

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

FORM 10-K

- ☒ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2004.
- ☐ **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)

26-0081711
(IRS employer
identification number)

2730 Sand Hill Road, Suite 280
Menlo Park, CA
(Address of principal executive offices)

94025
(Zip Code)

Registrant's telephone number, including area code (650) 233-3600

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
Series A Cumulative Redeemable Preferred Stock, \$0.01 par value

New York Stock Exchange
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 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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The registrant completed its initial public offering on November 3, 2004. Consequently, the registrant is unable to determine the aggregate market value of its common stock as of June 30, 2004, which would have been the last business day of the registrant's most recently completed second fiscal quarter. As of March 15, 2005, the aggregate market value of voting and non-voting common stock held by non-affiliates of the registrant was approximately \$303.5 million.

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

Class

Outstanding at March 15, 2005

Common Stock, \$.01 par value per share

21,421,300

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement with respect to its May 6, 2005 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.

DIGITAL REALTY TRUST, INC.
FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2004
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PART 1

ITEM 1. BUSINESS

General

As used herein, the terms “we,” “our,” “us” 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 own, acquire, reposition and manage technology-related real estate. We target high quality, strategically located properties containing applications and operations critical to the day-to-day operations of technology industry tenants. Our tenant base is diversified within the technology industry 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.

As of December 31, 2004, we owned 24 properties through our operating partnership. These properties are located throughout the U.S., with one property located in London, England, and contain a total of approximately 5.7 million net rentable square feet. Our operations and acquisition activities are focused on a limited number of markets where corporate enterprise data center and technology tenants are concentrated, including the Atlanta, Boston, Dallas, Denver, London, Los Angeles, Miami, New York, Phoenix, Sacramento, San Francisco and Silicon Valley metropolitan areas. As of December 31, 2004, our portfolio was approximately 88.4% leased at an average annualized rent per leased square foot of \$19.93. The property types within our focus include:

- telecommunications infrastructure properties, which provide the infrastructure required by companies in the data, voice and wireless communications industries;
- information technology, or IT, infrastructure properties, which provide the physical environment required for disaster recovery, IT outsourcing and colocation;
- 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 headquarters of technology companies that are located in our target markets.

Many 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.

Our portfolio consists primarily of 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 Employee Retirement System, or CalPERS, the largest U.S. pension fund. Upon GI Partners’ selection, CalPERS provided a \$500.0 million equity commitment to GI Partners to invest in technology-related real estate and technology operating businesses. In addition, CB Richard Ellis Investors, a subsidiary of CB Richard Ellis, or CBRE, the largest global real estate services firm, and members of GI Partners’ management, provided a commitment of \$26.3 million.

Our senior management team, including our Executive Chairman, collectively 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.

Our principal executive offices are located at 2730 Sand Hill Road, Suite 280, Menlo Park, California 94025. Our telephone number at that location is (650) 233-3600. Our website is located at

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www.digitalrealtytrust.com. The information found on, or otherwise accessible through, our website is not 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 Securities and Exchange Commission.

Recent Developments

Effective November 26, 2004, we entered into interest rate swap agreements with Keybank National Association and Bank of America for approximately \$140.3 million of our variable rate debt, of which \$140.2 million was outstanding as of December 31, 2004. As a result, approximately 77.3% of our total indebtedness was subject to fixed interest rates as of December 31, 2004.

On December 21, 2004, we purchased the Burbank Data Center, an 82,911 square foot, two-story data center and telecommunications property located in Burbank, California, for \$16.6 million. The property was built in 1991 and features approximately 26,000 usable square feet of raised floor space. The property is 100% leased to Qwest Communications International, Inc. through 2011 at an annualized rent of approximately \$1.4 million or \$17.06 per leased square foot. There are two five-year renewal options. Other than normal recurring capital expenditures, we have no plans with respect to renovation, improvement or redevelopment of the Burbank Data Center.

Subsequent Events

On January 14, 2005, we paid a partial fourth quarter dividend on our common stock and common units for the partial year beginning with our initial public offering on November 3, 2004 and ending on December 31, 2004 of \$0.156318 per common share and common unit. The dividend is equivalent to an annual rate of \$0.975 per common share and common unit.

As of December 31, 2004, we owned a 75% tenancy-in-common interest in eBay Data Center, a 62,957 square foot data center located in Rancho Cordova, California. On January 21, 2005, we purchased the remaining 25% interest in this property for \$4.1 million.

On January 24, 2005 we settled the foreign currency forward contract that we assumed from GI Partners related to the Camperdown House property located in the United Kingdom for a payment of approximately \$2.5 million. On the same date we entered into a new foreign currency forward contract to hedge the foreign currency risk related to owning a property in the United Kingdom. On February 4, 2005 GI Partners reimbursed us for \$1.9 million of such settlement since it was determined that the negative value associated with the forward contract was not otherwise factored into the determination of the number of units that were granted to GI Partners in exchange for its interests in Camperdown House.

On February 9, 2005, we completed the offering of 4.14 million shares of our 8.5% Series A Cumulative Redeemable Preferred Stock (liquidation preference \$25.00 per share) for total net proceeds, after underwriting discounts and estimated expenses, of \$99.3 million, including the proceeds from the exercise of the underwriters' over-allotment option. We used the net proceeds from this offering to reduce borrowings under our unsecured credit facility, acquire two properties in March 2005 and for investment and general corporate purposes.

On February 14, 2005, we declared a dividend on our series A preferred stock of \$0.30694 per share for the period from February 9, 2005 through March 31, 2005, payable on March 31, 2005 to holders of record on March 15, 2005. The dividend is equivalent to an annual rate of \$2.125 per preferred share. On February 14, 2005, we also declared a dividend on our common stock and common units of \$0.24375 per share, payable on March 31, 2005 to holders of record on March 15, 2005. The dividend is equivalent to an annual rate of \$0.975 per common share and common unit.

On March 14, 2005, we purchased 833 Chestnut Street, a 15-story, 654,758 square foot building, including 107,563 square feet of vacant space in shell condition available for development, located in downtown

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Philadelphia, Pennsylvania, for approximately \$59.0 million. The property, originally constructed in 1927, was completely redeveloped in 2000. The renovation included extensive electrical and ventilation systems to accommodate data center users. The property is served by several major telecommunications networks, which makes it an attractive location for potential data center users. As of March 15, 2005, the property was 75.6% leased, including space available for development to 20 tenants, at an annualized rent of approximately \$6.6 million or \$13.97 per leased square foot. Excluding space available for development, the building was 90.5% occupied as of March 15, 2005.

On March 14, 2005, we entered into a purchase and sale agreement to acquire Printers' Square, located in Chicago, Illinois. Printers' Square is a five building complex comprising a total of approximately 161,550 net rentable square feet of commercial space. We expect the purchase price will be approximately \$37.5 million. We made a deposit of \$500,000 for the Printers' Square property. The deposit is fully refundable if we terminate the purchase and sale agreement for any reason before April 25, 2005, the end of the due diligence period.

On March 15, 2005, we entered into a purchase and sale agreement to acquire Lakeside Technology Center located in Chicago, Illinois. Lakeside Technology Center is an 8-story re-developed historic building comprising a total of approximately 1,095,540 square feet, including approximately 820,540 net rentable square feet and approximately 275,000 square feet of space in shell condition held for redevelopment. We expect the purchase price will be approximately \$142.6 million, which includes amounts payable to the seller in connection with its ongoing efforts to obtain a change in the real estate tax classification of the property. The seller can earn an additional contingent amount of up to \$20.0 million by obtaining a change in the real estate tax classification prior to December 31, 2006. We made a deposit of \$500,000 for the Lakeside Technology Center property. If we terminate the purchase and sale agreement before the end of the due diligence period for any reason other than a material default by the seller, the seller will be entitled to receive \$250,000 of the deposit.

On March 17, 2005, we purchased MAPP Building, an 88,134 square foot property located in Minneapolis/St. Paul, Minnesota, for approximately \$15.6 million. The property was built in 1947 and was fully re-developed in 1999 for the current tenant operations. MAPP Building contains a data center facility consisting of approximately 20,000 square feet of raised floor data center space. As of December 31, 2004, the property was 100% leased to the Midwest Independent Transmission System Operator, Inc., or MISO, through December 2013 at an annualized rent of approximately \$1.3 million, or \$15.20 per leased square foot. There is one five-year renewal option. Other than normal recurring capital expenditures, we have no plans with respect to renovation, improvement or redevelopment of the MAPP building.

In March 2005, we entered into an agreement to sublease approximately 9,674 square feet of office space at 560 Mission Street, San Francisco for a seven-year term. We will move our principal offices to this space on approximately June 1, 2005. The annual rent will be approximately \$0.4 million.

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.** Our portfolio contains state-of-the-art facilities with extensive tenant improvements. Based on current market rents and estimated costs to construct such 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.** As of December 31, 2004, our portfolio was primarily located in 11 major metropolitan areas in the United States, including the Boston, Dallas, Los Angeles, New York, San Francisco and Silicon Valley metropolitan areas and one property was located in the United Kingdom, and was diversified so that no one market represented more than 28.2% of the aggregate annualized rent of our portfolio.

- **Long-Term Leases.** We have long-term leases with stable cash flows. As of December 31, 2004, our average lease term was in excess of 12.5 years, with an average of 7.4 years remaining. Through 2007, leases representing only 7.3% of our net rentable square feet, or 7.1% of our aggregate annualized rent, as of December 31, 2004, are scheduled to expire. Through 2005, leases representing only 1.2% of our net rentable square feet as of December 31, 2004 are scheduled to expire.
- **Specialized Focus in Dynamic and Growing Industry.** We focus solely on technology-related real estate because we believe that growth in corporate enterprise data center usage and the technology industry 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 corporate data center and technology industries to identify strategically located properties, evaluate tenants' creditworthiness and business models and assess the long-term value of in-place technical improvements.
- **Proven Acquisition Capability.** Between January 2002 and December 2004, we acquired 24 technology-related real estate properties with 5.7 million net rentable square feet. Our acquisition capability is driven by our broad network of contacts within a highly fragmented universe of sellers and brokers of technology-related real estate. We have developed detailed, standardized procedures for evaluating acquisitions to ensure that they meet our financial and other criteria, which allows us to efficiently evaluate investment opportunities and, as appropriate, commit and close quickly. More than half of our acquisitions were acquired before they were broadly marketed by real estate brokers. We intend to continue to acquire additional technology-related real estate as a key component of our growth strategy.
- **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 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. Our senior management team collectively owns a common equity interest in our company of approximately 3.3% on a fully diluted basis, which aligns management's interests with those of our stockholders.
- **Unique Sourcing Relationships.** The members of GI Partners hold a substantial indirect investment in our company, and, accordingly, we anticipate that they will continue to play an active role in our future success. We expect that CalPERS will provide us with introductions to potential sources of acquisitions and access to its technology industry experts and will be a potential source of co-investment capital. In addition, we expect that CBRE and other brokers will assist us with obtaining property deal flow that has not been widely marketed, and GI Partners' private equity investment professionals will provide additional technology industry expertise and access to proprietary deal flow.

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 enterprise 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 situations. Furthermore, technology-related real estate is specialized, which makes it more difficult for traditional real estate investors to understand and 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 was approximately 88.4% leased as of December 31, 2004, leaving approximately 653,000 square feet of net rentable space available for lease-up. 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 have also implemented cost control measures 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, 2004 required tenants to pay all or a portion of increases in operating expenses, including real estate taxes, insurance, common area charges and other expenses.
- **Convert Improved Space to Colocation Use.** We own approximately 197,310 net rentable square feet of data center space with extensive installed tenant improvements that is currently, or will shortly be, available for lease. Rather than leasing such space to large single tenants, we have converted and intend to continue to convert these spaces to multi-tenant colocation use, with tenants averaging between 100 and 1,000 square feet of net rentable space. Multi-tenant colocation is a cost-effective solution for tenants who cannot afford or do not require their own extensive infrastructure and security. Because we can provide such features, we are able to lease space to these smaller footprint tenants at a significant premium to 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 enterprise data center users and technology tenants.
- **Use Capital Efficiently.** We have sold and will continue to sell assets opportunistically. We believe that we can increase stockholder returns by effectively redeploying asset sales proceeds into new acquisition opportunities. Recently, data centers 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 seek such opportunities to realize profits and re-invest our capital.

Competition

We compete with numerous 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.

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, 2004 has the necessary permits and approvals to operate its business.

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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 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 or

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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, 2004 we had 23 employees. None of these employees is represented by a labor union.

We have entered into an arrangement with a professional employer organization (PEO) pursuant to which the PEO provides personnel management services to us. The services are provided through a co-employment relationship between us and the PEO, under which all of our employees are treated as employed by both the PEO and us. The services and benefits provided by the PEO include payroll services, workers’ compensation insurance and certain employee benefits plan coverage. Our agreement with the PEO is terminable by either party upon 30 days’ prior written notice.

Offices

Our headquarters is located in Menlo Park, California. Based on the anticipated growth of our company, we intend to relocate our corporate headquarters to a larger facility in the near future. In addition, we may add regional offices depending upon our future operational needs.

Risk Factors

For purposes of this section, the term “stockholders” means the holders of shares of our common stock and of our series A 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 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 21.

Risks Related to Our Business and Operations

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

Our portfolio of properties consists primarily of technology-related real estate. A decline in the technology industry or the adoption of data center space for corporate enterprises could lead to a decrease in the demand for technology-related real estate, which may have a greater adverse effect on our business and financial condition than if we owned a more diversified real estate portfolio. We are susceptible to adverse developments in the corporate enterprise data center and broader technology industries (such as 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). In addition, the rapid development of new technologies or adoption of new industry standards could render many of our tenants’ current products and services obsolete or unmarketable and contribute to a downturn in their businesses, increasing the likelihood of a default under their leases or that they 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, 2004, the 15 largest tenants in our property portfolio represented approximately 66.1% of the total annualized rent generated by our properties. Our largest tenants by annualized rent are Savvis

Communications and Qwest Communications International, Inc. Savvis Communications leased 560,409 square feet of net rentable space as of December 31, 2004, representing approximately 12.7% of the total annualized rent generated by our properties. Qwest Communications International, Inc. leased 343,423 square feet of net rentable space as of December 31, 2004, representing approximately 9.3% of the total annualized rent generated by our properties. In addition, 12 of our properties are occupied by single tenants. 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. In the event of any tenant default, 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. As of December 31, 2004, two tenants, VarTec Telecom, Inc., leasing approximately 143,882 square feet of net rentable space, and Universal Access Inc., leasing approximately 11,680 square feet of net rentable space, were in bankruptcy. Both tenants are current on their rental obligations. Since we acquired our first building in January 2002, 14 tenants in our buildings leasing approximately 474,000 square feet of net rentable space concluded bankruptcy proceedings. Of the 14 tenants, eight tenants leasing approximately 370,000 square feet of net rentable space paid rent to us on an uninterrupted basis and affirmed their leases. Of the approximately 104,000 square feet of net rentable space that was rejected and terminated, we had re-leased approximately 21,000 square feet as of December 31, 2004.

Our revenue and cash available for distribution 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.

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

As of December 31, 2004, our properties were located only in the Atlanta, Boston, Dallas, Denver, London, Los Angeles, Miami, New York, Phoenix, Sacramento, San Francisco and Silicon Valley metropolitan areas. We are dependent upon the local economic conditions in these markets, including local real estate conditions. Many of these markets have experienced downturns during the recent recession. 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 could be materially adversely affected. We cannot assure you that these markets will grow or will remain favorable to the technology industry.

In addition, our portfolio is geographically concentrated in the Boston, Dallas, Los Angeles, New York, San Francisco and Silicon Valley metropolitan markets. These markets represented 9.7%, 19.2%, 10.3%, 6.9%, 10.9%, and 28.2%, respectively, of annualized rent as of December 31, 2004 of the properties in our portfolio. Thus, positive or negative changes in conditions in these markets in particular will impact our overall performance.

We have owned our properties for a limited time.

As of December 31, 2004, we owned 24 properties through our operating partnership. These properties are located throughout the U.S., with one property located in London, England, and contain a total of approximately 5.7 million net rentable square feet. As of December 31, 2004, the properties had been under our management for less than three years, and 11 of the properties had been owned for less than one year. The properties may have

characteristics or deficiencies unknown to us that could affect such properties' valuation or revenue potential. There can be no assurance that the operating performance of the properties will not decline under our management.

We may have difficulty internalizing our asset management and accounting functions.

A significant portion of the asset management and general and administrative functions of our predecessor were performed by GI Partners' related-party asset manager, an affiliate of CB Richard Ellis Investors. Such affiliate also provided all of our accounting and financial reporting services. Since the consummation of our initial public offering, we have internalized our asset management function and have begun to internalize our accounting and financial reporting functions so that we can carry out the majority of our general and administrative functions directly. We cannot assure you that we will successfully internalize these functions on the anticipated timetable or without incurring unanticipated costs. We have entered into a transition services agreement with CB Richard Ellis Investors, pursuant to which CB Richard Ellis Investors will provide us with transitional accounting and other services for an interim period that we anticipate will last through the first fiscal reporting period of 2005. We currently retain affiliates of CB Richard Ellis as the property manager for seven of our properties.

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 a public company. Failure to maintain REIT status would have an adverse effect on our cash available for distribution.

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 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 and 1100 Space Park Drive properties represented an aggregate of 14.4% of our portfolio's annualized rent as of December 31, 2004. 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, war or nuclear reaction. Some 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 50.5% of our portfolio's annualized rent as of December 31, 2004. 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.

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 the tenant's 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 tenant.

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 as of December 31, 2004 was approximately \$519.5 million, and we may incur significant additional debt to finance future acquisition and development activities. Our credit facility has a borrowing limit based upon a percentage of the value of the unsecured properties included in the facility's borrowing base. We estimate that approximately \$53.9 million of additional borrowings under this facility were available to us as of December 31, 2004. Subsequent to the acquisitions of 833 Chestnut Street and MAPP Building, on March 17, 2005 there was approximately \$26.0 million of the credit facility drawn and \$71.9 million available for future borrowings. In addition, under our contribution agreement with respect to the 200 Paul Avenue 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 on our series A preferred stock or make distributions on our common stock 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.

If any one of these events were to occur, our financial condition, results of operations, cash flow, cash available for distribution, per share trading price of our common stock or series A preferred stock and 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 (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:

- potential inability 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 acquirers may significantly increase the purchase price;
- 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 the acquisition 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 quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into our existing operations, and as a result 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 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.

As of March 31, 2005, our operating partnership was under contract to acquire two properties: Lakeside Technology Center and Printers' Square. The purchase of both of these properties is subject to numerous conditions, including the satisfactory conclusion by our operating partnership of its due diligence review of the properties during due diligence periods ending on April 13, 2005 and April 25, 2005, respectively. During the due diligence periods, our operating partnership has the right to terminate the purchase and sale agreements for these properties for any reason or for no reason.

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, per share trading price of our common stock or series A 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 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.

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

We compete with numerous 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, per share trading price of our common stock or series A 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, 2004, leases representing 1.2% of the square footage of the properties in our portfolio were scheduled to expire in 2005, and an additional 11.6% of the square footage of the properties in our portfolio was available to be leased. We cannot assure you that leases will be renewed or that our properties will be re-leased at rental rates equal to or above the current average 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, per share trading price of our common stock or series A preferred stock and our ability to satisfy our debt service obligations could be materially adversely affected.

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 financing, from operating cash flow. Consequently, we rely on third-party sources to fund our capital needs. We may not be able to obtain financing on favorable terms or at all. Any additional debt we incur will increase our leverage. Our access to third-party sources of capital depends, in part, on:

- general market conditions;
- the market’s perception of our growth potential;
- our current debt levels;
- our current and expected future earnings;
- our cash flow and cash distributions; and
- the market price per share of our common stock and series A preferred stock.

If we cannot obtain capital from third-party sources, we may not be able to acquire or develop properties when strategic opportunities exist, satisfy our debt service obligations or make the cash distributions to our stockholders necessary to maintain our qualification as a REIT.

