $250.0 million principal amount of senior unsecured notes in December 2005 with net proceeds of approximately $247.5 million. The notes bear interest at 5.50% per annum payable semi-annually beginning June 15, 2006. The notes mature on December 15, 2010. We used the proceeds from the notes to pay down our unsecured credit facility.

On August 5, 2005, we issued 2,649,000 shares of common stock. The net proceeds of the offering were approximately $99.5 million and were used to repay a portion of the borrowings under our $500.0 million revolving credit facility and in turn fund current and potential acquisitions and other working capital and general corporate purposes, including the funding of dividends on our common and preferred stock and making distributions to third party unitholders in certain of our subsidiaries.

$100.0 million of our senior unsecured notes matured on March 1, 2005 and were repaid on that date using borrowings from our unsecured credit facility.

We also repaid $22.6 million of fixed rate mortgage debt and $16.2 million in notes payable in 2005.

As of December 31, 2005, 88.4% of our debt carried a fixed rate of interest (excluding the impact of interest rate cap agreements) and 11.6% is subject to variable rates of interest, including our line of credit and debt related to interest rate swap agreements.

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Forward-Looking Statements

Statements contained in this Form 10-K which are not historical fact may be forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 (the Exchange Act). We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in Section 21E of the Exchange Act. Such statements (none of which are intended as a guarantee of performance) are subject to certain risks and uncertainties, which could cause our actual future results, achievements or transactions to differ materially from those projected or anticipated. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date this Form 10-K is filed with the SEC. A number of important factors could cause actual results to differ materially from those indicated by the forward-looking statements as the same may be supplemented from time to time. Such factors include, among others:

National and local economic, business and real estate conditions that will, among other things, affect:

Demand for office space,

The extent, strength and duration of any economic recovery, including the effect on demand for office space and the creation, cost and timing of new office development,

Availability and creditworthiness of tenants,

The level of lease rents, and

The availability of financing for both tenants and us;

Adverse changes in the real estate markets, including, among other things:

The extent of tenant bankruptcies, financial difficulties and defaults,

The extent of future demand for office space in our core markets and barriers to entry into markets which we may seek to enter in the future,

The extent of the decreases in rental rates,

Our ability to identify and consummate attractive acquisitions on favorable terms,

Our ability to successfully complete and lease development projects on time and within budget,

Our ability to consummate any planned dispositions in a timely manner on acceptable terms, and

Changes in operating costs, including real estate taxes, utilities, insurance and security costs;

Actions, strategies and performance of affiliates that we may not control or companies in which we have made investments;

Ability to obtain insurance at a reasonable cost;

Ability to maintain our status as a REIT for federal and state income tax purposes;

Ability to raise capital;

Effect of any terrorist activity or other heightened geopolitical risks;

Governmental actions and initiatives; and

Environmental/safety requirements.

Available Information

The address of our site on the World Wide Web is www.carramerica.com. You may obtain on our web site, free of charge, a copy of this Form 10-K, our quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments filed to those reports, as soon as reasonably practicable after we electronically file such reports with the SEC.

Our Directors

The current members of our Board of Directors are as follows:

***Thomas A. Carr*,** 47, has been our Chairman of the Board of Directors since May 2000, a director since 1993 and Chief Executive Officer since 1997. Mr. Carr was our President from 1993 until March 2002, our Chief Operating Officer from April 1995 to May 1997 and our Chief Financial Officer from February 1993 to April 1995. Mr. Carr holds a Master of Business Administration degree from Harvard Business School and a Bachelor of Arts degree from Brown University. Mr. Carr is a member of the Executive Committee of the Board of Governors of the National Association of Real Estate Investment Trusts, Real Estate Round Table and Federal City Council. Mr. Carr is the brother of Robert O. Carr. Mr. Carr is chairman of the Executive Committee and a member of the Investment Committee of the Board of Directors. In addition, Mr. Carr is a member of management s Operating and Investment Committees.