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

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

- restrict our and our subsidiaries' ability to incur additional indebtedness;
- restrict our and our subsidiaries' ability to make certain investments;
- restrict our and our subsidiaries' ability to merge with another company;
- restrict our and our subsidiaries' 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 make distributions to 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.

We may co-invest in the future with third parties through partnerships, joint ventures or other entities, acquiring non-controlling interests in or sharing responsibility for managing the affairs of a property, partnership, joint venture or other entity. In such 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 were a third party 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 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. Such investments may also have the potential risk of impasses on decisions, such as a sale, 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 business. Consequently, actions by or disputes with partners or co-venturers might result in subjecting 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. We will seek to maintain sufficient control of such entities to permit them to achieve our business objectives.

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, and Scott Peterson, our Senior Vice President, Acquisitions. Among the reasons that they are important to our success is that each has a national or regional industry reputation that attracts business and investment opportunities and assists us in negotiations with lenders, existing and potential tenants and industry personnel. If we lost their services, our business and investment opportunities and our relationships with lenders, existing and prospective tenants and industry personnel could diminish.

Many of our other senior executives also have strong technology and real estate industry reputations, which aid us in identifying opportunities, having opportunities brought to us, and negotiating with tenants and build-to-suit prospects. While we believe that we could find replacements for all of these key personnel, the loss of their services could materially and adversely affect our operations because of diminished relationships with lenders, existing and prospective tenants and industry personnel.

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 agreements 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. We have adopted a policy relating to the use of derivative financial instruments to hedge interest rate risks related to our borrowings. This policy governs our use of derivative financial instruments to manage the interest rates on our variable rate borrowings. Our policy states that we will not use derivatives for speculative or trading purposes and intend only to enter into contracts with major financial institutions based on their credit rating and other factors, but we may choose to change these policies in the future. We entered into interest rate swap agreements with Keybank National Association and Bank of America for \$140.3 million of our variable rate debt with an effective date as of November 26, 2004. As a result, approximately 77.3% of our total indebtedness as of December 31, 2004 was subject to fixed interest rates. 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 data center 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 data center user or technology industry tenant and could require modification in order for us to re-lease vacant space to another corporate enterprise data center user or technology industry tenant. Generally, our properties also may not be suitable for lease to traditional office tenants without significant expenditures or renovations.

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

We own one property located outside of the U.S. and we have a right of first offer with respect to a second property. The ownership of properties located outside of the U.S. subjects us to foreign currency risk from potential fluctuations in exchange rates between foreign currencies and the U.S. dollar. We expect that our principal foreign currency exposures will be to the Pound Sterling (U.K.). As a result, changes in the relation of any such foreign currency 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, per share trading price of our common stock or series A preferred stock and ability to satisfy our debt obligations.

We attempt to mitigate the risk of currency fluctuation by financing our properties in the local currency denominations, although we cannot assure you that this will be effective. We may also engage in direct hedging activities to mitigate the risks of exchange rate fluctuations. If we do engage in foreign currency exchange rate hedging activities, any income recognized with respect to these hedges (as well as any foreign currency gain recognized with respect to changes in exchange rates) 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.

Foreign real estate investments also involve certain risks not generally associated with investments in the United States. These risks include unexpected changes in regulatory requirements, political and economic instability in certain geographic locations, potential imposition of adverse or confiscatory taxes, possible currency transfer restrictions, expropriation, difficulty in enforcing obligations in other countries and the burden of complying with a wide variety of foreign laws.

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 expected dividends to our common and series A preferred 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 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;
- the relative illiquidity of real estate investments; and
- changing submarket demographics.

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, per share trading price of our common stock or series A 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 one or more properties in our portfolio in response to adverse changes in the performance of such properties 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;
- changes in governmental 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 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 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.

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. 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.

We cannot assure you that costs of future environmental compliance will not affect our ability to make distributions to you 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. Although we believe that as of December 31, 2004 the properties in our portfolio substantially complied with present requirements of the ADA, we have not conducted an audit or investigation of all of our properties to determine our compliance. If one or more of the properties in our portfolio is not in compliance 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 amount of the 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, per share trading price of our common stock or series A 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 regulatory requirements, such as state and local fire and life safety requirements. If we fail to comply with these various requirements, we might incur governmental fines or private damage awards. We believe that as of December 31, 2004 the properties in our portfolio materially complied with all applicable regulatory requirements. However, we do not know whether existing requirements will change or whether future requirements will require us to make significant unanticipated expenditures that will materially adversely impact our financial condition, results of operations, cash flow, cash available for distribution, the per share trading price of our common stock or series A 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 applicable Maryland law in connection with their management of our company. At the same time, we, as general partner, have fiduciary duties to our operating partnership and to the limited partners under Maryland law 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. 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.

Unless the relevant partnership agreement provides otherwise, Maryland law generally requires a general partner of a Maryland limited partnership to adhere to fiduciary duty standards under which it owes its limited partners the duties of good faith, fairness and loyalty.

Additionally, the partnership agreement expressly limits our liability by providing that we and our officers, directors, agents and employees, will not be liable or accountable to our operating partnership for losses sustained, liabilities incurred or benefits not derived if we, or such officer, director, agent or employee acted in good faith. In addition, our operating partnership is required to indemnify us, and our officers, directors, employees, agents and designees to the extent permitted by applicable law from and against any and all claims arising from operations of our operating partnership, unless it is established that (1) the act or omission was committed in bad faith, was fraudulent or was the result of active and deliberate dishonesty, (2) the indemnified party received an improper personal benefit in money, property or services or (3) in the case of a criminal proceeding, the indemnified person had reasonable cause to believe that the act or omission was unlawful.

The provisions of Maryland law that allow the fiduciary duties of a general partner to be modified by a partnership agreement have not been resolved 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 the fiduciary duties that would be in effect were it not for the partnership agreement.

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 contribution and other agreements because of conflicts of interest with GI Partners and certain of our officers. GI Partners and certain other contributors had ownership interests in the properties and in the other assets and liabilities contributed to our operating partnership in our formation and have interests in the properties on which we have rights of first offer. We, under the agreements relating to the contribution of such interests, have contractual rights to indemnification in the event of breaches of representations or warranties made by GI Partners and other contributors. In addition, GI Partners has entered into a non-competition agreement with us pursuant to which it agreed, among other things, not to engage in certain business activities in competition with us. Richard Magnuson, the Executive Chairman of our board of directors, is also, and will continue to be, the chief executive officer of the advisor to GI Partners. He, as well as certain of our other senior executives, have entered into employment agreements with us containing non-competition provisions. None of these contribution, option, right of first offer, employment and non-competition agreements was negotiated at arm's-length. We may choose not to enforce, or to enforce less vigorously, our rights under these contribution, option, right of first offer, employment and non-competition 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 have different effects on holders of common units in our operating partnership than on our stockholders. The parties who contributed the 200 Paul Avenue 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, including John O. Wilson, our Executive Vice President, Technology Infrastructure, 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 series A preferred stock contain 9.8% ownership limits. Our charter and the articles supplementary with respect to the series A preferred stock, subject to certain exceptions, authorize our directors to take such actions as are necessary and desirable to preserve our qualification as a REIT and limits 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 our series A 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. Our board of directors granted such an exemption with respect to the ownership of our series A preferred stock to one of the initial investors. 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 9.8% of the outstanding shares of our series A 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 series A 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 series A preferred stockholder voting rights, 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 unclassified 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 stockholders.

Certain provisions of Maryland law could inhibit changes in control. Certain provisions of the Maryland General Corporation Law, or MGCL, may have the effect of inhibiting 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 stockholders, including:

- “business combination” provisions that, subject to limitations, prohibit certain business combinations between us and an “interested stockholder” (defined generally as any person who beneficially owns 10% or more of the voting power of our shares or an affiliate 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 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 market capitalization ratio), excluding options issued under our incentive award plan, plus the aggregate value of the units not held by us, 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. 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 a director or officer has no liability in that capacity if he or she performs his or her duties in good faith, in a manner he or she reasonably believes to be in our best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. As permitted 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. 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 such 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 believe we have operated and intend to continue operating in a manner that 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, and the statements in this report are not binding on the IRS or any court. If we lose our REIT status, we will face serious tax consequences that would substantially reduce our cash available for distribution 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. The determination of various factual matters and circumstances not entirely within our control may affect our ability to qualify as a REIT. 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 taxable REIT subsidiaries will be subject to tax as regular corporations in the jurisdictions in which they operate, including, in the case of the entity holding Camperdown House, the United Kingdom.

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.

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 of 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,

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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;
- general economic conditions;
- defaults on or non-renewal of leases by tenants;
- increased interest rates and operating costs;
- 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;
- environmental uncertainties and risks related to natural disasters;
- financial market fluctuations;
- changes in foreign currency exchange rates; and
- changes in real estate and zoning laws and increases in real property tax rates.

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, of 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 section above entitled “—Risk Factors.”

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ITEM 2. PROPERTIES

Our Portfolio

As of December 31, 2004, we owned 24 properties through our operating partnership. These properties are located throughout the U.S., with one property located in London, England, and contain a total of approximately 5.7 million net rentable square feet. The following table presents an overview of our portfolio of properties, based on information as of December 31, 2004.

Property ⁽¹⁾	Metropolitan Area	Percent Ownership	Year Built/ Renovated	Net Rentable Square Feet ⁽²⁾	Percent Leased	Annualized Rent ⁽³⁾	Annualized Rent Per Leased Square Foot ⁽⁴⁾
Telecommunications Infrastructure							
200 Paul Avenue ⁽¹¹⁾	San Francisco	100.0%	1955/1999 & 2001	532,238	83.1%	\$10,861,422	\$ 24.55
Univision Tower	Dallas	100.0	1983	477,107	80.5	7,912,438	20.60
Carrier Center	Los Angeles	100.0	1922/1999	444,196	81.7	7,623,663	21.01
Camperdown House ⁽⁵⁾	London, UK	100.0	1983/1999	63,233	100.0	4,016,624	63.52
1100 Space Park Drive	Silicon Valley	100.0	2001	167,951	46.6	3,525,347	45.07
36 Northeast Second Street	Miami	100.0	1927/1999	162,140	81.2	3,007,472	22.85
Burbank Data Center	Los Angeles	100.0	1991	82,911	100.0	1,414,300	17.06
VarTec Building	Dallas	100.0	1999	135,250	100.0	1,352,500	10.00
				2,065,026	81.4	39,713,766	23.63
Information Technology Infrastructure							
Hudson Corporate Center	New York	100.0	1989/2000	311,950	88.7	6,911,301	24.98
Savvis Data Center	Silicon Valley	100.0	2000	300,000	100.0	5,580,000	18.60
Webb at LBJ	Dallas	100.0	1966/2000	365,449	89.0	4,484,570	13.79
AboveNet Data Center	Silicon Valley	100.0	1987/1999	179,489	97.1	4,291,595	24.63
NTT/Verio Premier Data Center	Silicon Valley	100.0	1982-83/2001	130,752	100.0	3,781,200	28.92
Brea Data Center	Los Angeles	100.0	1981/2000	68,807	100.0	1,176,600	17.10
eBay Data Center	Sacramento	75.0 ⁽⁶⁾	1983/2000	62,957	100.0	1,133,226	18.00
AT&T Web Hosting Facility	Atlanta	100.0	1998	250,191	50.0	1,098,036	8.78
				1,669,595	87.7	28,456,528	19.44
Technology Manufacturing							
Ardenwood Corporate Park	Silicon Valley	100.0	1985-86	307,657	100.0	7,624,739	24.78
Maxtor Manufacturing Facility	Silicon Valley	100.0	1991&1997 ⁽⁷⁾	183,050	100.0	3,272,934	17.88
ASM Lithography Facility ⁽⁸⁾	Phoenix	100.0	2002	113,405	100.0	2,549,165	22.48
				604,112	100.0	13,446,838	22.26
Technology Office/ Corporate Headquarters							
Comverse Technology Building	Boston	100.00	1957&1999 ⁽⁹⁾	386,956	100.0	5,891,393	15.22
100 Technology Center Drive	Boston	100.0	1989/2001	197,000	100.0	3,743,000	19.00
Granite Tower	Dallas	100.0	1999	240,065	95.5	3,431,981	14.97
Stanford Place II	Denver	98.0 ⁽¹⁰⁾	1982	364,408	85.7	3,027,407	9.69
Siemens Building	Dallas	100.00	1999	125,538	100.0	1,917,505	15.27
				1,313,967	95.2	18,011,286	14.40
Portfolio Total/Weighted Average				5,652,700	88.4%	\$99,628,418	\$ 19.93

- (1) We have categorized the properties in our portfolio by their principal use based on annualized rent. However, many of our properties support multiple uses. Since December 31, 2004, we have leased approximately 20,400 additional square feet of net rentable space in our properties owned as of December 31, 2004 for a total annualized rent of approximately \$0.7 million as of February 28, 2005.
- (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.

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- (3) Annualized rent represents the annualized monthly contractual rent under existing leases as of December 31, 2004. This amount reflects total base rent before any one-time or non-recurring rent abatements but after annually recurring rent credits and is shown on a net basis; thus, for any tenant under a partial gross lease, the expense stop, or under a full gross lease, the current year operating expenses (which may be estimates as of such date), are subtracted from gross rent.
- (4) Annualized rent per leased square foot represents annualized rent as computed above, divided by the total square footage under lease as of the same date.
- (5) Rental amounts for Camperdown House were calculated based on the exchange rate in effect on December 31, 2004 of \$1.8519 per £1.00.
- (6) As of December 31, 2004, we owned a 75% tenancy-in-common interest in this property. On January 21, 2005, we purchased the remaining 25% interest in this property.
- (7) This property consists of two buildings: 1055 Page Avenue was built in 1991, and 47700 Kato Road was built in 1997.
- (8) We own the subsidiary that is party to a ground sublease covering this property. The term of the ground sublease expires on December 31, 2082.
- (9) This property consists of two buildings: 100 Quannapowitt was built in 1999, and 200 Quannapowitt was built in 1957 and has subsequently been renovated.
- (10) We indirectly own a 98% interest in a subsidiary that holds the fee simple interest in this property. An unrelated third party holds the remaining 2% interest in this subsidiary.
- (11) The building includes approximately 55,000 net rentable square feet of support space such as rooftop areas, generator pads and electrical room space for which rent is currently being charged to certain tenants.

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Tenant Diversification

As of December 31, 2004 our portfolio was leased to more than 165 companies, many of which are nationally recognized firms. The following table sets forth information regarding the 15 largest tenants in our portfolio based on annualized rent as of December 31, 2004.

Tenant	Property	Lease Expiration ⁽¹⁾	Total Leased Square Feet	Percentage of Portfolio Square Feet	Annualized Rent	Percentage of Portfolio Annualized Rent
Savvis Communications			560,409	9.9%	\$12,680,700	12.7%
	Hudson Corporate Center	Sep. 2011	234,570	4.2	6,098,820	6.1
	Savvis Data Center ⁽²⁾	Sep. 2015	300,000	5.3	5,580,000	5.6
	36 Northeast Second Street	Aug. 2009	23,805	0.4	609,928	0.6
	Univision Tower	Sep. 2014	1,008	0.0	384,000	0.4
	Univision Tower	Sep. 2009	1,026	0.0	7,952	0.0
Qwest Communications International, Inc.			343,423	6.2	9,236,399	9.3
	200 Paul Avenue	Aug. 2015	65,622	1.2	2,986,143	3.0
	36 Northeast Second Street	Jan. 2014	78,540	1.4	1,586,153	1.6
	Carrier Center	Jan. 2020	68,000	1.2	1,429,855	1.4
	Burbank Data Center	Jan. 2011	82,911	1.5	1,414,300	1.4
	200 Paul Avenue	Aug. 2015	24,205	0.4	917,363	0.9
	Univision Tower	Apr. 2008	20,135	0.4	635,595	0.7
	Carrier Center	Jul. 2005	350 ⁽³⁾	0.0	165,450	0.2
	Univision Tower	Apr. 2008	3,650	0.1	81,412	0.1
	1100 Space Park Drive	Aug. 2011	10 ⁽³⁾	0.0	20,128	0.0
Comverse Network Systems			367,033	6.5	5,592,548	5.6
	Comverse Technology Building	Feb. 2011	166,109	3.0	2,989,962	3.0
	Comverse Technology Building	Feb. 2011	199,033	3.5	2,582,258	2.6
	Comverse Technology Building	Feb. 2011	1,891	0.0	20,328	0.0
Abgenix			131,386	2.3	4,925,265	4.9
	Ardenwood Corporate Park	Apr. 2011	73,887	1.3	3,341,135	3.4
	Ardenwood Corporate Park	Apr. 2011	33,499	0.6	648,000	0.6
	Ardenwood Corporate Park	Apr. 2011	24,000	0.4	936,130	0.9
Leslie & Godwin⁽⁴⁾⁽⁵⁾	Camperdown House	Dec. 2009	63,233	1.1	4,016,624	4.0⁽⁶⁾
Verio, Inc.⁽⁷⁾	NTT/Verio Premier Data Center	May 2010	130,752	2.3	3,781,200	3.8
Stone & Webster, Inc.⁽⁸⁾	100 Technology Center Drive	Mar. 2013	197,000	3.5	3,743,000	3.8
AboveNet			131,556	2.3	3,499,536	3.5
	AboveNet Data Center	Nov. 2019	128,184	2.3	3,435,187	3.4
	Univision Tower	Apr. 2014	3,372	0.0	64,349	0.1
Maxtor Corporation	Maxtor Manufacturing Facility	Sep. 2011	183,050	3.2	3,272,934	3.3
SBC Communications	Webb at LBJ	Nov. 2010	141,663	2.5	2,773,762	2.8
Tycom Networks, Inc.	1100 Space Park Drive	Nov. 2016	59,289	1.0	2,721,041	2.7
ASM Lithography	ASM Lithography Facility	Feb. 2017	113,405	2.0	2,549,165	2.6
XO Communications			96,546	1.7	2,457,344	2.5
	200 Paul Avenue	Feb. 2015	64,907	1.2	1,852,634	1.9
	Carrier Center	Aug. 2015	29,000	0.5	467,981	0.5
	Univision Tower	Oct. 2008	2,559	0.0	92,171	0.1
	Carrier Center	Sep. 2010	80 ⁽³⁾	0.0	44,558	0.0
Logitech			144,271	2.6	2,307,794	2.3
	Ardenwood Corporate Park	Mar. 2013	75,630	1.3	834,374	0.8
	Ardenwood Corporate Park	Mar. 2013	15,981	0.3	701,082	0.7
	Ardenwood Corporate Park	Mar. 2013	20,002	0.4	312,065	0.3
	Ardenwood Corporate Park	Mar. 2013	5,363	0.1	235,273	0.3
	Ardenwood Corporate Park	Mar. 2013	27,295	0.5	225,000	0.2
Equinix, Inc.	Carrier Center	Oct. 2015	129,274	2.3	2,257,142	2.3
Total			2,792,290	49.4%	\$65,814,454	66.1%

(1) Assumes the exercise of no renewal options and the exercise of all early termination options.

(2) Microsoft Corporation subleases a portion of Savvis' space in this building.

(3) Telecommunications colocation space.

(4) Leslie & Godwin is a United Kingdom subsidiary of AON Corporation.

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- (5) 100% of the Camperdown House property is subleased by Level 3 Communications from Leslie & Godwin through December 2009. Leslie & Godwin remains liable to us for rents under its lease. Subject to a payment by Level 3 Communications, which we can waive, Level 3 Communications is obligated to take a further lease of this property for a term expiring in 2015, subject to one five-year extension option. Including the Camperdown House sublease, Level 3 Communications occupies a total of 104,715 square feet of net rentable space in our buildings at an aggregate annualized rent of approximately \$5.2 million.
- (6) Rental amounts for Camperdown House were calculated based on the exchange rate in effect on December 31, 2004 at \$1.8519 per £1.00.
- (7) Verio, Inc. is a wholly owned subsidiary of Nippon Telegraph & Telephone.
- (8) Stone & Webster, Inc. is the primary operating unit of the Engineering, Construction and Maintenance segment of The Shaw Group Inc.

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 under lease as of December 31, 2004.

Square Feet Under Lease	Number of Leases	Percentage of All Leases	Total Leased Square Feet	Percentage of Portfolio Leased Square Feet	Annualized Rent	Percentage Of Portfolio Annualized Rent
Available	—	0.0%	653,233	11.6%		
2,500 or less	83	36.1%	70,260	1.2%	2,865,372	2.9%
2,501-10,000	61	26.5%	318,580	5.6%	6,104,980	6.1%
10,001-20,000	26	11.3%	393,720	7.0%	7,477,402	7.5%
20,001-40,000	30	13.0%	780,346	13.8%	12,137,389	12.2%
40,001-100,000	16	7.0%	1,127,733	20.0%	27,611,805	27.7%
Greater than 100,000	14	6.1%	2,308,828	40.8%	43,431,470	43.6%
Portfolio Total	230	100.0%	5,652,700	100.0%	\$99,628,418	100.0%

Lease Expirations

The following table sets forth a summary schedule of the lease expirations for leases in place as of December 31, 2004 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 of Lease Expiration	Number of Leases Expiring	Square Footage of Expiring Leases	Percentage of Portfolio Square Feet	Annualized Rent	Percentage of Portfolio Annualized Rent	Annualized Rent Per Leased Square Foot	Annualized Rent Per Leased Square Foot at Expiration	Annualized Rent at Expiration
Available		653,233	11.6%	—	0.0%	—		
2005	21	68,277	1.2%	1,211,613	1.2%	\$ 17.75	\$ 19.87	1,356,687
2006	26	106,766	1.9%	1,893,190	1.9%	\$ 17.73	\$ 18.37	1,960,868
2007	29	236,423	4.2%	3,955,463	4.0%	\$ 16.73	\$ 18.60	4,396,679
2008	22	215,113	3.8%	3,528,161	3.5%	\$ 16.40	\$ 18.11	3,895,683
2009	28	381,702	6.8%	8,599,612	8.6%	\$ 22.53	\$ 24.29	9,270,761
2010	24	734,524	13.0%	13,048,837	13.1%	\$ 17.77	\$ 20.50	15,059,450
2011	22	1,099,963	19.4%	23,171,199	23.3%	\$ 21.07	\$ 24.38	26,814,650
2012	3	28,190	0.5%	663,683	0.7%	\$ 23.54	\$ 25.81	727,647
2013	11	428,140	7.6%	7,533,608	7.6%	\$ 17.60	\$ 20.14	8,621,662
2014	16	404,453	7.1%	6,483,890	6.5%	\$ 16.03	\$ 20.97	8,480,340
Thereafter ⁽¹⁾	28	1,295,916	22.9%	29,539,162	29.6%	\$ 22.79	\$ 32.87	42,598,202
Portfolio Total	230	5,652,700	100.0%	\$99,628,418	100.0%	\$ 19.93	\$ 24.64	\$123,182,629

- (1) Includes 63,233 square feet of net rentable space in Camperdown House. Property is subleased by Level 3 Communications from Leslie & Godwin, a U.K. 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 Properties

GI Partners owns interests in two technology-related properties, which were not contributed to us in connection with our initial public offering. The first is a 129,366 square foot vacant data center located in Frankfurt, Germany. The second is a data center located in Englewood, Colorado (Denver metropolitan area) with 82,229 of net rentable square feet. GI Partners has informed us that on November 15, 2004 Ameritrust Mortgage Company entered into a lease agreement for 100.0% of the net rentable square feet of this property, which commenced on February 1, 2005 for a term of seven years at an annualized net rent of approximately \$1.5 million. We do not have an option to purchase either of these properties. However, we do have rights of first offer with respect to the sale of either of them by GI Partners. In January 2005, we commissioned an appraisal of the Englewood, Colorado property with a view towards negotiating the purchase of this property from GI Partners.

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, 2004, we were not a party to any legal proceedings which we believe would have a material adverse effect or are material.

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, 2004.

PART II**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

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.

	<u>High</u>	<u>Low</u>	<u>Last</u>	<u>Distributions</u>
Period October 29, 2004 to December 31, 2004	\$ 14.10	\$ 12.00	\$ 13.47	\$ 0.156318

On March 15, 2005, the closing price of our common stock, as reported on the NYSE, was \$14.17.

We intend to continue to declare quarterly distributions on our common stock. The actual amount and timing of distributions, 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 distributions.

Subject to the distribution 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 distribution of capital or of assets. Such distributions, if any, will be made at the discretion of our board of directors. Distributions will be made in cash to the extent that cash is available for distribution.

As of March 15, 2005, there were 5 stockholders of record of our common stock. This figure does not reflect the beneficial ownership of shares held in nominee name.

On November 3, 2004, we consummated our initial public offering. The shares of common stock sold in our initial public offering were registered under the Securities Act of 1933, as amended, on a Registration Statement (Registration No. 333-117865) on Form S-11 that was declared effective by the Securities and Exchange Commission on October 28, 2004. Twenty million shares of common stock registered under the Registration Statement were sold at a price to the public of \$12.00 per share, generating gross proceeds of approximately \$240.0 million. On November 30, 2004, we sold an additional 1,421,300 shares of our common stock as a result of the underwriters' exercise of their over-allotment option. The gross proceeds from the sale of these additional shares totaled \$17.1 million. The net proceeds to us from both sales was approximately \$230.8 million after deducting an aggregate of \$18.0 million in underwriting discounts and commissions paid to the underwriters and \$8.3 million in other expenses incurred in connection with our initial public offering. All of the shares of common stock were sold by us and there were no selling stockholders in our initial public offering. Upon the closing of the sale of these additional shares, our initial public offering terminated.

In addition, concurrently with or shortly after the completion of our initial public offering, our operating partnership or the property-owning entities used the fee simple interests in seven properties to secure approximately \$213.0 million of new mortgage loans.

We used the net proceeds from our initial public offering, the new mortgage loans and \$31.4 million in borrowings under our unsecured revolving credit facility to:

- purchase 6,810,036 operating partnership units issued in connection with certain formation transactions, and an additional 1,421,300 units in connection with the underwriters' exercise of their over-allotment option, from the investors in GI Partners at a price per unit equal to the per share public offering price of our common stock in the offering, net of underwriting discounts and commissions and advisory fees payable to the underwriters, or \$76.0 million and \$15.9 million in the aggregate, respectively;

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- pay the \$15.0 million cash portion of the consideration to acquire the 200 Paul Avenue and 1100 Space Park Drive properties;
- acquire the 75% interest in the eBay Data Center property upon completion of our initial public offering and the remaining 25% interest therein in early 2005 for a total of \$13.7 million;
- repay approximately \$243.7 million under a bridge loan facility with an affiliate of Citigroup Global Markets Inc.; and
- repay an aggregate of approximately \$110.3 million of mortgage loans, other secured loans and notes payable under GI Partners' line of credit, including prepayment penalties.

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.

The Company and the Company Predecessor
(Amounts in thousands, except share data)

	The Company	The Predecessor			
	Period from November 3, 2004 through December 31, 2004	Period from January 1, 2004 through November 2, 2004	Year Ended December 31,		Period from February 28, 2001 (inception) through December 31, 2001
			2003	2002	
Statement of Operations Data:					
Rental revenues	\$ 21,232	\$ 67,876	\$50,099	\$21,203	\$ —
Tenant reimbursements	4,083	12,146	8,661	3,894	—
Other revenues	30	1,754	4,328	458	12
Total revenues	25,345	81,776	63,088	25,555	12
Rental property operating and maintenance expenses	5,173	13,801	8,624	4,997	—
Property taxes	2,085	7,249	4,688	2,755	—
Insurance	472	1,403	626	83	—
Interest expense	5,547	18,914	10,091	5,249	—
Asset management fees to related party	—	2,655	3,185	3,185	2,663
Depreciation and amortization expense	7,373	24,025	16,295	7,659	—
General and administrative expenses	20,725	292	329	249	—
Net loss from early extinguishment of debt	283	—	—	—	—
Other expenses	57	2,748	2,459	1,249	107
Total expenses	41,715	71,087	46,297	25,426	2,770
Income (loss) before minority interests	(16,370)	10,689	16,791	129	(2,758)
Minority interests in consolidated joint ventures	13	(37)	149	190	—
Minority interests in operating partnership	(10,214)	—	—	—	—
Net income (loss)	\$ (6,169)	\$ 10,726	\$16,642	\$ (61)	\$ (2,758)
Per Share Data:					
Loss per share—basic and diluted	\$ (0.30)	\$ —	\$ —	\$ —	\$ —
Weighted average common shares outstanding—basic and diluted	20,770,875	—	—	—	—

	The Company	The Predecessor		
	December 31, 2004	December 31,		
		2003	2002	2001
Balance Sheet Data				
Investments in real estate, net	\$ 787,412	\$ 391,737	\$ 217,009	\$ —
Total assets	1,013,287	479,698	269,836	1,893
Notes payable under line of credit	44,000	44,436	53,000	—
Notes payable under bridge loan	—	—	—	—
Mortgages and other secured loans	475,498	253,429	103,560	—
Total liabilities	584,229	328,303	183,524	903
Minority interests in consolidated joint ventures	997	3,444	3,135	—
Minority interests in operating partnership	254,862	—	—	—
Stockholders'/owner's equity	173,199	147,951	83,177	990
Total liabilities and stockholders'/owner's equity	1,013,287	479,698	269,836	1,893

	The Company and the Predecessor	The Predecessor		
	Year Ended December 31, 2004	Year Ended December 31,		Period from February 28, 2001 (inception) through December 31, 2001
		2003	2002	
Cash flows from (used in):				
Operating activities	\$ 44,638	\$ 27,628	\$ 9,645	\$ (1,867)
Investing activities	(371,277)	(213,905)	(164,755)	(1,881)
Financing activities	326,022	187,873	158,688	3,748

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report. Where appropriate, the following discussion includes analysis of the effects of our initial public offering, the formation transactions and related refinancing transactions and certain other transactions. We make statements in this section that are forward-looking statements within the meaning of the federal securities laws. For a complete discussion of forward-looking statements, see the section in this Form 10-K entitled "Forward-Looking Statements." Certain risk factors may cause our actual results, performance or achievements to differ materially from those expressed or implied by the following discussion. For a discussion of such risk factors, see the sections in this report entitled "Risk Factors" and "Forward-Looking Statements."

Overview

Our company. We completed our initial public offering, or IPO, of common stock on November 3, 2004. We expect to qualify as a REIT for federal income tax purposes beginning with our initial taxable period ended December 31, 2004. Our company was formed on March 9, 2004. During the period from our formation until we commenced operations in connection with the completion of our IPO, we did not have any corporate activity other than the issuance of shares of common stock in connection with the initial capitalization of our company. Because we believe that a discussion of the results of our company prior to the completion of our IPO would not be meaningful, we have set forth below a discussion of historical combined operations for our company and our company's Predecessor and as such, any reference in the Management's Discussion and Analysis of Financial Condition and Results of Operations to "our," "we" and "us" in this Item 7 includes the Predecessor.

Business and strategy. Our primary business objectives are to maximize sustainable long-term growth in earnings, funds from operations and cash flow per share and maximize returns to our stockholders. We expect to achieve our objectives by focusing on our core business of investing in technology-related real estate. We target high quality, strategically located properties containing applications and operations critical to the day-to-day operations of corporate enterprise data center and technology industry tenants. We focus on regional, national and international tenants, which require technology real estate and that are leaders in their respective areas. Most of our properties contain fully redundant electrical supply systems, multiple power feeds, above-standard electrical HVAC systems, raised floor areas to accommodate computer cables and below-floor cooling systems, extensive in-building communications cabling and high-level security systems. We focus solely on technology-related real estate because we believe that the growth in corporate enterprise data center adoption and the technology industry generally will be superior to that of the overall economy.

Since the acquisition of our first property in 2002 and through December 31, 2004, we acquired an aggregate of 24 technology-related real estate properties with 5.7 million net rentable square feet. Through March 31, 2005, we acquired two additional technology-related properties, with approximately 635,329 net rentable square feet and are under contract to acquire an additional two properties with approximately 982,090 net rentable square feet. We have developed detailed, standardized procedures for evaluating acquisitions to ensure that they meet our financial and other criteria. We expect to continue to acquire additional assets as a key part of our growth strategy. We intend to aggressively manage and lease our assets to increase their cash flow.

We may acquire properties subject to existing mortgage financing and other indebtedness or to new indebtedness, which may be incurred in connection with acquiring or refinancing these investments. Debt service on such indebtedness will have a priority over any dividends with respect to our common stock and our series A preferred stock. We intend to limit our indebtedness to 60% of our total market capitalization and, based on the closing price of our common stock on December 31, 2004 of \$13.47, our ratio of debt to total market capitalization was approximately 42.1% as of December 31, 2004. 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 market capitalization ratio), excluding options issued under our incentive award plan, plus the aggregate value of the units not held by us, plus the book value of our total consolidated indebtedness.

Revenue Base. As of December 31, 2004, we owned 24 properties through our operating partnership. These properties are located throughout the U.S., with one property located in London, England, and contain a total of approximately 5.7 million net rentable square feet. We acquired our first portfolio property in January 2002, an additional four properties through December 31, 2002, eight properties during the year ended December 31, 2003 and eleven properties during the year ended December 31, 2004. As of December 31, 2004, the properties in our portfolio were approximately 88.4% leased at an average annualized rent per leased square foot of \$19.93. Since our tenants generally fund capital improvements, our lease terms are generally longer than standard commercial leases. At December 31, 2004, our average lease term was 12.5 years, with an average of 7.4 years remaining. Our lease expirations through 2007 are only 7.3% of net rentable square feet or 7.1% of aggregate annualized rent as of December 31, 2004.

Operating expenses. Our operating expenses generally consist of utilities, property and ad valorem taxes, insurance and site maintenance costs, as well as rental expenses on our ground lease. For our Predecessor, a significant portion of the general and administrative type expenses have been reflected in the asset management fees that were paid to GI Partners' related-party asset manager. The asset management fees were based on a fixed percentage of capital commitments made by the investors in GI Partners, a portion of which have been allocated to our Predecessor. Since the consummation of our IPO, our asset management function has been internalized and we are incurring the majority of our general and administrative expenses directly. We have entered into a transition services agreement with CB Richard Ellis Investors with respect to transitional accounting and other services. In addition, as a public company, we are incurring significant legal, accounting and other expenses related to corporate governance, Securities and Exchange Commission reporting and compliance with the various provisions of Sarbanes-Oxley Act of 2002. In addition, we rely on third-party property managers for most of our properties. As of December 31, 2004, seven of our properties were managed by affiliates of CB Richard Ellis, an affiliate of GI Partners.

Formation Transactions. In connection with the completion of our IPO, our operating partnership received contributions of direct and indirect interests in the majority of the properties in our portfolio in exchange for consideration that included cash, assumption of debt, and an aggregate of 38,262,206 units in our operating partnership (with the cash, assumed debt and units having an aggregate value of \$1,097.7 million based on the IPO price per share of \$12.00).

We accounted for the ownership interests contributed to us by GI Partners in exchange for a partnership interest in our operating partnership as a reorganization of entities under common control in a manner similar to a pooling of interests. Accordingly, the assets and liabilities contributed by GI Partners are accounted for by our operating partnership at GI Partners' historical cost. We utilized purchase accounting to account for the acquisition of ownership interests in 200 Paul Avenue and 1100 Space Park Drive, which were contributed to us by third parties in exchange for interests in our operating partnership, cash and the assumption of debt and the 10% minority ownership interest in Univision Tower, which was contributed to us by our joint venture partner in exchange for an interest in our operating partnership and the repayment of debt. Accordingly, the purchase price for these interests, which are equal to the value of the operating partnership units that we issued in exchange plus cash paid and debt assumed, were allocated to the assets acquired and liabilities assumed based on the fair value of the assets and liabilities.

Factors Which May Influence Future Results of Operations

Rental income. The amount of net rental income generated by the properties in our portfolio depends principally on our ability to maintain the occupancy rates of currently leased space and to lease currently available space and space available from lease terminations. As of December 31, 2004, the occupancy rate in the properties in our portfolio was approximately 88.4% of our net rentable square feet. The amount of rental income

generated by us also depends on our ability to maintain or increase rental rates at our properties. In addition, one of our strategies is to convert approximately 197,310 net rentable square feet of data center space with extensive installed tenant improvements that is, or shortly will be, available for lease to multi-tenant colocation use in order to allow us to lease small spaces at rates that are significantly higher than prevailing market rates for other uses. Negative trends in one or more of these factors could adversely affect our rental income in future periods. Future economic downturns or regional downturns affecting our submarkets or downturns in the technology industry that impair our ability to renew or re-lease space and the ability of our tenants to fulfill their lease commitments, as in the case of tenant bankruptcies, could adversely affect our ability to maintain or increase rental rates at our properties. In addition, growth in rental income will also partially depend on our ability to acquire additional technology-related real estate that meets our investment criteria. One of our tenants, VarTec Telecom, Inc. filed for Chapter 11 bankruptcy protection on November 1, 2004. VarTec Telecom, Inc. occupies 135,000 rentable square feet at our Carrollton, Texas property and 8,632 rentable square feet at our Univision Tower property in Dallas, Texas. We are closely monitoring their status and we believe our properties provide a favorable opportunity for consolidation of their operations. On August 3, 2004, prior to our acquisition of 200 Paul Avenue, Universal Access Inc. filed for Chapter 11 bankruptcy protection. Both tenants are current on their rental obligations.

Scheduled lease expirations. Our ability to re-lease expiring space will impact our results of operations. In addition to approximately 653,000 square feet of available space in our portfolio as of December 31, 2004, leases representing approximately 1.2% and 1.9% of the square footage of our portfolio are scheduled to expire during the 12-month periods ending December 31, 2005 and 2006, respectively. The leases scheduled to expire in the 12-month periods ending December 31, 2005 and 2006 represent approximately 1.2% and 1.9%, respectively, of our total annualized base rent.

Conditions in significant markets. As of December 31, 2004, our portfolio was geographically concentrated in the Boston, Dallas, Los Angeles, New York, San Francisco and Silicon Valley metropolitan markets; these markets provided 9.7%, 19.2%, 10.3%, 6.9%, 10.9%, and 28.2%, respectively, of the annualized rent of the properties in our portfolio. Subsequent to December 2004, we acquired or are under contract to acquire properties in Philadelphia and Chicago that will account for significant portions of our future annualized rent. Positive or negative changes in conditions in our significant markets will impact our overall performance. The Dallas, San Francisco and Silicon Valley metropolitan real estate markets were adversely affected by the recent downturn in the technology industry, and continue to stabilize as the technology industry and broader, economy rebound. The majority of the 3.1% of net rentable square feet of our portfolio as of December 31, 2004, that is subject to expiration in the 24 months ending December 31, 2006 is in Denver. The Denver metropolitan real estate market was also adversely affected by the recent downturn in the technology industry. We believe that the Denver leasing market appears to be stabilizing, with recent positive absorption of space.

Operating expenses. Our operating expenses generally consist of utilities, property and ad valorem taxes, insurance and site maintenance costs, as well as rental expenses on our ground lease. We are also incurring general and administrative expenses, including expenses relating to the internalization of our asset management function, as well as significant legal, accounting and other expenses related to corporate governance, Securities and Exchange Commission reporting and compliance with the various provisions of the Sarbanes-Oxley Act. Increases or decreases in such operating expenses will impact our overall performance. As a newly public company, we are incurring additional operating expenses as we internalize our asset management function and begin to incur the majority of our expenses directly.

Critical Accounting Policies

Our discussion and analysis of financial condition and results of operations are based upon our consolidated and combined financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). The preparation of these financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses in the reporting period. Our actual results

may differ from these estimates. We have provided a summary of our significant accounting policies in Note 2 to our financial statements included elsewhere in this report. We describe below those accounting policies that require material subjective or complex judgments and that have the most significant impact on our financial condition and results of operations. Our management evaluates these estimates on an ongoing basis, based upon information currently available and on various assumptions management believes are reasonable as of the date on the front cover of this report.