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Bryce Blair**,** 47, has been a director since April 2005. Mr. Blair has served as the Chief Executive Officer of AvalonBay Communities, Inc., a residential real estate investment trust, since February 2001 and as Chairman of its Board of Directors since January 2002. He was AvalonBay s President from September 2000 to March 2005 and its Chief Operating Officer from February 1999 to February 2001. He served as Senior Vice President Development, Acquisitions and Construction of AvalonBay from August 1993 to February 1999. From 1985 until 1993, Mr. Blair was a partner with Trammell Crow Residential, a diversified commercial real estate company. He holds a Masters of Business Administration degree from Harvard Business School and an undergraduate degree in Civil Engineering from the University of New Hampshire. He is a member of the Board of Governors of the National Association of Real Estate Investment Trusts and is Chairman of the Multifamily Council of the Urban Land Institute. Mr. Blair also is a member of the National Multi-Housing Council and the Young Presidents Organization. Mr. Blair is a member of the Executive Compensation Committee and the Investment Committee of the Board of Directors.

Andrew F. Brimmer, 79, has been a director since February 1993. He has been President of Brimmer & Company, Inc., an economic and financial consulting firm, since 1976. Dr. Brimmer is the Wilmer D. Barrett Professor of Economics at the University of Massachusetts, Amherst. He also serves as a director of BlackRock Investment Income Trust, Inc., an investment management firm (and other funds) and Borg-Warner Automotive, Inc., producers of powertrain components and systems solutions. From June 1995 through August 1998, Dr. Brimmer served as chairman of the District of Columbia Financial Control Board. He was a member of the Board of Governors of the Federal Reserve System from March 1966 through August 1974. Dr. Brimmer received a Bachelor of Arts degree and a master s degree in economics from the University of Washington and a Ph.D. in economics from Harvard University. Dr. Brimmer is chairman of the Audit Committee and a member of the Conflicts Committee, the Executive Compensation Committee and the Nominating and Corporate Governance Committee of the Board of Directors.

Dane Brooksher, 67, has been a director since December 2005. Mr. Brooksher is Chairman of ProLogis, a global provider of distribution services and facilities. He has been Chairman since March 1999 and he was Chief Executive Officer of ProLogis from March 1999 to December 2004. From November 1993 to March 1999, he was Co-Chairman and Chief Operating Officer of the company. Prior to joining ProLogis, Mr. Brooksher was with KPMG Peat Marwick for over 32 years, serving as Mid-West area managing partner and Chicago office managing partner. Mr. Brooksher earned his Bachelor of Arts from the College of William and Mary, where he is a director and past chairman of the Business School Foundation (formerly the Board of Sponsors). He is also trustee emeritus and past treasurer of the William and Mary Endowment Association, member of the President s Council and recipient of the 1991 Alumni Medallion. Mr. Brooksher is currently a Director of Qwest Communications International, Inc., a communications company, Pactiv Corporation, a producer of specialty packaging products, Cass Information Systems, Inc., a bank holding company providing payment and information processing services and a member of the Advisory Board of the J. L. Kellogg Graduate School of Management, Northwestern University. Mr. Brooksher is a member of the Audit Committee and the Investment Committee of the Board of Directors.

Joan Carter, 62, has been a director since July 2003. Ms. Carter is co-founder of UM Holdings Ltd. and has been its President since 1973. UM Holdings owns and operates several private companies, including PetroChem Inspection Services, a provider of outsourced safety inspection to the petrochemical industry. Ms. Carter serves as Chief Executive Officer of PetroChem Inspection Services. UM Holdings is a major shareholder in Cybex International, a manufacturer of fitness equipment. Ms. Carter serves as Vice Chairman of the Cybex Board of Directors. She also serves on the Board of Trustees of the Penn Mutual Life Insurance Company, a financial services organization and served as Chairperson of the Board of Directors of the Federal Reserve Bank of Philadelphia from January 1998 through December 2000. A graduate of the College of Wooster, she currently serves on that school s Board of Trustees and is a Trustee for Lourdes Medical Center in Camden, New Jersey. Ms. Carter is the Chairman of the Executive Compensation Committee and is a member of the Audit Committee and Conflicts Committee of the Board of Directors.