Investments in Real Estate

Acquisition of real estate. The price that we pay to acquire a property is impacted by many factors including the condition of the buildings and improvements, the occupancy of the building, the existence of above and below market tenant leases, the creditworthiness of the tenants, favorable or unfavorable financing, above or below market ground leases and numerous other factors. Accordingly, we are required to make subjective assessments to allocate the purchase price paid to acquire investments in real estate among the assets acquired and liabilities assumed based on our estimate of the fair values of such assets and liabilities. This includes determining the value of the buildings and improvements, land, any ground leases, tenant improvements, in-place tenant leases, tenant relationships, the value (or negative value) of above (or below) market leases and any debt assumed from the seller or loans made by the seller to us. Each of these estimates requires a great deal of judgment and some of the estimates involve complex calculations. Our allocation methodology is summarized in Note 2 to our consolidated and combined financial statements. These allocation assessments have a direct impact on our results of operations. For example, if we were to allocate more value to land, there would be no depreciation with respect to such amount. If we were to allocate more value to the buildings as opposed to allocating to the value of tenant leases, this amount would be recognized as an expense over a much longer period of time. This potential effect occurs because the amounts allocated to buildings are depreciated over the estimated lives of the buildings whereas amounts allocated to tenant leases are amortized over the terms of the leases. Additionally, the amortization of value (or negative value) assigned to above or below market rate leases is recorded as an adjustment to rental revenue as compared to amortization of the value of in-place leases and tenant relationships, which is included in depreciation and amortization in our combined statements of operations.

Useful lives of assets. We are required to make subjective assessments as to the useful lives of our properties for purposes of determining the amount of depreciation to record on an annual basis with respect to our investments in real estate. These assessments have a direct impact on our net income because if we were to shorten the expected useful lives of our investments in real estate we would depreciate such investments over fewer years, resulting in more depreciation expense and lower net income on an annual basis.

Asset impairment valuation. We review the carrying value of our properties when circumstances, such as adverse market conditions, indicate potential impairment may exist. We base our review on an estimate of the future cash flows (excluding interest charges) expected to result from the real estate investment's use and eventual disposition. We consider factors such as future operating income, trends and prospects, as well as the effects of leasing demand, competition and other factors. If our evaluation indicates that we may be unable to recover the carrying value of a real estate investment, an impairment loss is recorded to the extent that the carrying value exceeds the estimated fair value of the property. These losses have a direct impact on our net income because recording an impairment loss results in an immediate negative adjustment to net income. The evaluation of anticipated cash flows is highly subjective and is based in part on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results in future periods. Since cash flows on properties considered to be long-lived assets to be held and used are considered on an undiscounted basis to determine whether an asset has been impaired, our strategy of holding properties over the long-term directly decreases the likelihood of recording an impairment loss. If our strategy changes or market conditions otherwise dictate an earlier sale date, an impairment loss may be recognized and such loss could be material. If we determine that impairment has occurred, the affected assets must be reduced to their fair value. No such impairment losses have been recognized to date.

We estimate the fair value of rental properties utilizing a discounted cash flow analysis that includes projections of future revenues, expenses and capital improvement costs, similar to the income approach that is commonly utilized by appraisers.

Revenue Recognition

Rental income is recognized using the straight-line method over the terms of the tenant leases. Deferred rents included in our balance sheets represent the aggregate excess of rental revenue recognized on a straight-line basis over the rental revenue that would be recognized under the terms of the leases. Our leases generally contain provisions under which the tenants reimburse us for a portion of property operating expenses and real estate taxes incurred by us. Such reimbursements are recognized in the period that the expenses are incurred. Lease termination fees are recognized when the related leases are canceled and we have no continuing obligation to provide services to such former tenants. As discussed above, we recognize amortization of the value of acquired above or below market tenant leases as a reduction of rental income in the case of above market leases or an increase to rental revenue in the case of below market leases.

We must make subjective estimates as to when our revenue is earned and the collectibility of our accounts receivable related to minimum rent, deferred rent, expense reimbursements, lease termination fees and other income. We specifically analyze accounts receivable and historical bad debts, tenant concentrations, tenant creditworthiness, and current economic trends when evaluating the adequacy of the allowance for bad debts. These estimates have a direct impact on our net income because a higher bad debt allowance would result in lower net income, and recognizing rental revenue as earned in one period versus another would result in higher or lower net income for a particular period.

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Results of Operations

The discussion below relates to our financial condition and results of operations for the years ended December 31, 2004, 2003 and 2002. We have combined the results of operations for the period from November 3, 2004 through December 31, 2004 and the period from January 1, 2004 through November 2, 2004 to provide a meaningful comparison to the results of operations for the year ended December 31, 2003.

The following table identifies each of the properties in our portfolio acquired through December 31, 2004. Our property portfolio has experienced consistent and significant growth since the first property acquisition in January 2002. As a result of such growth, a period-to-period comparison of our financial performance focuses primarily on the impact on our revenues and expenses resulting from the new property additions to our portfolio. On a “same store” property basis, our revenues and expenses have remained substantially stable as a result of the generally consistent occupancy rates at our properties.

Acquired Properties	Acquisition Date	Net Rentable Square Feet	Occupancy Rate		
			December 31, 2004	December 31, 2003	December 31, 2002
Year Ended December 31, 2002					
36 Northeast Second Street	Jan. 2002	162,140	81.2%	95.7%	95.7%
Univision Tower	Jan. 2002	477,107	80.5	84.1	82.2
Camperdown House	July 2002	63,233	100.0	100.0	100.0
Hudson Corporate Center	Nov. 2002	311,950	88.7	88.7	100.0
NTT/Verio Premier Data Center	Dec. 2002	130,752	100.0	100.0	100.0
Subtotal		1,145,182			
Year Ended December 31, 2003					
Ardenwood Corporate Park	Jan. 2003	307,657	100.0	80.7	—
VarTec Building	Jan. 2003	135,250	100.0	100.0	—
ASM Lithography Facility	May 2003	113,405	100.0	100.0	—
AT&T Web Hosting Facility	June 2003	250,191	50.0	50.0	—
Brea Data Center	Aug 2003	68,807	100.0	100.0	—
Granite Tower	Sept 2003	240,065	95.5	98.9	—
Maxtor Manufacturing Facility	Sept 2003	183,050	100.0	100.0	—
Stanford Place II	Oct 2003	364,408	85.7	79.8	—
Subtotal		1,662,833			
Year Ended December 31, 2004					
100 Technology Center Drive	Feb 2004	197,000	100.0	—	—
Siemens Building	April 2004	125,538	100.0	—	—
Carrier Center	May 2004	444,196	81.7	—	—
Savvis Data Center	May 2004	300,000	100.0	—	—
Comverse Technology Building	June 2004	386,956	100.0	—	—
Webb at LBJ	Aug 2004	365,449	89.0	—	—
AboveNet Data Center	Sept 2004	179,489	97.1	—	—
eBay Data Center	Oct 2004	62,957	100.0	—	—
200 Paul Avenue	Nov 2004	532,238	83.1	—	—
1100 Space Park Drive	Nov 2004	167,951	46.6	—	—
Burbank Data Center	Dec 2004	82,911	100.0	—	—
Subtotal		2,844,685			
Total		5,652,700			

Comparison of the Year Ended December 31, 2004 to the Year Ended December 31, 2003

As of December 31, 2004, our portfolio consisted of 24 properties with an aggregate of 5.7 million net rentable square feet compared to a portfolio consisting of 13 properties with an aggregate of 2.8 million net rentable square feet as of December 31, 2003. The increase in our portfolio reflects the acquisition of eleven properties with an aggregate of approximately 2.9 million net rentable square feet in 2004, bringing the total number of properties from 13 as of December 31, 2003 to 24 as of December 31, 2004.

Total revenues increased \$44.0 million, or 69.7%, to \$107.1 million for the year ended December 31, 2004 compared to \$63.1 million for the year ended December 31, 2003. Rental revenue increased \$39.0 million, or 77.8%, to \$89.1 million for the year ended December 31, 2004 compared to \$50.1 million for the year ended December 31, 2003. Revenues from tenant reimbursements increased \$7.5 million, or 86.2%, to \$16.2 million for the year ended December 31, 2004 compared to \$8.7 million for the year ended December 31, 2003. The increase in rental and tenant reimbursements revenue was primarily due to the eleven properties added to our portfolio during 2004 along with a full year of revenue earned in 2004 attributed to our 2003 acquisitions.

The decrease in other revenue of \$2.5 million, or 58.1%, to \$1.8 million for the year ended December 31, 2004 compared to \$4.3 million for the year ended December 31, 2003 was primarily due to a decrease in early lease termination fees.

Total expenses increased \$66.5 million, or 143.6%, to \$112.8 million for the year ended December 31, 2004 compared to \$46.3 million for the year ended December 31, 2003. The increase in total expenses was primarily due to eleven properties being added to our portfolio during 2004 along with a full year of expenses incurred in 2004 for our 2003 acquisitions resulting in increases in rental property operating and maintenance expense, interest expense, depreciation and amortization expense and general and administrative expense. The increase in total expenses was also due to expenses incurred in connection with the completion of our IPO and the related formation transactions.

Rental property operating and maintenance expense increased \$10.4 million, or 120.9%, to \$19.0 million for the year ended December 31, 2004 compared to \$8.6 million for the year ended December 31, 2003. Rental property operating and maintenance expenses included \$1.1 million and \$0.4 million in 2004 and 2003, respectively, paid to affiliates of CB Richard Ellis Investors for property management and other fees. The increase is primarily due to the acquisition of the 11 properties described above.

Interest expense increased \$14.4 million, or 142.6%, to \$24.5 million for the year ended December 31, 2004 compared to \$10.1 million for the year ended December 31, 2003. The increase was associated with new mortgage and other secured debt incurred primarily in connection with the properties added to our portfolio. Interest expense also included \$3.1 million of amortization of deferred financing costs related to notes payable under our bridge loan. The increase in interest related to property acquisitions was partially offset by a reduction in interest related to loans repaid or refinanced in connection with the completion of our IPO.

Depreciation and amortization expense increased \$15.1 million, or 92.6%, to \$31.4 million for the year ended December 31, 2004 compared to \$16.3 million for the year ended December 31, 2003. The increase is primarily due to the acquisition of the eleven properties along with a full year of depreciation and amortization incurred in 2004 for our 2003 acquisitions.

General and administrative expense increased \$20.7 million to \$21.0 million for the year ended December 31, 2004 compared to \$0.3 million for the year ended December 31, 2003. The increase was primarily due to \$17.9 million of compensation expense recorded upon completion of our IPO related to fully-vested long-term incentive units granted in connection with the IPO and due to general and administrative expenses incurred from November 3, 2004 through December 31, 2004. Prior to the completion of our IPO, general and administrative expenses were incurred by our Predecessor's related party asset manager and our Predecessor.

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incurred an asset management fee, which is included separately in our combined statement of operations. Additionally, as a public company, we are incurring significant legal, accounting and other costs related to corporate governance, Securities and Exchange Commission reporting and other public company overhead. In addition, in 2004, we also incurred title insurance and consulting costs related to our IPO that were not considered offering costs or costs that could be capitalized. Accordingly, they were expensed in full in 2004. We expect to continue to incur significant general and administrative expenses as we internalize our accounting functions, partially related to increased headcount.

Other expenses are primarily comprised of write-offs of the carrying amounts for deferred tenant improvements, acquired in place lease value and acquired above and below market lease values as a result of the early termination of tenant leases. The total amount of such write-offs for the year ended December 31, 2004 is comparable to the total for the year ended December 31, 2003 despite the decrease in lease termination revenue, because not all 2004 early terminations resulted in termination fees.

For the years ended December 31, 2004 and 2003 the monthly asset management fee to a related party was based on a fixed percentage of capital commitments by the investors in GI Partners, a portion of which was allocated to the Company Predecessor. Effective as of the completion of our IPO, no such fees are allocated to us.

Comparison of Year Ended December 31, 2003 to Year Ended December 31, 2002

As of December 31, 2003, our portfolio consisted of 13 properties with an aggregate of approximately 2.8 million net rentable square feet compared to a portfolio consisting of five properties with an aggregate of approximately 1.1 million net rentable square feet as of December 31, 2002. The increase in our portfolio reflects the acquisition of eight properties with an aggregate of approximately 1.7 million net rentable square feet.

Total revenue increased \$37.5 million, or 146.5%, to \$63.1 million for the year ended December 31, 2003 compared to \$25.6 million for the year ended December 31, 2002. Rental revenue increased \$28.9 million, or 136.3%, to \$50.1 million for the year ended December 31, 2003 compared to \$21.2 million for the year ended December 31, 2002. Revenues from tenant reimbursements increased \$4.8 million, or 123.1%, to \$8.7 million for the year ended December 31, 2003 compared to \$3.9 million for the year ended December 31, 2002. The increase in rental and tenant reimbursement revenues was primarily due to the properties added to our portfolio during the latter part of 2002 and the year ended December 31, 2003. Other revenues increased \$3.8 million to \$4.3 million for the year ended December 31, 2003 compared to \$0.5 million for the year ended December 31, 2002. This increase was primarily due to an early lease termination fee recognized during the year ended December 31, 2003.

Total expenses increased \$20.9 million, or 82.3%, to \$46.3 million for the year ended December 31, 2003 compared to \$25.4 million for the year ended December 31, 2002. The increase was primarily due to the increase in expenses related to properties added to our portfolio during the latter part of 2002 and the year ended December 31, 2003. The increase in total expenses includes an increase in interest expense of \$4.9 million to \$10.1 million for the year ended December 31, 2003 compared to \$5.2 million for the year ended December 31, 2002 associated with new mortgage and other secured debt incurred in connection with the properties in our portfolio. Other expenses of \$2.5 million and \$1.2 million for the years ended December 31, 2003 and 2002, respectively, primarily consist of write-offs of the carrying amounts for deferred tenant improvements, acquired in place lease value and acquired above and below market lease values as a result of the early termination of tenant leases in each year. During the years ended December 31, 2003 and 2002, the asset management fee to a related party remained constant as this fee was based on a fixed percentage of capital commitments by the investors in GI Partners, a portion of which have been allocated to the Digital Realty Predecessor.

Liquidity and Capital Resources

Analysis of Liquidity and Capital Resources

As of December 31, 2004, we had \$4.6 million of cash and cash equivalents, excluding \$14.2 million of restricted cash. Restricted cash primarily consists of interest bearing cash deposits required by the terms of

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several of our mortgage loans for a variety of purposes, including real estate taxes, insurance, anticipated or contractually obligated tenant improvements and leasing reserves.

Our short term liquidity requirements primarily consist of operating expenses and other expenditures associated with our properties, dividend payments to our stockholders required to maintain our REIT status, capital expenditures and, potentially, acquisitions. We expect to meet our short-term liquidity requirements through net cash provided by operations, restricted cash accounts established for certain future payments, the proceeds of the offering of our series A preferred stock, which was completed on February 9, 2005, and by drawing upon our unsecured credit facility.

Our properties require periodic investments of capital for tenant-related capital expenditures and for general capital improvements. As of December 31, 2004, we had commitments under leases in effect for \$1.8 million of tenant improvement costs and leasing commissions, including \$1.6 million in 2005 and \$0.2 million in 2006. We also expect to incur costs of recurring capital improvements for our properties. Our nonrecurring capital expenditures are discretionary and vary substantially from period to period. 833 Chestnut Street, which we acquired in March 2005, contains 107,563 square feet of vacant space in shell condition. Lakeside Technology Center, which we are under contract to acquire, contains approximately 250,000 square feet of additional vacant space in shell condition. Depending on demand in these buildings, we may incur significant tenant improvement costs to build these spaces out.

As of December 31, 2004, we owned approximately 197,310 net rentable square feet of data center space with extensive installed tenant improvements that we may convert to multi-tenant colocation use during the next two years rather than lease such space to large single tenants. We estimate that the cost to convert this space will be approximately \$10 - \$15 per square foot, on average. We may also spend additional amounts in the next two years related to the build-out of unimproved space for colocation use, depending on tenant demand; however, we currently have no commitments to do so. The cost to build out such unimproved space will vary based on the size and condition of the space.

In connection with the consummation of our IPO on November 3, 2004, our operating partnership entered into a new \$200.0 million unsecured revolving credit facility. Borrowings under the facility bear interest at a rate based on LIBOR plus a premium ranging from 1.375% to 1.750%, depending on our operating partnership's overall leverage. The facility matures in November 2007, subject to a one-year extension option. We intend to use available borrowings under the unsecured credit facility to, among other things, finance the acquisition of future properties (including, potentially, the right of first offer properties), to fund tenant improvements and capital expenditures, and to provide for working capital and other corporate purposes.

In February 2005, we completed the offering of 4.14 million shares of our 8.5% series A preferred stock for total net proceeds, after underwriting discounts and estimated expenses, of \$99.3 million, including the proceeds from the exercise of the underwriters' over-allotment option. We used the net proceeds from this offering to reduce borrowings under our unsecured credit facility, acquire two properties in March 2005 as described below and for investment and general corporate purposes.

In March 2005, we completed the acquisition of two properties, 833 Chestnut Street in Philadelphia, Pennsylvania and MAPP Building in Minneapolis, Minnesota. The aggregate purchase price for these properties was approximately \$74.6 million, which was paid from the proceeds of our offering of series A preferred stock described above.

In March 2005, we entered into a purchase and sale agreement to acquire Lakeside Technology Center for an aggregate purchase price of approximately \$142.6 million. The seller can earn an additional \$20.0 million by obtaining a change in the real estate tax classification prior to December 31, 2006. We also entered into a separate purchase and sale agreement to acquire Printers' Square in Chicago, Illinois for an aggregate purchase price of approximately \$37.5 million. We initially intend to fund the purchase prices and the contingent fee, if applicable, with borrowings under our unsecured credit facility, or a combination of borrowings under the credit facility and secured long-term debt.

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We expect to meet our long-term liquidity requirements to pay for scheduled debt maturities and to fund property acquisitions and non-recurring capital improvements with net cash from operations, future long-term secured and unsecured indebtedness and the issuance of equity and debt securities. We also may fund future property acquisitions and non-recurring capital improvements using our unsecured credit facility pending permanent financing. We are currently in negotiations with the lenders under our unsecured credit facility to increase the size of the facility.

Distributions

We are required to distribute 90% of our REIT taxable income (excluding capital gains) on an annual basis in order to qualify as a REIT for federal income tax purposes. Accordingly, we intend to make, but are not contractually bound to make, regular quarterly distributions to preferred stockholders, common stockholders and unit holders from cash flow from operating activities. All such distributions are at the discretion of our board of directors. We may be required to use borrowings under the credit facility, if necessary, to meet REIT distribution requirements and maintain our REIT status. We consider market factors and our performance in addition to REIT requirements in determining distribution levels. Amounts accumulated for distribution to stockholders are invested primarily in interest-bearing accounts and short-term interest-bearing securities, which are consistent with our intention to maintain our status as a REIT.

On December 14, 2004, we declared a dividend to common stockholders of record and our operating partnership declared a distribution to common share unit holders of record, in each case as of December 31, 2004, totaling approximately \$8.3 million, or \$0.156318 per common share, common unit and long-term incentive unit, covering the period from the consummation of our IPO on November 3, 2004 through December 31, 2004. The dividend and distribution were paid on January 14, 2005. The dividend was equivalent to an annual rate of \$0.975 per common share and unit, including long-term incentive units, which achieved full parity with common units on February 9, 2005.

On February 14, 2005, we declared a dividend on our series A preferred stock of \$0.30694 per share for the period from February 9, 2005 through March 31, 2005, payable on March 31, 2005 to the holders of record on March 15, 2005. The dividend is equivalent to an annual rate of \$2.125 per preferred share.

On February 14, 2005, we also declared a dividend on our common stock, and caused our operating partnership to declare a distribution on its common units, of \$0.24375 per share, covering the period from January 1, 2005 through March 31, 2005. The dividend is equivalent to an annual rate of \$0.975 per common share and common unit.

Commitments and Contingencies

The following table summarizes our contractual obligations as of December 31, 2004, including the maturities and scheduled principal on our secured debt and unsecured credit facility debt, and provides information about the commitments due in connection with our ground lease, tenant improvement and leasing commissions (in thousands):

<u>Obligation</u>	<u>Total</u>	<u>2005</u>	<u>2006-2007</u>	<u>2008-2009</u>	<u>Thereafter</u>
Long-term debt principal payments ⁽¹⁾	\$ 519,498	\$ 15,692	\$ 216,495	\$ 143,936	\$ 143,375
Ground lease ⁽²⁾	10,786	241	482	482	9,581
Tenant improvements and leasing commissions	1,792	1,570	222	—	—
Total	\$ 532,076	\$ 17,503	\$ 217,199	\$ 144,418	\$ 152,956

- (1) Includes \$44.0 million of borrowings under our unsecured credit facility, which matures in November 2007.
- (2) After February 2036, rent for the remaining term of the ASM Lithography Facility ground lease will be determined based on a fair market value appraisal of the asset and, as a result, is excluded from the above information.

We are party to interest rate swap agreements with Keybank National Association and Bank of America for approximately \$140.3 million of our variable rate debt, of which \$140.2 million was outstanding as of December 31, 2004. Under these swaps, we receive variable-rate amounts in exchange for fixed-rate payments over the life of the agreements without exchange of the underlying principal amounts. See Item 7A “Quantitative and Qualitative Disclosures about Market Risk.”

Outstanding Consolidated Indebtedness

At December 31, 2004, we had approximately \$519.5 million of outstanding consolidated long-term debt as set forth in the table below. Our ratio of debt to total market capitalization was approximately 42.1% (based on the closing price of our common stock on December 31, 2004 of \$13.47). As of December 31, 2004 approximately \$258.0 million of our outstanding long-term debt is variable rate debt; however, we have interest rate swap agreements for approximately \$140.2 million of our variable rate debt leaving \$117.8 million as unhedged variable debt. As a result, approximately 77.3% of our total indebtedness was subject to fixed interest rates and 22.7% to variable interest rates as of December 31, 2004.

The table below summarizes our debt, at December 31, 2004 (in millions):

Debt Summary:	
Fixed rate	\$261.5
Variable rate—hedged by interest rate swaps	140.2
Total fixed rate	401.7
Variable rate—unhedged	117.8
Total	\$519.5
Percent of Total Debt:	
Fixed rate	77.3%
Variable rate	22.7%
Total	100%
Effective Interest Rate at End of Year	
Fixed rate	5.68%
Variable rate—unhedged	5.57%
Effective interest rate	5.66%

The variable rate debt shown above bears interest at an interest rate based on 1-month, 3-month and 6-month LIBOR rates, depending on the agreement governing the debt. The debt secured by our properties at December 31, 2004 had a weighted average term to initial maturity of approximately 5.0 years (approximately 5.7 years assuming exercise of extension options).

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The following table sets forth information with respect to our indebtedness as of December 31, 2004, but does not give effect to the approximately \$140.2 million in interest rate swap agreements (in thousands):

Properties	Interest Rate	Principal Amount	Annual Debt Service ⁽¹⁾	Maturity Date	Balance at Maturity ⁽²⁾
100 Technology Center Drive—Mortgage	LIBOR + 1.70%	\$ 20,000	\$ 820	Apr. 1, 2009	\$ 20,000
200 Paul Avenue—Mortgage	LIBOR + 3.17%	46,749	4,488	Jul. 1, 2006 ⁽³⁾	43,794
Ardenwood Corporate Park, NTT/Verio Premier Data Center, VarTec Building—Mortgage	LIBOR + 1.59%	43,000	1,716	Aug. 9, 2006 ⁽⁴⁾	43,000
Ardenwood Corporate Park, NTT/Verio Premier Data Center, VarTec Building—Mezzanine	LIBOR + 5.75%	22,000	1,793	Aug. 9, 2006 ⁽⁴⁾	22,000
AT&T Web Hosting Facility—Mortgage	LIBOR + 1.85%	8,775	373	Dec. 1, 2006 ⁽³⁾	8,775
Camperdown House—Mortgage	6.85%	22,672 ⁽⁵⁾	3,206	Oct. 31, 2009	13,479
Carrier Center—Mortgage	LIBOR + 4.25% ⁽⁶⁾	25,964	2,181	Nov. 11, 2007 ⁽⁷⁾	24,713
Granite Tower—Mortgage	LIBOR + 1.20%	21,645	1,301	Jan. 1, 2009	19,530
Maxtor Manufacturing Facility—Mortgage	LIBOR + 2.25%	17,965	1,235	Dec. 31, 2006 ⁽³⁾	17,186
Stanford Place II—Mortgage	5.14%	26,000	1,336	Jan. 10, 2009	26,000
Univision Tower—Mortgage ⁽⁸⁾	6.04%	57,943	4,191	Nov. 6, 2009	54,075
eBay Data Center Bridge Loan	LIBOR + 2.00%	7,950	42	Aug. 11, 2005	7,950
Secured Term Debt ⁽⁹⁾	5.65%	154,835	10,735	Nov. 11, 2014	128,765
Unsecured Credit Facility ⁽¹⁰⁾	LIBOR + 1.625%	44,000	2,204	Nov. 3, 2007	44,000
Total		\$519,498			\$473,267

- (1) Annual debt service for floating rate loans is calculated based on the 1-month, 3-month and 6-month LIBOR rates at December 31, 2004, which were 2.40%, 2.56% and 2.78%, respectively.
- (2) Assuming no payment has been made on the principal in advance of its due date.
- (3) Two one-year extensions are available.
- (4) A 13-month extension and a one-year extension are available.
- (5) Based on our hedged exchange rate of \$1.6083 to £1.00.
- (6) Subject to a 2.5% LIBOR floor.
- (7) A one-year extension option is available.
- (8) The Univision Tower loan is also secured by a \$5.0 million letter of credit.
- (9) This amount represents mortgage debt secured by our interests in 36 Northeast Second Street, Brea Data Center, Comverse Technology Building, Hudson Corporate Center, Siemens Building, and Webb at LBJ. Each of the six loans are cross-collateralized by the six properties.
- (10) The interest rate under our unsecured credit facility equals LIBOR plus a margin of between 1.375% to 1.750% based on our leverage ratio and also includes a base rate option of 0.375% - 0.750%. There is also a fee for the unused portion of the credit facility.

Unsecured Credit Facility. We have a three-year, \$200.0 million unsecured revolving credit facility that expires November 3, 2007. Our credit facility has a borrowing limit based upon a percentage of the value of the unsecured properties included in the facility's borrowing base. Approximately \$44.0 million was drawn under this facility as of December 31, 2004 and approximately \$53.9 million of this credit facility remained available pursuant to the terms of this facility. Subsequent to the acquisitions of 833 Chestnut Street and MAPP Building, on March 17, 2005 there was approximately \$26.0 million of the credit facility drawn and \$71.9 million available for future borrowings. We intend to fund the purchase prices of Lakeside Technology Center and Printers'

Square with borrowings under the credit facility or a combination of borrowings under the credit facility and secured debt. We may be required to include Lakeside Technology Center and/or Printers' Square in the unsecured borrowing base in order to borrow sufficient funds under the revolving credit facility. The unsecured credit facility has a one-year extension option. The credit facility contains covenants common for credit facilities of this type, including limitations on our and our subsidiaries' ability to incur additional indebtedness, make certain investments or merge with another company, limitations on our ability to make distributions to our stockholders and other restricted payments, and requirements for us to maintain financial coverage ratios and maintain a pool of unencumbered assets.

Off-Balance Sheet Arrangements

Our off-balance sheet arrangements consist of interest rate cap agreements in connection with certain of our indebtedness, a currency fluctuation hedge arrangement in connection with our ownership of the Camperdown House property in London, England and interest rate swap agreements with Keybank National Association and Bank of America related to \$140.2 million of outstanding principal on our variable rate debt. See Item 7A "Quantitative and Qualitative Disclosures about Market Risk."

As of December 31, 2004, GI Partners had \$1.2 million of letters of credit outstanding that secure obligations relating to two of our properties, Carrier Center and Stanford Place II. These letters of credit were initially issued in lieu of making deposits required by a local utility and in lieu of establishing a restricted cash account on behalf of a lender. We are in the process of causing these letters of credit to be transferred to us. We are currently reimbursing GI Partners for the costs of maintaining the letters of credit, which payments are less than \$5,000 per quarter. We currently have no other off-balance sheet arrangements.

Cash Flows

The following summary discussion of our cash flows is based on the consolidated and combined statements of cash flows in Item 8— "Financial Statements and Supplementary Data" and is not meant to be an all-inclusive discussion of the changes in our cash flows for the periods presented below.

Comparison of Year Ended December 31, 2004 to Year Ended December 31, 2003

Cash and cash equivalents were \$4.6 million and \$5.2 million at December 31, 2004 and 2003, respectively.

Net cash provided by operating activities increased \$17.0 million to \$44.6 million for the year ended December 31, 2004 compared to \$27.6 million for the year ended December 31, 2003. The increase was primarily due to the properties added to our portfolio which was partially offset by the increased interest expense incurred on the mortgage and other secured debt related to the acquired properties.

Net cash used in investing activities increased \$157.4 million to \$371.3 million for the year ended December 31, 2004 compared to \$213.9 million for the year ended December 31, 2003. The increase was primarily the result of the acquisition of eleven properties during the year ended December 31, 2004, which required a larger investment than the acquisitions of eight properties during the year ended December 31, 2003, and an increase in restricted cash as a result of the mortgage loans obtained during 2004.

Net cash provided by financing activities increased \$138.1 million to \$326.0 million, for the year ended December 31, 2004 compared to \$187.9 million for the year ended December 31, 2003. The increase was primarily due to \$230.8 million of net proceeds from the sale of common stock partially offset by the purchase of units in our operating partnership for \$91.9 million from the investors in GI Partners.

Inflation

Substantially all of our leases provide for separate real estate tax and operating expense escalations. In addition, many of the leases provide for fixed base rent increases. We believe that inflationary increases may be at least partially offset by the contractual rent increases and expense escalations described above.

New Accounting Pronouncements

Financial Accounting Standards Board Statement No. 123 (revised 2004), *Shared-Based Payment*, or SFAS 123(R), was issued in December 2004. SFAS 123(R), which is effective for our company beginning with the third quarter of 2005, requires an entity to recognize the grant-date fair value of stock options and other equity-based compensation issued to employees in the income statement, but expresses no preference for a type of valuation model. We do not believe the adoption of SFAS 123(R) will have a material impact on our results of operations, financial position or liquidity.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our future income, cash flows and fair values relevant to financial instruments are dependent upon prevalent market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. We do not use derivatives for trading or speculative purposes and only enter into contracts with major financial institutions based on their credit rating and other factors.

Effective November 26, 2004, we entered into interest rate swap agreements with Keybank National Association and Bank of America for approximately \$140.3 million of our variable rate debt, of which \$140.2 million is outstanding as of December 31, 2004. As a result, approximately 77.3% of our total indebtedness was subject to fixed interest rates as of December 31, 2004. The table below summarizes the terms of these interest rate swaps and their fair values as of December 31, 2004 (in thousands):

Notional Amount	Strike Rate	Effective Date	Expiration Date	Fair Value
\$ 46,908	3.178%	Nov. 26, 2004	Jul. 1, 2006	\$ 3
43,000	3.250	Nov. 26, 2004	Sep. 15, 2006	1
21,645	3.754	Nov. 26, 2004	Jan 1, 2009	(11)
20,000	3.824	Nov. 26, 2004	Apr. 1, 2009	(19)
8,775	3.331	Nov. 26, 2004	Dec. 1, 2006	(1)
\$ 140,328				\$ (27)

If interest rates were to increase by 10%, or approximately 35 basis points, the fair value of our interest rate swaps would decrease by approximately \$1.0 million. If interest rates were to decrease by 10%, or approximately 35 basis points, the fair value of our interest rate swaps would increase by approximately \$0.9 million.

If interest rates were to increase by 10%, or approximately 35 basis points, the increase in interest expense on the unhedged variable rate debt would decrease future earnings and cash flows by approximately \$0.4 million annually. If fixed interest rates were to increase by 10%, the fair value of our \$261.5 million principal amount of outstanding fixed rate debt would decrease by approximately \$5.3 million. If interest rates were to decrease by 10%, or approximately 35 basis points, the decrease in interest expense on the unhedged variable rate debt would be approximately \$0.4 million annually. If interest rates were to decrease by 10%, the fair value of our \$261.5 million principal amount of outstanding fixed rate debt would increase by approximately \$5.4 million.

Interest risk amounts were determined by considering the impact of hypothetical interest rates on our financial instruments. These analyses do not consider the effect of any change in overall economic activity that could occur in that environment. Further, in the event of a change of that magnitude, we may take actions to

further mitigate our exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, these analyses assume no changes in our financial structure.

As of December 31, 2004, our total outstanding debt was approximately \$519.5 million, which consisted of \$453.5 million of mortgage loans, \$44.0 million of notes payable under our line of credit and \$22.0 million of other secured loans. Approximately \$258.0 million of our total outstanding debt was variable rate debt and after considering that \$140.2 million of such debt is hedged with interest rate swaps, our variable rate debt comprises 22.7% of our total outstanding debt. As of December 31, 2004, the fair value of our outstanding fixed-rate debt approximated \$272.9 million compared to the carrying value of \$261.5 million.

We are also party to a foreign currency hedging contract with a notional value of £7,850,000, which was used to convert the balance of our investment in the Camperdown House property into U.S. dollars. The fair value of this forward contract was (\$2.8) million as of December 31, 2004 using the currency exchange rate in effect as of that date. If the exchange rate of United States Dollars to Great Britain Pounds were to increase by 10%, the fair value of our forward contract would decrease by \$1.5 million to (\$4.3) million. If the exchange rate of United States Dollars to Great Britain Pounds were to decrease by 10%, the fair value of our forward contract would increase by \$1.5 million to (\$1.3) million. On January 24, 2005, we settled our obligations under this arrangement for a payment of approximately \$2.5 million and entered into a new contract of the same notional amount. On February 4, 2005, GI Partners reimbursed us for \$1.9 million of such settlement, since it was determined that the negative value associated with the forward contract was not otherwise factored into the determination of the number of units that were granted to GI Partners in exchange for its interests in Camperdown House.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Digital Realty Trust, Inc.:

We have audited the accompanying consolidated balance sheet of Digital Realty Trust, Inc. and subsidiaries as of December 31, 2004 and the combined balance sheet of Digital Realty Trust, Inc. Predecessor, as defined in note 1 to the financial statements, as of December 31, 2003, and the related consolidated statements of operations, and stockholders' equity and comprehensive income (loss) of Digital Realty Trust, Inc. and subsidiaries for the period from November 3, 2004 (commencement of operations) through December 31, 2004, the related combined statements of operations, and owners' equity of Digital Realty Trust Inc. Predecessor for the period from January 1, 2004 through November 2, 2004, and the years ended December 31, 2003 and 2002, the related consolidated and combined statements of cash flows of Digital Realty Trust, Inc. and subsidiaries and Digital Realty Trust, Inc. Predecessor for the year ended December 31, 2004, and the related combined statements of cash flows of Digital Realty Trust, Inc. Predecessor for the years ended December 31, 2003 and 2002. We have also audited the financial schedule III, properties and accumulated depreciation. These consolidated and combined financial statements and financial statement schedule are the responsibility of Digital Realty Trust, Inc.'s management. Our responsibility is to express an opinion on these consolidated and combined financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Digital Realty Trust, Inc. and subsidiaries as of December 31, 2004 and the combined financial position of Digital Realty Trust, Inc. Predecessor as of December 31, 2003, the consolidated results of operations of Digital Realty Trust, Inc. and subsidiaries for the period from November 3, 2004 (commencement of operations) through December 31, 2004, the combined results of operations of Digital Realty Trust, Inc. Predecessor for the period from January 1, 2004 through November 2, 2004 and the years ended December 31, 2003 and 2002, the consolidated and combined cash flows of Digital Realty Trust, Inc. and subsidiaries and Digital Realty Trust, Inc. Predecessor for the year ended December 31, 2004, and the combined cash flows of Digital Realty Trust, Inc. Predecessor for the years ended December 31, 2003 and 2002 in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule III, when considered in relation to the basic combined financial statements taken as a whole, presents fairly, in all material aspects, the information set forth therein.

KPMG LLP

Los Angeles, California
March 18, 2005

**DIGITAL REALTY TRUST, INC. AND
DIGITAL REALTY TRUST, INC. PREDECESSOR
CONSOLIDATED AND COMBINED BALANCE SHEETS
(in thousands, except share data)**

	Digital Realty Trust, Inc. December 31, 2004	The Predecessor December 31, 2003
ASSETS		
Investments in real estate:		
Land	\$ 129,112	\$ 50,715
Acquired ground lease	1,477	1,477
Buildings and improvements	613,058	323,981
Tenant improvements	74,745	28,590
Investments in real estate	818,392	404,763
Accumulated depreciation and amortization	(30,980)	(13,026)
Net investments in real estate	787,412	391,737
Cash and cash equivalents	4,557	5,174
Accounts and other receivables	3,051	1,139
Deferred rent	12,236	5,178
Acquired above market leases, net of accumulated amortization of \$5,659 in 2004 and \$2,106 in 2003	43,947	11,432
Acquired in place lease value and deferred leasing costs, net of accumulated amortization of \$22,972 in 2004 and \$10,560 in 2003	136,721	59,477
Deferred financing costs, net of accumulated amortization of \$6,555 in 2004 and \$1,157 in 2003	8,236	3,396
Restricted cash	14,207	651
Other assets	2,920	1,514
Total Assets	\$ 1,013,287	\$ 479,698
LIABILITIES AND STOCKHOLDERS' AND OWNER'S EQUITY		
Notes payable under line of credit	\$ 44,000	\$ 44,436
Mortgage loans	453,498	213,429
Other secured loans	22,000	40,000
Accounts payable and other accrued liabilities	12,789	7,117
Accrued dividends and distributions	8,276	—
Acquired below market leases, net of accumulated amortization of \$9,528 in 2004 and \$5,768 in 2003	37,390	19,258
Security deposits and prepaid rents	6,276	3,267
Asset management fees payable to related party	—	796
Total liabilities	584,229	328,303
Commitments and contingencies	—	—
Minority interests in consolidated joint ventures	997	3,444
Minority interests in operating partnership	254,862	—
Stockholder's and owner's equity:		
Preferred Stock, 20,000,000 authorized, none outstanding	—	—
Common Stock; \$0.01 par value; 100,000,000 authorized, 21,421,300 shares issued and outstanding	214	—
Additional paid-in capital	182,411	—
Dividends in excess of earnings	(9,517)	—
Accumulated other comprehensive income, net	91	305
Owner's equity	—	147,646
Total stockholders' and owner's equity	173,199	147,951
Total liabilities, stockholders' and owner's equity	\$ 1,013,287	\$ 479,698

See accompanying notes to the consolidated and combined financial statements.

**DIGITAL REALTY TRUST, INC. AND
DIGITAL REALTY TRUST, INC. PREDECESSOR
CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS
(in thousands, except share data)**

	The Company		The Predecessor	
	Period from November 3, 2004 through December 31, 2004	Period from January 1, 2004 through November 2, 2004	Year Ended December 31,	
			2003	2002
Revenues:				
Rental	\$ 21,232	\$ 67,876	\$50,099	\$21,203
Tenant reimbursements	4,083	12,146	8,661	3,894
Other	30	1,754	4,328	458
	<u>25,345</u>	<u>81,776</u>	<u>63,088</u>	<u>25,555</u>
Expenses:				
Rental property operating and maintenance	5,173	13,801	8,624	4,997
Property taxes	2,085	7,249	4,688	2,755
Insurance	472	1,403	626	83
Interest	5,547	18,914	10,091	5,249
Asset management fees to related party	—	2,655	3,185	3,185
Depreciation and amortization	7,373	24,025	16,295	7,659
General and administrative	20,725	292	329	249
Net loss from early extinguishment of debt	283	—	—	—
Other	57	2,748	2,459	1,249
	<u>41,715</u>	<u>71,087</u>	<u>46,297</u>	<u>25,426</u>
Income (loss) before minority interests	(16,370)	10,689	16,791	129
Minority interests in consolidated joint ventures	13	(37)	149	190
Minority interests in operating partnership	(10,214)	—	—	—
	<u>\$ (6,169)</u>	<u>\$ 10,726</u>	<u>\$16,642</u>	<u>\$ (61)</u>
Net income (loss)				
Loss per share—basic and diluted	\$ (0.30)			
Weighted average common shares—basic and diluted	<u>20,770,875</u>			

See accompanying notes to the consolidated and combined financial statements.