Patricia Diaz Dennis, 59, has been a director since September 2005. Since September 1995, Ms. Dennis was employed by SBC Services, Inc. and, since November 18, 2005, by AT&T (formerly SBC). She has served as Senior Vice President and Assistant General Counsel since August 2004. From May 2002 to August 2004 she served as Senior Vice President, General Counsel and Secretary of SBC West. Ms. Dennis serves on the boards of directors of UST Inc., producers of smokeless tobacco products, premium wines and cigars, Massachusetts Mutual Life Insurance Company, a financial services organization and Girl Scouts of the USA. Ms. Dennis was also named to the Texas State University System Board of Regents by Governor George W. Bush, and serves as a trustee for the

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NHP Foundation. Before joining SBC (now AT&T), Ms. Dennis was appointed to three federal government positions. Ms. Dennis was named a member of the National Labor Relations Board by former President Ronald Reagan. Later, President Reagan appointed Ms. Dennis as a commissioner of the Federal Communications Commission where she served from 1986 until 1989. From 1989 to 1991, Ms. Dennis was a partner in the law firm of Jones, Day, Reavis & Pogue, where she served as a partner and the head of the communications department. In 1992, Ms. Dennis left the private sector and returned to public service when she was appointed by former President George Bush as assistant secretary of state for human rights and humanitarian affairs. Ms. Dennis holds a law degree from Loyola University of Los Angeles and an undergraduate degree from the University of California at Los Angeles. Ms. Dennis is a member of the Executive Compensation Committee and the Nominating and Corporate Governance Committee of the Board of Directors.

Philip L. Hawkins, 50, has been a director since March 2002. Mr. Hawkins has been our President since March 2002 and Chief Operating Officer since October 1998. From February 1996 to October 1998, Mr. Hawkins served as Managing Director - Asset Management. From 1982 to February 1996, Mr. Hawkins was employed by Jones Lang LaSalle, a real estate services company, since 1982. Mr. Hawkins is a director of SBA Communications Corporation, a publicly traded wireless tower owner and operator. He holds a Masters in Business Administration from the University of Chicago Graduate School of Business and a Bachelor of Arts degree from Hamilton College. Mr. Hawkins is a member of the Investment Committee of the Board of Directors. In addition, Mr. Hawkins is a member of management s Operating and Investment Committees.

Robert E. Torray, 68, has been a director since February 2002. Mr. Torray is Chairman of Torray LLC, founded in 1972, and co-manages the assets of the Torray Fund (TORYX), and The Torray Institutional Fund (TORRX), Torray LLC s separate account business and the Torray Partners Fund. Mr. Torray is also the founder and chairman of Birmingham Capital Management Company, Birmingham, Alabama. He also serves on the Board of Directors of LaBranche & Co., Inc., a trading specialist firm. Mr. Torray received his Bachelor of Arts from Duke University. Mr. Torray is chairman of the Conflicts Committee and a member of the Audit Committee, the Nominating and Corporate Governance Committee, the Executive Committee and the Executive Compensation Committee of the Board of Directors.

Wesley S. Williams, Jr., 63, has been a director since February 1993. Since 1998, Mr. Williams has been Co-Chairman of the Board of Directors of Lockhart Companies, Inc., an owner and operator of commercial real estate and a provider of insurance and financial services, and of its real estate, insurance and consumer finance subsidiaries, and since 2004 has also been President of Lockhart Companies. From 1975 through 2004, Mr. Williams was a partner in the law firm of Covington & Burling. After serving as a junior member of the Faculty of Law of Columbia University, Mr. Williams was adjunct professor of real estate finance law at Georgetown University Law Center from 1971 to 1973. In addition, he is an author or contributing author of several texts on banking law and on real estate investment and finance, and served for more than a decade on the Editorial Advisory Board of the District of Columbia Real Estate Reporter. Mr. Williams was also Chairman of the Board of Directors of the Federal Reserve Bank of Richmond from 2003 through 2004 and was deputy chairman of the Federal Reserve Bank of Richmond from 2001 through 2002. Mr. Williams is currently a member of the Board of Directors of The Bear Stearns Companies Inc., a publicly-traded investment banking, clearance and brokerage firm. Mr. Williams is also a member of the Board of Directors of the National Capital Bank of Washington, D.C. He was also, from 2001 through early 2005, Chairman of the Executive Committee of the Board of Regents of the Smithsonian Institution. Mr. Williams received Bachelor of Arts and J.D. degrees from Harvard University, a Masters of Arts degree from the Fletcher School of Law and Diplomacy and an LL.M. degree from Columbia University. Mr. Williams is chairman of the Nominating and Corporate Governance Committee and the Investment Committee, and a member of the Audit Committee, Executive Committee and the Conflicts Committee of the Board of Directors. He also serves as the lead independent director of our Board of Directors.