**DIGITAL REALTY TRUST, INC. AND
DIGITAL REALTY TRUST, INC. PREDECESSOR**
**CONSOLIDATED AND COMBINED STATEMENTS OF STOCKHOLDERS' AND
OWNERS' EQUITY (DEFICIT) AND COMPREHENSIVE INCOME (LOSS)**
(in thousands, except share data)

	Number of Common Shares	Common Stock	Additional Paid-in Capital	Dividends In Excess of Earnings	Accumulated Other Comprehensive Income, net	Owner's Equity	Total
Balance at December 31, 2001	—	\$ —	\$ —	\$ —	\$ —	\$ 990	\$ 990
Contributions	—	—	—	—	—	86,090	86,090
Distributions	—	—	—	—	—	(4,305)	(4,305)
Net loss	—	—	—	—	—	(61)	(61)
Other Comprehensive Income—Foreign currency translation adjustments	—	—	—	—	463	—	463
Comprehensive income							402
Balance at December 31, 2002	—	—	—	—	463	82,714	83,177
Contributions	—	—	—	—	—	131,181	131,181
Distributions	—	—	—	—	—	(82,891)	(82,891)
Net income	—	—	—	—	—	16,642	16,642
Other Comprehensive Income—Foreign currency translation adjustments	—	—	—	—	(158)	—	(158)
Comprehensive income							16,484
Balance at December 31, 2003	—	—	—	—	305	147,646	147,951
Contributions	—	—	—	—	—	130,264	130,264
Distributions	—	—	—	—	—	(68,971)	(68,971)
Net income	—	—	—	—	—	10,726	10,726
Other comprehensive income—Foreign currency translation adjustments	—	—	—	—	33	—	33
Comprehensive income							10,759
Balance at November 2, 2004	—	—	—	—	338	219,665	220,003
The Company							
Reclassify Predecessor owner's equity	—	—	219,665	—	—	(219,665)	—
Net proceeds from sale of common stock	21,421,300	214	230,584	—	—	—	230,798
Record minority interests	—	—	(267,851)	—	(201)	—	(268,052)
Amortization of fair market value of stock options, net of minority interests	—	—	13	—	—	—	13
Dividends	—	—	—	(3,348)	—	—	(3,348)
Net loss	—	—	—	(6,169)	—	—	(6,169)
Other comprehensive loss—Fair value of interest rate swaps, net of minority interests	—	—	—	—	(11)	—	(11)
Other comprehensive loss—Foreign currency translation adjustments, net of minority interests	—	—	—	—	(35)	—	(35)
Comprehensive loss							(6,215)
Balance at December 31, 2004	21,421,300	\$ 214	\$ 182,411	\$ (9,517)	\$ 91	\$ —	\$ 173,199

See accompanying notes to the consolidated and combined financial statements.

**DIGITAL REALTY TRUST, INC. AND
DIGITAL REALTY TRUST, INC. PREDECESSOR
CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS
(in thousands)**

	The Company and the Predecessor	The Predecessor	
	Year Ended December 31, 2004	Year Ended December 31, 2003	Year Ended December 31, 2002
Cash flows from operating activities:			
Net income (loss)	\$ 4,557	\$ 16,642	\$ (61)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Minority interests in operating partnership	(10,214)	—	—
Minority interests in consolidated joint ventures	(24)	149	190
Distributions to joint venture partners	(288)	(240)	(395)
Write-off of net assets due to early lease terminations	2,204	2,094	1,210
Depreciation and amortization of buildings and improvements, tenant improvements and acquired ground lease	18,254	9,480	3,621
Amortization over the vesting period of the fair value of stock options	32	—	—
Compensation expense for fully-vested long-term incentive units granted	17,887	—	—
Amortization of deferred financing costs	4,590	816	341
Write-off of deferred financing costs, net of write-off of debt premium included in net loss on early extinguishment of debt	283	—	—
Amortization of debt premium	(903)	(970)	(889)
Amortization of acquired in place lease value and deferred leasing costs	13,144	6,815	4,038
Amortization of acquired above market leases and acquired below market leases, net	(190)	(1,892)	(2,051)
Changes in assets and liabilities:			
Accounts and other receivables	(2,287)	1,101	(2,228)
Deferred rent	(7,065)	(3,769)	(1,409)
Deferred leasing costs	(2,216)	(2,009)	—
Other assets	(906)	(1,686)	(43)
Accounts payable and other accrued liabilities	5,567	(482)	5,633
Security deposits and prepaid rents	3,009	1,579	1,688
Asset management fees payable to related party	(796)	—	—
Net cash provided by operating activities	44,638	27,628	9,645
Cash flows from investing activities:			
Acquisitions of properties	(348,507)	(210,318)	(163,363)
Deposits paid for acquisitions of properties	(500)	—	(750)
Increase in restricted cash	(13,556)	(651)	—
Improvements to investments in real estate	(8,714)	(2,936)	(642)
Net cash used in investing activities	(371,277)	(213,905)	(164,755)

**DIGITAL REALTY TRUST, INC. AND
DIGITAL REALTY TRUST, INC. PREDECESSOR**
CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS—(Continued)
(in thousands)

	The Company and the Predecessor		The Predecessor
	Year Ended December 31, 2004	Year Ended December 31, 2003	Year Ended December 31, 2002
Cash flows from financing activities:			
Borrowings on line of credit	\$ 202,381	\$ 91,436	\$ 53,000
Repayments on line of credit	(202,817)	(100,000)	—
Proceeds from mortgage loans	266,951	131,420	23,173
Principal payments on mortgage loans	(103,044)	(2,673)	(1,057)
Proceeds from other secured loans	—	22,000	—
Principal payments on other secured loans	(29,384)	—	—
Proceeds from note payable under bridge loan	243,686	—	—
Principal payments on note payable under bridge loan	(243,686)	—	—
Payment of loan fees and costs	(9,495)	(3,000)	(1,553)
Contributions from joint venture partners	1,500	400	3,340
Return of capital to joint venture partners	(676)	—	—
Purchase of operating partnership units	(91,862)	—	—
Contributions from owner of the Predecessor	130,264	131,181	86,090
Distributions to owner of the Predecessor	(68,594)	(82,891)	(4,305)
Net proceeds from the sale of common stock	230,798	—	—
Net cash provided by financing activities	326,022	187,873	158,688
Net increase (decrease) in cash and cash equivalents	(617)	1,596	3,578
Cash and cash equivalents at beginning of year	5,174	3,578	—
Cash and cash equivalents at end of year	\$ 4,557	\$ 5,174	\$ 3,578
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$ 19,955	\$ 10,088	\$ 4,945
Supplementary disclosure of noncash activities:			
Increase (decrease) in net assets related to foreign currency translation adjustments	\$ (81)	\$ (158)	\$ 463
Accrual of dividends and distributions	8,276	—	—
Accrual for additions to investments in real estate included in accounts payable and accrued expenses	1,139	1,859	1,849
Distribution of receivables to owner of the Company Predecessor	375	—	—
Reclassification of owner's equity to minority interests in the Operating Partnership	268,052	—	—
Reduction in loan balance and related reduction in purchase price for the property	500	—	—
Allocation of purchase of properties to:			
Investments in real estate	245,087	180,546	137,319
Acquired above market leases	36,707	10,614	4,281
Acquired below market leases	(22,789)	(6,964)	(19,343)
Acquired in place lease value	90,047	26,122	44,015
Loan premium	(545)	—	(2,909)
Cash paid for acquisition of properties	348,507	210,318	163,363
Mortgage loans assumed in connection with the acquisition of properties	77,213	—	60,648
Operating Partnership Units issued to acquire properties	71,230	—	—
Other secured loans assumed in connection with the acquisition of a property	11,884	—	—
Operating Partnership Units issued in connection with acquisition of the minority interest in a joint venture	4,748	—	—
Minority interest in joint venture reclassified to minority interest in Operating Partnership	(2,959)	—	—
Other secured loan obtained from seller of real estate	—	—	18,000
Purchase deposits applied to acquisitions of properties	—	750	1,881
Total purchase price	510,623	211,068	243,892

See accompanying notes to the consolidated and combined financial statements.

**DIGITAL REALTY TRUST, INC. AND
DIGITAL REALTY TRUST, INC. PREDECESSOR
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS**

1. Organization and Description of Business

Digital Realty Trust, Inc. through its controlling interest in Digital Realty Trust, L.P. (the Operating Partnership) and the subsidiaries of the Operating Partnership (collectively, the Company) is engaged in the business of owning, acquiring, repositioning and managing technology-related real estate. As of December 31, 2004 the Company's portfolio consists of 24 properties; 23 are located throughout the United States and one is located in London, England. The Company's properties are located in a limited number of markets where technology tenants are concentrated, including the Atlanta, Boston, Dallas, Denver, Los Angeles, Miami, New York, Phoenix, Sacramento, San Francisco and Silicon Valley metropolitan areas. The portfolio consists of telecommunications infrastructure properties, information technology properties, technology manufacturing properties and regional or national headquarters of technology companies.

The Company completed its initial public offering of common stock (the IPO) on November 3, 2004 and commenced operations on that date. The IPO resulted in sale of 20,000,000 shares of common stock at a price per share of \$12.00, generating gross proceeds to the Company of \$240.0 million. The aggregate proceeds to the Company, net of underwriters' discounts, commissions and financial advisory fees and other offering costs were approximately \$214.9 million. On November 30, 2004, an additional 1,421,300 shares of common stock were sold at \$12.00 per share as a result of the underwriters exercising their over-allotment option. This resulted in additional net proceeds of approximately \$15.9 million to the Company.

The Operating Partnership was formed on July 21, 2004 in anticipation of the IPO. Effective as of the completion of the IPO, including exercise of the underwriters' over-allotment option and as of December 31, 2004, the Company, as sole general partner, owns a 40.5% interest in the Operating Partnership and has control over major decisions of the Operating Partnership. The limited partners of the Operating Partnership do not have rights to replace the general partner or approve the sale or refinancing of the Operating Partnership's assets, although they do have certain protective rights.

The Company continues to operate and expand the business of its predecessor (the Company Predecessor). The Company Predecessor is not a legal entity; rather it is a combination of certain of the real estate subsidiaries of Global Innovation Partners, LLC, a Delaware limited liability company (GI Partners) along with an allocation of certain assets, liabilities, revenues and expenses of GI Partners related to the real estate held by such subsidiaries.

As of December 31, 2004 and for the period from November 3, 2004 through December 31, 2004, the financial statements presented are the consolidated financial statements of the Company. The financial statements presented for periods prior to November 3, 2004 are the combined financial statements of the Company Predecessor.

Pursuant to a contribution agreement among GI Partners, the owner of the Company Predecessor and the Operating Partnership, which was executed in July 2004, on October 27, 2004, the Operating Partnership received a contribution of interests in certain of GI Partners' properties in exchange for limited partnership interests in the Operating Partnership (Units) and the assumption of debt and other specified liabilities. Additionally, pursuant to contribution agreements between the Operating Partnership and third parties, which were also executed in July 2004, the Operating Partnership received contributions of interests in certain additional real estate properties in exchange for Units and the assumption of specified liabilities.

The Company purchased a portion of the Units that were issued to GI Partners (which Units were subsequently allocated out to certain members of GI Partners) immediately following the completion of the IPO

**DIGITAL REALTY TRUST, INC. AND
DIGITAL REALTY TRUST, INC. PREDECESSOR
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS—(Continued)**

and upon exercise of the underwriters' over-allotment option, the aggregate purchase price of which was \$91.9 million. The purchase price was equal to the value of the Operating Partnership units based on the IPO price of the Company's stock, net of underwriting discounts and commissions and financial advisory fees.

The Company and the Operating Partnership together with the investors in GI Partners and unrelated third parties (collectively, the Participants) engaged in certain formation transactions (the Formation Transactions) that were completed concurrently with the completion of the IPO. The Formation Transactions were designed to (i) continue the operations of the Company Predecessor, (ii) acquire additional properties or interests in properties from the Participants, (iii) enable the Company to raise the necessary capital to repay certain mortgage debt relating to certain of the properties and pay other indebtedness, (iv) fund costs, capital expenditures and working capital, (v) provide a vehicle for future acquisitions, (vi) enable the Company to comply with requirements under the federal income tax laws and regulations relating to real estate investment trusts and (vii) preserve tax advantages for certain Participants.

The Company believes that it has operated in a manner that has enabled it to qualify and intends to elect to be treated, as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the Code) commencing with its taxable period ended December 31, 2004.

2. Summary of Significant Accounting Policies

(a) Principles of Consolidation and Combination and Basis of Presentation

The accompanying consolidated financial statements include all of the accounts of Digital Realty Trust, Inc., the Operating Partnership, the subsidiaries of the Operating Partnership and two consolidated joint ventures. Intercompany balances and transactions have been eliminated.

Property interests contributed to the Operating Partnership by GI Partners in exchange for Units have been accounted for as a reorganization of entities under common control in a manner similar to a pooling of interests. Accordingly, the contributed assets and assumed liabilities were recorded at the Company Predecessor's historical cost basis. Property interests acquired from third parties for cash or Units are accounted for using purchase accounting.

The accompanying combined financial statements of the Company Predecessor include the wholly owned real estate subsidiaries and two majority-owned real estate joint ventures that GI Partners contributed to the Operating Partnership on October 27, 2004 in connection with the IPO. Intercompany balances and transactions have been eliminated. The interests of the joint venture partners, all of whom are third parties, are reflected in minority interests in the accompanying combined financial statements.

The accompanying combined financial statements of the Company Predecessor do not include the real estate subsidiaries for two properties owned by GI Partners that are subject to right of first offer agreements, whereby the Operating Partnership has the right to make the first offer to purchase these properties if GI Partners decides to sell them. The accompanying combined financial statements of the Company Predecessor also do not include any of GI Partners' investments in privately held companies, which GI Partners did not contribute to the Operating Partnership.

The accompanying combined statements of the Company Predecessor include an allocation of GI Partners' line of credit to the extent that such borrowings and the interest expense relate to acquisitions of the real estate owned by the subsidiaries and joint ventures that GI Partners contributed to the Operating Partnership. Additionally, the accompanying combined financial statements of the Company Predecessor include an

**DIGITAL REALTY TRUST, INC. AND
DIGITAL REALTY TRUST, INC. PREDECESSOR**

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS—(Continued)

allocation of asset management fees to a related party 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. Although neither the Company nor the Operating Partnership are or will be parties to the agreement requiring the payment of the asset management fees, an allocation of such fees has been included in the accompanying combined financial statements since such fees were essentially the Company Predecessor's historical general and administrative expense. The Company Predecessor did not directly incur personnel costs, home office space rent or other general and administrative expenses that subsequent to the completion of the IPO are incurred directly by the Company and the Operating Partnership. These types of expenses were historically incurred by the asset manager and were passed through to GI Partners via the asset management fee.

(b) Cash Equivalents

For purpose of the consolidated and combined statements of cash flows, the Company considers short-term investments with maturities of 90 days or less when purchased to be cash equivalents. As of December 31, 2004 and 2003, cash equivalents consist of investments in a money market fund.

(c) Investments in Real Estate

Investments in real estate are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are recorded on a straight-line basis over the estimated useful lives as follows:

Acquired ground sublease	Term of the related sublease
Buildings and improvements	5-39 years
Tenant improvements	Shorter of the useful lives or the terms of the related leases

Improvements and replacements are capitalized when they extend the useful life, increase capacity, or improve the efficiency of the asset. Repairs and maintenance are charged to expense as incurred.

(d) Impairment of Long-Lived Assets

The Company assesses whether there has been impairment in the value of its long-lived assets whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount to the future net cash flows, undiscounted and without interest, expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell. Management believes no impairment in the net carrying value of the investments in real estate has occurred.

(e) Purchase Accounting for Acquisition of Investments in Real Estate

Purchase accounting is applied to the assets and liabilities related to all real estate investments acquired from third parties. In accordance with Statement of Financial Accounting Standards No. 141, *Business Combinations*, the fair value of the real estate acquired is allocated to the acquired tangible assets, consisting primarily of land, building and tenant improvements, and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases, other value of in-place leases, value of tenant relationships and acquired ground leases, based in each case on their fair values. Loan premiums, in the case of above market

**DIGITAL REALTY TRUST, INC. AND
DIGITAL REALTY TRUST, INC. PREDECESSOR
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS—(Continued)**

rate loans, or loan discounts, in the case of below market loans, are recorded based on the fair value of any loans assumed in connection with acquiring the real estate.

The fair value of the tangible assets of an acquired property is determined by valuing the property as if it were vacant, and the “as-if-vacant” value is then allocated to land (or acquired ground lease if the land is subject to a ground lease), building and tenant improvements based on management’s determination of the relative fair values of these assets. Management determines the as-if-vacant fair value of a property using methods similar to those used by independent appraisers. Factors considered by management in performing these analyses include an estimate of carrying costs during the expected lease-up periods considering current market conditions and costs to execute similar leases. In estimating carrying costs, management includes real estate taxes, insurance and other operating expenses and estimates of lost rental revenue during the expected lease-up periods based on current market demand. Management also estimates costs to execute similar leases including leasing commissions, legal and other related costs.

In allocating the fair value of the identified intangible assets and liabilities of an acquired property, above-market and below-market in-place lease values are recorded based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management’s estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining non-cancelable term of the lease and, for below-market leases, over a period equal to the initial term plus any below market fixed rate renewal periods. The leases do not currently include any below market fixed rate renewal periods. The capitalized above-market lease values are amortized as a reduction of rental income over the remaining non-cancelable terms of the respective leases. The capitalized below-market lease values, also referred to as acquired lease obligations, are amortized as an increase to rental income over the initial terms of the respective leases and any below market fixed rate renewal periods.

In addition to the intangible value for above market leases and the intangible negative value for below market leases, there is intangible value related to having tenants leasing space in the purchased property, which is referred to as in-place lease value and tenant relationship value. Such value results primarily from the buyer of a leased property avoiding the costs associated with leasing the property including tenant improvement allowances and leasing commissions and also avoiding rent losses and unreimbursed operating expenses during the lease up period. The aggregate fair value of in-place leases and tenant relationships is equal to the excess of (i) the fair value of a property after adjusting existing in-place leases to market rental rates over (ii) the estimated fair value of the property as if vacant, determined as set forth above. This aggregate value is allocated between in-place lease value and tenant relationships based on management’s evaluation of the specific characteristics of each tenant’s lease; however, the value of tenant relationships has not been separated from in-place lease value for the Company’s real estate because such value and its consequence to amortization expense is immaterial for these particular acquisitions. Should future acquisitions of properties result in allocating material amounts to the value of tenant relationships, an amount would be separately allocated and amortized over the estimated life of the relationship. The value of in-place leases exclusive of the value of above-market in-place leases is amortized to expense over the remaining non-cancelable periods of the respective leases. If a lease were to be terminated prior to its stated expiration, all unamortized amounts relating to that lease would be written off.

(f) Deferred Leasing Costs

Deferred leasing commissions and other direct costs associated with the acquisition of tenants are capitalized and amortized on a straight line basis over the terms of the related leases.

**DIGITAL REALTY TRUST, INC. AND
DIGITAL REALTY TRUST, INC. PREDECESSOR
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS—(Continued)**

(g) Foreign Currency Translation

Assets and liabilities of the subsidiary that owns a real estate investment located in London, England are translated into U.S. dollars using year-end exchange rates except for the portion subject to a foreign currency forward contract discussed in Note (2)(h); income and expenses are translated using the average exchange rates for the reporting period. The functional currency of this subsidiary is the British pound. Translation adjustments are recorded as a component of accumulated other comprehensive income.

(h) Foreign Currency Forward Contract

The Company accounts for its foreign currency hedging activities in accordance with FASB Statement No. 133, *Accounting for Derivative Instruments and Certain Hedging Activities*, and FASB Statement No. 52, *Foreign Currency Translation*.

Changes in the fair value of foreign currency forward contracts that are highly effective as hedges are designated and qualify as foreign currency hedges, and are used as a hedge of a net investment in a foreign operation, are recorded as a component of accumulated other comprehensive income.

The terms of the foreign currency forward contract held as of December 31, 2004 and 2003, which had a notional amount denominated in British pounds of £7,850,000 and expired in January 2005, was used to convert the balances of the investment in real estate located in London, England into U.S. dollars. The fair value of such forward contract was \$(2,802,000) and \$(1,350,000) as of December 31, 2004 and 2003 respectively, and this is included in other comprehensive income included in stockholder's and owner's equity.

(i) Deferred Financing Costs

Loan fees and costs are capitalized and amortized over the life of the related loans on a straight-line basis, which approximates the effective interest method. Such amortization is included as a component of interest expense.

(j) Restricted Cash

Restricted cash consists of deposits for real estate taxes and insurance and other amounts as required by the Company's loan agreements including funds for leasing costs and improvements related to unoccupied space.

(k) Offering Costs

Underwriting commissions and other offering costs are reflected as a reduction in additional paid-in capital.

(l) Stock Based Compensation

The Company accounts for stock based compensation, including stock options and fully vested long-term incentive units granted in connection with the IPO, using the fair value method of accounting under FASB Statement 123, *Accounting for Stock Based Compensation*. The estimated fair value of each of the long term incentive units was equal to the IPO price of the Company's stock and such amount was recorded as an expense upon closing of the IPO since those long term incentive units were fully vested as of the grant date. The estimated fair value of the stock options granted by the Company is being amortized over the vesting period of the stock options.

**DIGITAL REALTY TRUST, INC. AND
DIGITAL REALTY TRUST, INC. PREDECESSOR
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS—(Continued)**

(m) Interest Rate Swaps

The Company accounts for its interest rate swaps as cash flow hedges under FASB Statement No. 133, *Accounting for Derivative Instruments and Certain Hedging Activities* as discussed in note 10.

(n) Income Taxes

The Company intends to elect to be taxed as a REIT under the Code, commencing with its taxable period ended December 31, 2004. The Company has been organized and has operated in a manner that management believes has allowed the Company to qualify for taxation as a REIT under the Code commencing with the Company's taxable period ended December 31, 2004, and the Company intends to continue to be organized and operate in this manner. As a REIT, the Company generally is not required to pay federal corporate income taxes on its taxable income to the extent it is currently distributed to the Company's stockholders.

However, qualification and taxation as a REIT depends upon the Company's ability to meet the various qualification tests imposed under the Code including tests related to annual operating results, asset composition, distribution levels and diversity of stock ownership. Accordingly, no assurance can be given that the Company will be organized or be able to operate in a manner so as to qualify or remain qualified as a REIT. If the Company fails to qualify as a REIT in any taxable year, it will be subject to federal income tax (including any applicable alternative minimum tax) on its taxable income at regular corporate tax rates.

The Company has elected to treat two of the Operating Partnership's subsidiaries as taxable REIT subsidiaries (each, a TRS). In general, a TRS may perform non-customary services for tenants, hold assets that we cannot hold directly and generally may engage in any real estate or non-real estate related business (except for the operation or management of health care facilities or lodging facilities or the provision to any person, under a franchise, license or otherwise, rights to any brand name under which any lodging facility or health care facility is operated). A TRS is subject to corporate federal income taxes on its taxable income at regular corporate tax rates. There is no tax provision for either of the Company's TRS entities for the periods presented in the accompanying consolidated and combined statements of operations due to net operating losses incurred. No tax benefits have been recorded since it is not considered more likely than not that the deferred tax asset related to the net operating loss carryforward will be utilized.

To the extent that any United Kingdom taxes are incurred by the subsidiary invested in real estate located in London, England, a provision is made for such taxes.

No provision has been made in the combined financial statements of the Company Predecessor for U.S. income taxes, as any such taxes are the responsibility of GI Partners' Members, as GI Partners is a limited liability company.

(o) Revenue Recognition

All leases are classified as operating leases and minimum rents are recognized on a straight-line basis over the terms of the leases. The excess of rents recognized over amounts contractually due pursuant to the underlying leases is included in deferred rent in the accompanying combined balance sheets and contractually due but unpaid rents are included in accounts and other receivables.

Tenant reimbursements for real estate taxes, common area maintenance, and other recoverable costs are recognized in the period that the expenses are incurred. Lease termination fees, which are included in other

**DIGITAL REALTY TRUST, INC. AND
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NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS—(Continued)**

income in the accompanying statements of operations, are recognized when the related leases are canceled and the Company or the Company Predecessor has no continuing obligation to provide services to such former tenants.

A provision for possible loss is made if the receivable balances related to contractual rent, rent recorded on a straight-line basis, and tenant reimbursements are considered to be uncollectible.

(p) Management's Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates made.

(q) Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

3. Minority Interests in the Operating Partnership

Minority interests relate to the interests in the Operating Partnership that are not owned by the Company, which, at December 31, 2004, amounted to 59.5%. In conjunction with the formation of the Company, GI Partners received Units in exchange for contributing ownership interests in the Company Predecessor's properties to the Operating Partnership. Also in connection with acquiring real estate interests owned by third parties, the Operating Partnership issued Units to those sellers. Limited partners who acquired Units in the formation transactions have the right, commencing on or after January 3, 2006, to require the Operating Partnership to redeem part or all of their Units for cash based upon the fair market value of an equivalent number of shares of the Company's common stock at the time of the redemption. Alternatively, the Company may elect to acquire those Units in exchange for shares of the Company's common stock on a one-for-one basis, subject to adjustment in the event of stock splits, stock dividends, issuance of stock rights, specified extraordinary distributions and similar events.

Pursuant to the GI Partners' contribution agreement, the Operating Partnership assumed or succeeded to all of GI Partners' rights, obligations and responsibilities with respect to the properties and the property entities contributed. GI Partners' contribution agreement contains representations and warranties by GI Partners to the Operating Partnership with respect to the condition and operations of the properties and interests contributed and certain other matters. With some exceptions, GI Partners has agreed to indemnify the Operating Partnership for breach of these representations and warranties on or prior to February 15, 2006, subject to a \$500,000 deductible and up to a maximum of \$15.0 million. GI Partners pledged approximately 1.3 million Units to the Operating Partnership in order to secure its indemnity obligations, and in except in limited circumstances these Units will be the sole recourse of the Operating Partnership in the case of a breach of a representation or warranty or other claim for indemnification.

Immediately following the completion of the IPO, GI Partners made a pro rata allocation, in accordance with their respective interests and with the terms of its constitutive documents, to its investors, a portion of the Units received by GI Partners in the formation transactions consummated concurrently with the IPO (having an aggregate value of approximately \$81.7 million based on the IPO price of the Company's stock), and immediately thereafter, the Company purchased from these investors the units allocated to them at a price per

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unit of \$11.16, which is equal to the per share IPO price of the Company's stock, net of underwriting discounts and commissions and financial advisory fees paid to the underwriters for the IPO. In addition, since the underwriters exercised their over-allotment option in connection with the IPO, GI Partners made an additional pro rata allocation to the investors of GI Partners of 1,421,300 Units (equal to the number of shares sold pursuant to such exercise), and the Company purchased such Units from these investors at a price per unit equal to \$11.16 per share. The units purchased by the Company from the investors of GI Partners automatically converted from limited partner interests to general partner interests upon purchase by the Company.

Richard Magnuson, the Executive Chairman of our board of directors, Michael Foust, our Chief Executive Officer and a member of our board of directors, and Scott Peterson, our Senior Vice President, Acquisitions, are minority indirect investors in GI Partners, and received in the aggregate less than 0.1% of the total cash paid by us to the investors of GI Partners in connection with our purchase of the Units held by them.

In connection with the completion of the IPO, the Operating Partnership entered into a contribution agreement with certain third parties (the eXchange parties), pursuant to which the eXchange parties contributed their interests in 200 Paul Avenue, 1100 Space Park Drive, the eXchange colocation business and other specified assets and liabilities to the Operating Partnership in exchange for cash, units and the assumption of debt. Under the eXchange parties' contribution agreement, the eXchange parties directly received \$15.0 million in cash, 5,935,846 Units and the Operating Partnership assumed or repaid an aggregate of \$62.8 million of indebtedness encumbering the properties. The eXchange parties are unaffiliated with GI Partners; however John O. Wilson, the Company's Executive Vice President, Technology Infrastructure owns a 10% interest in the eXchange parties.

Pursuant to the eXchange parties' contribution agreement, the Operating Partnership assumed or succeeded to all the eXchange parties' rights, obligations and responsibilities with respect to the properties involved. The eXchange parties' contribution agreement contains representations and warranties by the eXchange parties to the Operating Partnership with respect to the condition and operations of the properties and assets contributed to us and certain other matters. The eXchange parties have agreed to indemnify the Operating Partnership for breach of these representations and warranties on or prior to February 15, 2006, subject to a \$150,000 deductible and up to a maximum of \$5.0 million. The eXchange parties pledged approximately 417,000 units to the Operating Partnership, in order to secure its indemnity obligations, and, except in limited circumstances, these units will be the sole recourse of the Operating Partnership in the case of a breach of a representation or warranty or other claim for indemnification.

Under the eXchange parties' contribution agreement, the Company has agreed to indemnify each eXchange party against adverse tax consequences in the event the Operating Partnership directly or indirectly, sells, exchanges or otherwise disposes of (whether by way of merger, sale of assets or otherwise) in a taxable transaction any interest in 200 Paul Avenue or 1100 Space Park Drive until the earlier of November 3, 2013 and the date on which these contributors hold less than 25% of the Units issued to them in the formation transactions consummated concurrently with the IPO.

Under the eXchange parties' contribution agreement, the Company agreed to make \$20.0 million of indebtedness available for guaranty by these parties until 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 the formation transactions consummated concurrently with the IPO.

Upon completion of the IPO and after the Company purchased, immediately following the completion of the IPO, 6,810,036 units from the investors of GI Partners, 62.2% of the carrying value of the net assets of the Operating Partnership was allocated to minority interests. As a result of the exercise of the underwriters' over-

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allotment option of 1,421,300 shares on November 28, 2004, and the purchase of 1,421,300 units from the investors of GI Partners immediately following the exercise of the over-allotment option, the minority interests were reduced to 59.5%.

As of December 31, 2004, GI Partners owns 23,699,359 Units or 44.8% of total Units, third parties own 6,331,511 Units or 11.9% of total Units and Company employees, non-employee directors and the Company's Executive Chairman together own 1,490,561 fully vested long term incentive units or 2.8% of total Units. Long-term incentive units are further discussed in note 8.

4. Investment in Real Estate

As of December 31, 2004 the Company held 24 properties; 23 located in eight states of the United States of America and one located in London, England, with 21% and 50% of carrying value of investments in real estate comprised of five properties located in Texas and eleven properties located in California, respectively.

As of December 31, 2003, the Company's Predecessor held 13 properties; 12 located in six states within the United States and one located in London, England, with 29% and 27% of the carrying value of the investments in real estate comprised of three properties located in Texas and four properties located in California, respectively.

The Predecessor had a 90% ownership interest in a property known as Univision Tower, located in Texas. The minority partner's 10% share is reflected in minority interests in the accompanying combined financial statements through November 3, 2004 when such interest was purchased by the Company upon completion of the IPO.

The Company has a 98% ownership interest in a property known as Stanford Place II, located in Colorado. The minority partner's 2% share is reflected in minority interests in the accompanying financial statements. Distributions from this joint venture are allocated based on the stated percentage interests until distributions exceed the amount required to return all capital plus a 15% return. After that, disproportionate allocations are made based on the formulas described in the joint venture agreement whereby the 2% joint venture partner is allocated a larger share.

At December 31, 2004, the Company owned a 75% tenancy-in-common interest in the eBay Data Center property and an unrelated third party held the remaining 25% of the tenancy-in-common. On January 7, 2005, the third-party owner of the remaining 25% interest in this property exercised its option to require us to purchase its 25% interest. The purchase price for the remaining 25% interest was \$4.1 million. The acquisition was completed on January 21, 2005.

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5. Debt

A summary of outstanding indebtedness as of December 31, 2004 and 2003 is as follows (in thousands):

Properties	Interest Rate	Maturity Date	Principal Outstanding Dec 31 2004	Principal Outstanding Dec 31 2003
100 Technology Center Drive—Mortgage	LIBOR + 1.70% ⁽¹⁾	Apr. 1, 2009	\$ 20,000	\$ —
200 Paul Avenue—Mortgage	LIBOR + 3.17% ⁽¹⁾	Jul. 1, 2006 ⁽²⁾	46,749	—
Ardenwood Corporate Park, NTT/Verio Premier Data Center, VarTec Building—Mortgage	LIBOR + 1.59% ⁽¹⁾	Aug. 9, 2006 ⁽³⁾	43,000	43,000
Ardenwood Corporate Park, NTT/Verio Premier Data Center, VarTec Building—Mezzanine	LIBOR + 5.75%	Aug. 9, 2006 ⁽³⁾	22,000	22,000
AT&T Web Hosting Facility—Mortgage	LIBOR + 1.85% ⁽¹⁾	Dec. 1, 2006 ⁽²⁾	8,775	8,775
Camperdown House—Mortgage	6.85%	Oct. 31, 2009	22,672 ⁽⁴⁾	23,079
Carrier Center—Mortgage	LIBOR + 4.25% ⁽¹⁾	Nov. 11, 2007 ⁽⁶⁾	25,964	—
Granite Tower—Mortgage	LIBOR + 1.20% ⁽⁵⁾	Jan. 1, 2009	21,645	21,645
Maxtor Manufacturing Facility—Mortgage	LIBOR + 2.25%	Dec. 31, 2006 ⁽²⁾	17,965	18,000
Stanford Place II—Mortgage	5.14%	Jan. 10, 2009	26,000	26,000
Univision Tower—Mortgage ⁽¹⁰⁾	6.04%	Nov. 6, 2009	57,943	—
Univision Tower—Mortgage	7.52%	— ⁽⁹⁾	—	39,856
Univision Tower—Mezzanine	8.00%	— ⁽⁹⁾	—	18,000
36 Northeast Second Street—Mortgage	4.00%	— ⁽⁹⁾	—	18,024
eBay Data Center Bridge Loan	LIBOR + 2.00%	Aug. 11, 2005	7,950	—
ASM Lithography Facility—Mortgage ⁽⁹⁾	4.75%	—	—	14,000
Secured Term Debt ⁽⁷⁾	5.65%	Nov. 11, 2014	154,835	—
Unsecured Credit Facility ⁽⁸⁾	LIBOR + 1.625%	Nov. 3, 2007	44,000	—
Allocation of GI Partners Revolving Credit Facility	LIBOR + 0.875%	— ⁽⁹⁾	—	44,436
Total principal outstanding			519,498	296,815
Loan premium			—	1,050
Total indebtedness			\$ 519,498	\$ 297,865

- (1) The Company has entered into interest rate swap agreements as a cash flow hedge for these loans. The total variable debt subject to the swap agreements was \$140.2 million as of December 31, 2004. See note 10 for further information.
- (2) Two one-year extensions are available.
- (3) A 13-month extension and a one-year extension are available.
- (4) Based on our hedged exchange rate of \$1.6083 to £1.00.
- (5) Subject to a 2.5% LIBOR floor.
- (6) A one-year extension option is available.
- (7) This amount represents mortgage debt that is secured by our interests in 36 Northeast Second Street, Brea Data Center, Comverse Technology Building, Hudson Corporate Center, Siemens Building, and Webb at LBJ. Each of the six loans are cross-collateralized by the six properties.
- (8) The interest rate under our unsecured credit facility equals LIBOR plus a margin of between 1.375% to 1.750% based on our leverage ratio and also includes a base rate option of 0.375% - 0.750%.
- (9) This loan was repaid upon completion of the IPO.
- (10) The Univision Tower mortgage loan is also secured by a \$5.0 million letter of credit.

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As of December 31, 2004, principal payments due for our loans are as follows (in thousands):

2005	\$ 15,692
2006	141,844
2007	74,651
2008	5,889
2009	138,047
Thereafter	143,375
Total	\$ 519,498

The Company has a \$200 million unsecured revolving credit facility that expires on November 3, 2007. Approximately \$44.0 million was drawn under this facility as of December 31, 2004 and approximately \$53.9 million of this credit facility remained available pursuant to the terms of this facility. The unsecured credit facility has a one-year extension option. The credit facility contains various restrictive covenants, including limitations on the Company's ability to incur additional indebtedness, make certain investments or merge with another company, limitations on restricted payments, and requirements to maintain financial coverage ratios and maintain a pool of unencumbered assets.

The limitation on restricted payments, referred to above, provide that, except to enable the Company to maintain its status as a REIT for federal income tax purposes, the Company, will not during any four consecutive fiscal quarters make distributions with respect to common stock or other equity interests in an aggregate amount in excess of 95% of Funds From Operations, as defined, for such period, subject to certain other adjustments. As of December 31, 2004, the Company was in compliance with all the covenants.

Some of the loans impose penalties upon prepayment. The terms of the following loans do not permit prepayment of the loan prior to the dates listed below:

<u>Loan</u>	<u>Date</u>
Carrier Center Mortgage	October 2005
Ardenwood Corporate Park, NTT/Verio Premier Data Center, Var Tec Building Mortgage	October 2005
Ardenwood Corporate Park, NTT/Verio Premier Data Center, Var Tec Building Mezzanine	October 2005
Granite Tower Mortgage	January 2006
100 Technology Center Drive Mortgage	March 2006
Univision Tower Mortgage	August 2009
Secured Term Debt	September 2014

Borrowings under GI Partners' \$100,000,000 revolving credit facility were allocated to the Company Predecessor to the extent that the borrowings related to the Company Predecessor's real estate investments. Upon completion of the IPO, the Company assumed and repaid \$6.1 million of such borrowings. Outstanding advances under GI Partners' line of credit bore interest at variable rates based on LIBOR plus 0.875%.

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6. Loss per Share

The following is a summary of the elements used in calculating basic and diluted loss per share (in thousands, except share and per share amounts):

	November 3, 2004 Through December 31, 2004
Net loss	\$ (6,169)
Weighted average shares outstanding—basic	20,770,875
Potentially dilutive common shares ⁽¹⁾ :	
Stock options	—
Weighted average shares outstanding—diluted	20,770,875
Net loss per share—basic and diluted	\$ (0.30)

- (1) For the period November 3, 2004 through December 31, 2004 the potentially dilutive shares related to stock options for 924,902 shares were not included in the loss per share calculation, as the effect is antidilutive.

7. Stockholders Equity
(a) Shares and Units

A Unit and a share of our common stock have essentially the same economic characteristics as they share equally in the total net income or loss and distributions of the Operating Partnership. A Unit may be redeemed for cash, or, at the Company's option, exchanged for shares of common stock on a one-for-one basis after January 3, 2006, except for long-term incentive units, which are discussed in Note 8. There were 21,421,300 shares of common stock and 31,521,431 of Units outstanding as of December 31, 2004.

(b) Dividends

On December 14, 2004, the Company declared a dividend to common stockholders of record and the Operating Partnership declared a distribution to Unit holders of record, in each case as of December 31, 2004, totaling approximately \$8.3 million or \$0.156318 per share or unit, covering the period from the completion of the IPO on November 3, 2004 through December 31, 2004. The dividend and distribution were paid on January 14, 2005. The dividend and distribution were equivalent to an annual rate of \$0.975 per share and unit.

(c) Stock Options

The fair market value of each option granted under the 2004 Incentive Award Plan is estimated on the date of the grant using the Black-Scholes option-pricing model with the weighted-average assumptions listed below for grants in 2004. The fair values are being expensed on a straight-line basis over the vesting period of the options, which is four years. The expense recorded for the period from the completion of the IPO on November 3, 2004 through December 31, 2004 was \$32,000.

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The following table sets forth the weighted-average assumptions used to calculate the fair value of the stock options granted for the period ended December 31, 2004:

Dividend yield	7.92%
Expected life of option	120 months
Risk-free interest rate	4.11%
Expected stock price volatility	22.29%

The weighted-average fair value of stock options granted during 2004 was \$0.91.