Our Executive Officers and Certain Key Employees

Our executive officers and key employees (including employees of CarrAmerica Development, Inc. and other affiliates) are as follows:

Karen B. Dorigan, 41, has been Chief Investment Officer since November 2000. Prior to that time, she was Managing Director Capital Markets and Investments since April 1999. Prior to that time, Ms. Dorigan served as a Senior Vice President since May 1997. Prior to that, Ms. Dorigan served as one of our Vice Presidents since

January 1996. Prior to that, Ms. Dorigan served for more than nine years in a variety of capacities in the development business of The Oliver Carr Company, including from February 1993 to January 1996 as a Vice President. Ms. Dorigan holds a Bachelor of Science degree in Economics from the University of Pennsylvania, Wharton School. Ms. Dorigan is a member of management s Operating and Investment Committees.

Linda A. Madrid, 46, has been Managing Director, General Counsel and Corporate Secretary since November 1998. Ms. Madrid also serves as Chief Compliance and Ethics Officer. Prior to that time Ms. Madrid served as Senior Vice President and General Counsel since March 1998. Prior to that time, Ms. Madrid had been Senior Vice President, Managing Director of Legal Affairs and Corporate Secretary of Riggs National Corporation/Riggs Bank N.A. since February 1996 and Vice President and Litigation Manager from September 1993 to January 1996. Before joining Riggs, Ms. Madrid practiced law in several law firms in Washington, D.C. and served as Assistant General Counsel for Amtrak. Ms. Madrid is a member of the Executive Committee of the Board of Directors of the Association of Corporate Counsel. Ms. Madrid holds a J.D. from Georgetown University Law Center and a Bachelor of Arts degree from Arizona State University. Ms. Madrid is a member of management s Operating Committee.

Stephen E. Riffee, 48, has been Chief Financial Officer since April 1, 2002. Prior to that time, he served as Senior Vice President, Controller and Treasurer since July 1999. Prior to that time, Mr. Riffee served as Vice President Finance and Chief Accounting Officer of Marriott International, Inc. for three years. Prior to joining Marriott International, Inc., Mr. Riffee served as Assistant Vice President at Burlington Northern Railroad after having previously worked in the National Transportation Practice of KPMG Peat Marwick. Mr. Riffee holds a Bachelor of Science in Commerce degree from the McIntire School of Commerce of the University of Virginia. Mr. Riffee is a member of management s Operating and Investment Committees.

Steven N. Bralower, 57, has been Executive Vice President of Carr Real Estate Services Inc., an affiliate that conducts management and leasing operations, since January 1999, and Senior Vice President of Carr Realty, L.P., a subsidiary, since May 1996. Mr. Bralower was Senior Vice President of Carr Real Estate Services Inc. from 1993 to May 1996. Mr. Bralower is a member of the Greater Washington Commercial Association of Realtors. Mr. Bralower has been a member of the Georgetown University Law Center adjunct faculty since 1987. Mr. Bralower holds a Bachelor of Arts degree from Kenyon College.

Robert O. Carr, 56, has been President of CarrAmerica Urban Development, LLC, a subsidiary of CarrAmerica Development Inc. since June 1998, and Chairman of the Board of Directors of Carr Real Estate Services Inc., since February 1993. Mr. Carr served as President of Carr Real Estate Services Inc. from 1993 to 1998. Mr. Carr is a director of The Oliver Carr Company. From 1987 until February 1993, he served as President and Chief Executive Officer of The Oliver Carr Company. Mr. Carr is a member of the Boards of Directors of the Greater Washington Research Center, the Corcoran School of Art and the National Cathedral School for Girls. Mr. Carr is also a member of the Greater Washington Board of Trade, the Urban Land Institute and the D.C. Chamber of Commerce. Mr. Carr holds a Bachelor of Arts degree from Trinity College. Mr. Carr is the brother of Thomas A. Carr.

Clete Casper, 46, has been Market Managing Director Seattle since July 1999. Prior to that time Mr. Casper served as the Company s Vice President, Market Managing Director for Seattle since July 1996. Mr. Casper has over 20 years of experience in real estate and marketing. Prior to joining CarrAmerica, Mr. Casper was as a Senior Associate with CB Commercial Real Estate Group Inc., Seattle, Washington. Prior to that, Mr. Casper was with Sabey Corporation in Seattle, Washington, serving as Development Manager for four years and as a Marketing Associate for five years. Mr. Casper is a graduate of Washington State University. Mr. Casper is a member of management s Operating and Investment Committees.

Richard W. Greninger, 54, has been Managing Director Property Operations since May 1999. Prior to that time Mr. Greninger served as Senior Vice President Operations since January 1998. Prior to that, Mr. Greninger had been the Senior Vice President of Carr Real Estate Services Inc., since March 1995. Prior to that time, he had been Vice President of Carr Real Estate Services Inc. since February 1993. During 1994, Mr. Greninger served as President of the Greater Washington Apartment and Office Building Association. Mr. Greninger has served as a director of both the Institute of Real Estate Management and the Building Owners and Managers Association and a former Chairman of its National Advisory Council. Mr. Greninger holds a Masters in Business Administration from the University of Cincinnati and a Bachelor of Science degree from Ohio State University. Mr. Greninger is a member of management s Operating Committee.

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Kurt A. Heister, 36, has been Senior Vice President, Controller and Treasurer since November 2004. Prior to that Mr. Heister was Senior Vice President since August 2003 and Controller since joining the Company in August 2002. Prior to joining the Company, he worked for Arthur Andersen LLP for eleven years, most recently as a Senior Manager in their Real Estate and Hospitality practice. Mr. Heister holds a Bachelor of Science degree in Accounting from Pennsylvania State University and is a Certified Public Accountant. Mr. Heister is a member of management s Operating Committee.

Thomas Levy, 41, has been Senior Vice President Investments since April 2001. He joined CarrAmerica in 1996 as Associate Due Diligence Officer after which he was promoted to Investments Director. He was promoted to Vice President of Special Projects in April 1999 and then promoted to Vice President Investments in April 2000. Prior to joining CarrAmerica, Mr. Levy was an Associate in the Investment Advisory Group at J.E. Roberts Companies for five years. Before joining J.E. Roberts, Mr. Levy was a Senior Consultant with Arthur Andersen & Company. He holds a Master of Business Administration degree from American University and a Bachelor of Arts degree in Economics from the University of Wisconsin. Mr. Levy is a member of management s Operating Committee.

Malcolm O Donnell, 52, joined CarrAmerica as Market Managing Director for our Southern California region in October 2000. He was previously employed as Principal of Alpine Holding and Keller Equity Group, Inc. overseeing development projects. From March 1997 to December 1997, Mr. O Donnell was Vice President of Acquisitions for Beacon Properties. Mr. O Donnell holds a Bachelor of Science degree from the University of Southern California. Mr. O Donnell is a member of management s Operating Committee.

Gerald J. O Malley, 62, has been Market Managing Director Chicago since July 1999. Prior to that time Mr. O Malley served as Vice President, Market Managing Director for Chicago since July 1996. Mr. O Malley has over 32 years of experience in real estate marketing. Mr. O Malley s most recent experience includes 10 years as founder and President of G. J. O Malley & Company, a real estate office leasing company. Mr. O Malley holds a Bachelor of Business Administration degree from Loyola University. Mr. O Malley is a member of management s Operating Committee.

Jeffrey S. Pace, 43, has been Market Managing Director Austin since July 1999, Denver and Salt Lake City since October 2004 and Dallas since May 2005. Prior to that time Mr. Pace served as Vice President, Market Managing Director for Austin, Texas since May 1997. Prior to that time, Mr. Pace held the position of Marketing Representative in the Dallas and Austin markets for Carlisle Property Company, Stockton, Luedmann, French & West and Trammell Crow Company from 1985 to 1997. Mr. Pace holds a Masters of Business Administration degree from the University of Texas at Arlington and a Bachelor of Science degree from the University of Texas at Austin. Mr. Pace is a member of management s Operating Committee.

Christopher Peatross, 40, joined us as Market Managing Director Northern California in May 2002. Before joining us, Mr. Peatross served as Senior Vice President for DivcoWest Properties. Before DivcoWest, Mr. Peatross was with Catellus Development Corporation for three years, Hunter Properties for two years and Spieker Properties for six years. Mr. Peatross holds a Bachelor of Science Degree in Quantitative Economics from Stanford University. Mr. Peatross is a member of management s Operating Committee.

Darryl A. Simon, 49, joined CarrAmerica as Senior Vice President of Human Resources in June 2003. Prior to that time, Mr. Simon was Principal of Darryl A. Simon & Associates, LLC, an executive and organizational development consulting firm. Prior to his consulting firm, Mr. Simon held positions as Vice President, Human Resources for USEC, Inc., Vice President, Human Resources Planning and Leadership and Organizational Development for Manor Care Health Services, Inc., and directed human resources programs for MICROS Systems, Inc. Mr. Simon holds a Master of Science degree in Applied Behavioral Science and Organizational Development from Johns Hopkins University and a Bachelor of Science degree in Psychology and Communications from John Carroll University. He also holds a certification as a Senior Professional in Human Resources (SPHR). Mr. Simon is a member of management s Operating Committee.

William L. Simpson II, 53, has been Chief Information Officer since August 2003. Mr. Simpson joined us in 2001 as a Vice President within the Information Technology department. Prior to that, he worked for KPMG LLP s Systems Integration consulting practice. Mr. Simpson has nearly 29 years of experience in information technology and finance across a broad range of industries in both the public and private sectors. He holds Bachelor and Master of Business Administration degrees from Stetson University. Mr. Simpson is a member of management s Operating Committee and chairs the Technology Investment Committee.

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Phillip S. Thomas, Jr., 42, was appointed to Managing Director for Metropolitan Washington, D.C. beginning June 1, 2005. Since July 2, 1999, Mr. Thomas served as Senior Vice President of Carr Real Estate Services, Inc. Prior to that time, he served as Vice President for five years. Mr. Thomas joined the company in 1986 as a leasing representative and was promoted to Assistant Vice President in 1991. Mr. Thomas has served on the Board of Directors of the Washington, D.C. Association of Realtors, and has served as Chairman of the Association s New Development and Zoning Committee. Mr. Thomas is also a past-president of The Greater Washington Commercial Association of Realtors and is a life member of the Million Dollar Leasing Club of the Association. Mr. Thomas received his Bachelor of Arts degree in History from The University of Virginia. Mr. Thomas is a member of management s Operating Committee.

Stephen Walsh, 48, has been Senior Vice President of Capital Markets since April 2001. Prior to this appointment, Mr. Walsh served as Acting Manager for Capital Markets. Before joining CarrAmerica, Mr. Walsh was Vice President, Investor Relations for the Mills Corporation. Additionally, he served as Vice President in the Structured Debt Group at Bank of America, N.A. Mr. Walsh received his Master of Business Administration degree from George Washington University and his Bachelor s degree from the State University of New York. Mr. Walsh is a member of management s Operating and Investment Committees.

Karen L. Widmayer, 47, has served as Senior Vice President of Corporate Communications since August 1999. Prior to that time Ms. Widmayer served as Vice President of Corporate Communications since 1997. Ms. Widmayer is an 18-year veteran of CarrAmerica and our predecessor company. Ms. Widmayer is responsible for our strategic marketing and branding, including media relations, advertising, community relations, employee communications, corporate and project marketing as well as our web site and intranet site. Ms. Widmayer performed Masters work in Economics at the University of Tennessee. Ms. Widmayer holds a Bachelor of Arts degree in Business Management from Virginia Intermont College. Ms. Widmayer is a member of management s Operating Committee.

James S. Williams, 49, has been a Managing Director since April 1999 and President of CarrAmerica Development Inc. since May 1999. Prior to that time Mr. Williams was Senior Vice President of CarrAmerica Development Inc. since October 1996. Mr. Williams rejoined us after two years as Vice President of Operations of Chadwick International. Prior to that, from 1983 to 1994, he served in a variety of capacities for The Oliver Carr Company including Senior Vice President of Development. Mr. Williams is a guest lecturer at George Washington University. He holds a Bachelor of Science degree in Business Administration from West Virginia University. Mr. Williams is a member of the Board of Directors and a member of the Executive Committee of the District of Columbia Building Industry Association. He is a member of the Investment Committee of CarrAmerica Development, Inc. and a member of management s Investment and Operating Committees.

Item 1A. Risk Factors

In addition to the other information in this document, you should consider carefully the following risk factors in evaluating an investment in our securities. Any of these risks or the occurrence of any one or more of the uncertainties described below could have a material adverse effect on our financial condition and the performance of our business.

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

We derive a substantial majority of our operating and net income from the ownership and operation of office buildings. If we do not generate income sufficient to meet our operating expenses, including deb