A summary of the stock option activity for the 2004 Incentive Award Plan for the period ended December 31, 2004 is as follows:

	Shares	Weighted-Average Exercise Price
Options outstanding, beginning of year	—	\$ —
Granted	924,902	12.16
Exercised	—	—
Cancelled	—	—
Options outstanding, end of year	924,902	12.16
Exercisable, end of year	—	—
Weighted-average fair value of options granted during the year		0.91

During the period ended December 31, 2004, we had 924,902 stock options outstanding, with exercise prices ranging from \$12.00 to \$13.02. The weighted-average remaining contractual life of these options at December 31, 2004 was 9.86 years.

(d) Distributions

Earnings and profits, which determine the taxability of distributions to stockholders, will differ from income reported for financial reporting purposes due to the differences for federal income tax purposes in the treatment of loss on extinguishment of debt, revenue recognition, compensation expense and in the basis of depreciable assets and estimated useful lives used to compute depreciation.

Dividends declared by a REIT in October, November or December of any calendar year, payable to stockholders of record on a specified date in any such month, shall be deemed to have been paid by the REIT, and received by such stockholder on December 31 of such calendar year, provided the dividend is actually paid in January of the following year. The Company believes that this provision only applies to the extent of its otherwise undistributed 2004 earnings and profits. Accordingly, approximately 25% to 30% of the distribution declared by the Company on December 14, 2004, payable to stockholders of record on December 31, 2004, and paid on January 14, 2005, will be treated as a dividend for federal income tax purposes in 2004 and the remainder will be treated as distributed to the stockholders in 2005.

8. Incentive Plan

The Company's incentive award plan provides for the grant of incentive awards to employees, directors and consultants. Awards issuable under the incentive award plan include stock options, restricted stock, dividend

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equivalents, stock appreciation rights, long-term incentive units, cash performance bonuses and other incentive awards. Only employees are eligible to receive incentive stock options under the incentive award plan. The Company has reserved a total of 4,474,102 shares of common stock for issuance pursuant to the incentive award plan, subject to certain adjustments set forth in the plan. Each long-term incentive unit issued under the incentive award plan will count as one share of stock for purposes of calculating the limit on shares that may be issued under the plan and the individual award limit discussed below.

Long-term incentive units may be issued to eligible participants for the performance of services to or for the benefit of the Operating Partnership. Long-term incentive units, whether vested or not, will receive the same quarterly per unit distributions as common units in the Operating Partnership, which equal per share distributions on the Company's common stock. Initially, long-term incentive units do not have full parity with common units with respect to liquidating distributions. Upon the occurrence of specified events, long-term incentive units may over time achieve full parity with common units in the Operating Partnership for all purposes, and therefore accrete to an economic value for participants equivalent to the Company's common stock on a one-for-one basis. If such parity is reached, vested long-term incentive units may be converted into an equal number of common units of the Operating Partnership at any time, and thereafter enjoy all the rights of common units of the Operating Partnership.

In connection with the IPO an aggregate of 1,490,561 of fully vested long-term incentive units were issued and compensation expense totaling \$17.9 million was recorded at the completion of the IPO. Parity was reached for these units on February 9, 2005 upon completion of the series A preferred stock offering. See note 16.

9. Fair Value of Instruments

Statement of Financial Accounting Standards No. 107, *Disclosures about Fair Value of Financial Instruments*, requires us to disclose fair value information about all financial instruments, whether or not recognized in the balance sheets, for which it is practicable to estimate fair value.

The estimates of the fair value financial instruments at December 31, 2004 and 2003, respectively, were determined using available market information and appropriate valuation methods. Considerable judgment is necessary to interpret market data and develop estimated fair value. The use of different market assumptions or estimation methods may have a material effect on the estimated fair value amounts.

The carrying amounts for cash and cash equivalents, restricted cash, accounts and other receivables, accounts payable and other accrued liabilities, security deposits and prepaid rents and asset management fees payable to a related party approximate fair value because of the short-term nature of these instruments. As described in note 10, the interest rate cap, interest rate swap and foreign currency forward contracts are recorded at fair value.

We calculate the fair value of our notes payable under line of credit, mortgage and other secured loans based on currently available market rates assuming the loans are outstanding through maturity and considering the collateral and other loan terms. In determining the current market rate for fixed rate debt, a market spread is added to the quoted yields on federal government treasury securities with similar maturity dates to debt.

At December 31, 2004 the aggregate fair value of the Company's mortgage and other secured loans is estimated to be \$530.9 million compared to the carrying value of \$519.5 million. As of December 31, 2003 the fair value of the Company's Predecessor loans was estimated to be approximately \$300.9 million compared to a carrying value of \$297.9 million.

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10. Derivative Instruments

Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), as amended and interpreted, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. As required by SFAS 133, the Company records all derivatives in the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives may also be designated as hedges of the foreign currency exposure of a net investment in a foreign operation.

Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. The Company's objective in using derivatives is to add stability to interest expense and to manage its exposure to interest rate movements or other identified risks. To accomplish this objective, the Company primarily uses interest rate swaps as part of its cash flow hedging strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts in exchange for fixed-rate payments over the life of the agreements without exchange of the underlying principal amount. Through December 31, 2004, such derivatives were used to hedge the variable cash flows associated with floating rate debt.

For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income (outside of earnings) and subsequently reclassified to earnings when the hedged transactions affect earnings, and the ineffective portion of changes in the fair value of the derivative is recognized directly in earnings. For derivatives designated as net investment hedges, changes in the fair value of the derivative are reported in other comprehensive income (outside of earnings) as part of the cumulative translation adjustment. As of December 31, 2004, no derivatives were designated as fair value hedges. Additionally, the Company does not use derivatives for trading or speculative purposes.

During 2004, the Company entered into interest rate swaps to hedge variability in cash flows related to \$140.3 million of its floating-rate debt. The fair value of such derivatives was (\$27,000) at December 31, 2004. For 2004, the change in net unrealized losses for derivatives designated as cash flow hedges was \$27,000 and is separately disclosed in the statement of stockholders' equity and other comprehensive income net of the amount allocated to minority interests.

The Company has two LIBOR interest rate caps that are not designated as hedges. The fair values of the caps were immaterial as of December 31, 2004.

In 2003, one of the Company's subsidiaries entered into a foreign currency forward sale of £7.9 million, with delivery date of January 24, 2005, to hedge an equity investment in Camperdown House. The forward contract had been designated as a net investment hedge and had a value of (\$2.8) million and (\$1.4) million on December 31, 2004 and 2003, respectively. The change in value of the derivative was recorded in other comprehensive income as a part of cumulative translation adjustment. Amounts in other comprehensive income (cumulative translation adjustment) related to the net investment hedge will be reclassified to earnings when the hedged investment is sold or liquidated.

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The table below summarizes the terms of these interest rate swaps and their fair values as of December 31, 2004 (in thousands):

Notional Amount	Strike Rate	Effective Date	Expiration Date	Fair Value
\$ 46,908	3.178%	Nov. 26, 2004	Jul. 1, 2006	\$ 3
43,000	3.250	Nov. 26, 2004	Sep. 15, 2006	1
21,645	3.754	Nov. 26, 2004	Jan. 1, 2009	(11)
20,000	3.824	Nov. 26, 2004	Apr. 1, 2009	(19)
8,775	3.331	Nov. 26, 2004	Dec. 1, 2006	(1)
\$ 140,328				\$ (27)

11. Recent Accounting Pronouncements

Financial Accounting Standards Board Statement No. 123 (revised 2004), *Share-Based Payment*, or SFAS 123(R), was issued in December 2004. SFAS 123(R), which is effective for the Company beginning with the third quarter of 2005, requires an entity to recognize the grant-date fair value of stock options and other equity-based compensation issued to employees in the income statement, but expresses no preference for a type of valuation model. We do not believe the adoption of SFAS 123(R) will have a material impact on our results of operations, financial position or liquidity.

12. Tenant Leases

The future minimum lease payments to be received (excluding operating expense reimbursements) by the Company as of December 31, 2004, under non-cancelable operating leases are as follows (in thousands):

2005	\$ 112,831
2006	113,844
2007	112,578
2008	110,078
2009	106,599
Thereafter	417,672
Total	\$ 973,602

For the year ended December 31, 2004, rental revenue earned from Savvis Communications comprised approximately 11.1% of total rental revenue. For the years ended December 31, 2003 and 2002, no single tenant comprised more than 10% of rental revenue.

13. Asset Management and Other Fees to Related Parties

Asset management fees incurred by GI Partners totaling approximately \$2.7 million, \$3.2 million and \$3.2 million have been allocated to the Company Predecessor for the period from January 1, 2004 through November 2, 2004 and for the years ended December 31, 2003 and 2002, respectively. Such fees were paid to an affiliate of GI Partners. Although neither the Company nor the Operating Partnership are or will be parties to the agreement requiring the payment of the asset management fees, an allocation of such fees has been included in the accompanying combined financial statements of the Company Predecessor since such fee is essentially the

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Company Predecessor's historical general and administrative expense as the Company Predecessor did not directly incur personnel costs, home office space rent or other general and administrative expenses that are incurred directly by the Company and the Operating Partnership subsequent to the completion of the IPO. These types of expenses were historically incurred by the asset manager and were passed through to GI Partners via the asset management fee.

The Company has engaged CB Richard Ellis Investors to provide transitional accounting and other services for an interim period expected to last through the end of the first fiscal reporting period in 2005. The fee for such services is approximately \$59,000.

As of December 31, 2004, GI Partners had \$1.2 million of letters of credit outstanding that secure obligations relating to two of the Company's properties, Carrier Center and Stanford Place II. These letters of credit were initially issued in lieu of making deposits required by a local utility and in lieu of establishing a restricted cash account on behalf of a lender. The Company is in the process of causing these letters of credit to be transferred to the Company. The Company is currently reimbursing GI Partners for the costs of maintaining the letters of credit, which payments are less than \$5,000 per quarter.

Additionally, the Company and the Company Predecessor paid additional compensation, not encompassed in the management fee, to affiliates of CB Richard Ellis Investors for real estate services. The following schedule presents fees incurred by the Company and the Company Predecessor and earned by affiliates of CB Richard Ellis Investors (in thousands):

	Years Ended December 31,		
	2004	2003	2002
Lease commissions	\$ 411	\$1,092	\$116
Brokerage fees	—	491	208
Property management fees and other	1,068	406	11
Total	\$1,479	\$1,989	\$335

14. Commitments and Contingencies

(a) Operating Leases

The Company has a ground sublease obligation on the ASM Lithography Facility that expires in 2082. After February 2036, rent for the remaining term of the ASM Lithography Facility ground lease will be determined based on a fair market value appraisal of the property and, as result, is excluded from the information below. Rental expense for the ground lease was \$339,000 and \$198,000 for the year ended December 31, 2004 and for the period from the acquisition of the property in May 2003 through December 31, 2003 respectively.

The minimum commitment under this lease as of December 31, 2004 was as follows (in thousands):

2005	\$ 241
2006	241
2007	241
2008	241
2009	241
Thereafter through February 2036	9,581
Total	\$10,786

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(b) Purchase Commitments

As of December 31, 2004, the Company had committed to purchase two investments in real estate and such purchases were consummated in March 2005. See note 16.

15. Quarterly Financial Information (unaudited)

The tables below reflect the Company's selected quarterly information for the Company and the Company Predecessor for the years ended December 31, 2004 and 2003. Certain amounts have been reclassified to conform to the current year presentation.

**Consolidated and Combined Statements of Operations Information
(in thousands, except for per share amounts)
(unaudited)**

	Three Months Ended			
	December 31, 2004 ⁽¹⁾	September 30, 2004	June 30, 2004	March 31, 2004
Total revenue	\$ 36,205	\$ 29,346	\$22,800	\$ 18,770
Income (loss) before minority interests	(15,569)	3,387	2,994	3,507
Net income (loss)	(5,359)	3,359	3,096	3,461
Net loss per share—basic and diluted ⁽²⁾	\$ (0.30)	\$ —	\$ —	\$ —
Weighted-average shares—basic and diluted	20,775,875			

	Three Months Ended			
	December 31, 2003	September 30, 2003	June 30, 2003	March 31, 2003
Total revenue	\$ 18,281	\$ 13,970	\$13,824	\$ 17,013
Income (loss) before minority interests	3,909	3,708	3,986	5,188
Net income (loss)	3,886	3,655	3,937	5,164

- (1) Represents consolidated operating results for the Company for the period from November 3, 2004 to December 31, 2004 and combined operating results for the Company Predecessor for the period from October 1, 2004 to November 2, 2004. The operating results for the quarter ended December 31, 2004 may not be comparable to future expected operating results of the Company since they include various IPO-related charges.
- (2) The net loss per share—basic and diluted is for the period from November 3, 2004 to December 31, 2004. This may not be comparable to future net income (loss) per share since it includes the effect of various IPO-related charges.

16. Subsequent Events

On January 14, 2005, the Company paid a partial fourth quarter dividend on the Company's common stock and the Operating Partnership paid a partial fourth quarter distribution on its outstanding units for the period from November 3, 2004 through December 31, 2004 of \$0.156318 per share and unit. The dividend and distribution is equivalent to an annual rate of \$0.975 per share and unit.

As of December 31, 2004, the Company owned a 75% tenancy-in-common interest in eBay Data Center, a 62,957 square foot data center located in Rancho Cordova, California. On January 21, 2005, the Operating Partnership purchased the remaining 25% interest in this property for \$4.1 million.

**DIGITAL REALTY TRUST, INC. AND
DIGITAL REALTY TRUST, INC. PREDECESSOR
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS—(Continued)**

On January 24, 2005 the Company settled the foreign currency forward contract that was assumed from GI Partners and related to the Camperdown House property located in the United Kingdom for a payment of approximately \$2.5 million. On the same date the Company entered into a new foreign currency forward contract to hedge the foreign currency risk related to owning a property in the United Kingdom. On February 4, 2005 GI Partners reimbursed the Company for \$1.9 million of such settlement since it was determined that the negative value associated with the forward contract was not otherwise factored into the determination of the number of units that were granted to GI Partners in exchange for its interests in Camperdown House.

On February 9, 2005, the Company completed the offering of 4.14 million shares of its 8.5% Series A Cumulative Redeemable Preferred Stock (liquidation preference \$25.00 per share) for total net proceeds, after the underwriting discount and estimated expenses, of \$99.3 million, including the proceeds from the exercise of an underwriters' over-allotment option. The Company and the Operating Partnership used the net proceeds from this offering to reduce borrowings under the Operating Partnership's unsecured credit facility, acquire two properties in March 2005 and for investment and general corporate purposes.

On February 14, 2005, the Company declared a dividend on its series A preferred stock of \$0.30694 per share for the period from February 9, 2005 through March 31, 2005. The dividend is equivalent to an annual rate of \$2.125 per preferred share. On February 14, 2005, the Company also declared a dividend on its common stock and common units of \$0.24375 per share. This dividend is equivalent to an annual rate of \$0.975 per common share and common unit.

On March 14, 2005, the Company purchased of the property known as 833 Chestnut Street located in Philadelphia, Pennsylvania for approximately \$59.0 million.

On March 14, 2005, the Company executed a purchase and sale agreement to acquire Printers' Square located in Chicago, Illinois for approximately \$37.5 million.

On March 15, 2005, the Company executed a purchase and sale agreement to acquire a property known as Lakeside Technology Center in Chicago, Illinois, for approximately \$142.6 million. The seller can earn an additional \$20.0 million by obtaining a change in the real estate tax classification prior to December 31, 2006.

On March 17, 2005, the Company purchased the property known as MAPP Building located in Minneapolis/St Paul, Minnesota for approximately \$15.6 million.

In March 2005, the Company entered into an agreement to sublease office space in San Francisco, California for its headquarters under a seven-year lease with annual rent of approximately \$0.4 million.

DIGITAL REALTY TRUST, INC.
SCHEDULE III
PROPERTIES AND ACCUMULATED DEPRECIATION
DECEMBER 31, 2004
(In thousands)

Description	Encumbrances	Initial Costs			Costs Capitalized Subsequent to Acquisition			Total Costs				Accumulated Depreciation and Amortization	Date of Acquis. (A) Constr. (C)
		Land	Acquired Ground Lease	Buildings and Improvements	Improvements	Carrying Costs	Land	Acquired Ground Lease	Buildings and Improvements	Total			
PROPERTIES:													
Univision Tower, Dallas, TX	\$ 57,943	\$ 1,838	\$ —	\$ 77,604	\$ 4,855	\$ —	\$ 1,838	\$ —	\$ 82,459	\$ 84,297	\$ (7,568)	2002(A)	
36 Northeast Second Street, Miami, FL	18,231	1,942	—	24,184	(477)	—	1,942	—	23,707	25,649	(2,098)	2002(A)	
Camperdown House, London, UK	22,672	3,776	—	28,166	1,410	—	3,776	—	29,576	33,352	(2,028)	2002(A)	
Hudson Corporate Center, Weehawken, NJ	46,750	5,140	—	48,526	442	—	5,140	—	48,968	54,108	(3,624)	2002(A)	
NTT/Verio Premier Data Center, San Jose, CA	19,250*	3,607	—	23,008	—	—	3,607	—	23,008	26,615	(1,665)	2002(A)	
Ardenwood Corporate Park, Fremont, CA	38,000*	15,330	—	32,419	1,749	—	15,330	—	34,168	49,498	(2,431)	2003(A)	
VarTec Building, Carrollton, TX	7,750*	1,477	—	10,330	—	—	1,477	—	10,330	11,807	(730)	2003(A)	
ASM Lithography Facility, Tempe, AZ	—	—	1,477	16,472	—	—	—	1,477	16,472	17,949	(778)	2003(A)	
AT&T Web Hosting Facility, Atlanta, GA	8,775	1,250	—	11,578	152	—	1,250	—	11,730	12,980	(513)	2003(A)	
Granite Tower, Dallas, TX	21,645	3,643	—	22,060	126	—	3,643	—	22,186	25,829	(1,170)	2003(A)	
Brea Data Center, Brea, CA	7,942	3,777	—	4,611	20	—	3,777	—	4,631	8,408	(384)	2003(A)	
Maxtor Manufacturing Facility, Fremont, CA	17,965	5,272	—	20,166	—	—	5,272	—	20,166	25,438	(646)	2003(A)	
Stanford Place II, Denver, CO	26,000	3,662	—	29,183	2,250	—	3,662	—	31,433	35,095	(2,461)	2003(A)	
100 Technology Center Drive, Stoughton, MA	20,000	2,957	—	22,417	14	—	2,957	—	22,431	25,388	(687)	2004(A)	
Siemens Building, Dallas, TX	11,188	2,983	—	10,650	20	—	2,983	—	10,670	13,653	(317)	2004(A)	
Savvis Data Center, Santa Clara, CA	—	6,065	—	43,817	—	—	6,065	—	43,817	49,882	(819)	2004(A)	
Carrier Center, Los Angeles, CA	25,964	18,478	—	50,824	547	—	18,478	—	51,371	69,849	(1,108)	2004(A)	
Webb at LBJ, Dallas, TX	34,463	5,881	—	34,473	3	—	5,881	—	34,476	40,357	(470)	2004(A)	
Comverse Technology Building, Wakefield, MA	36,261	12,416	—	26,154	85	—	12,416	—	26,239	38,655	(652)	2004(A)	
AboveNet Data Center, San Jose, CA	—	2,068	—	29,214	—	—	2,068	—	29,214	31,282	(218)	2004(A)	
eBay Data Center, Rancho Cordova, CA	7,950	1,459	—	8,266	—	—	1,459	—	8,266	9,725	(73)	2004(A)	
200 Paul Avenue, San Francisco, CA	46,749	14,427	—	75,777	145	—	14,427	—	75,922	90,349	(398)	2004(A)	
1100 Space Park Drive, Santa Clara, CA	—	5,130	—	18,206	1	—	5,130	—	18,207	23,337	(142)	2004(A)	
Burbank Data Center, Burbank, CA	—	6,534	—	8,356	—	—	6,534	—	8,356	14,890	—	2004(A)	
	\$ 475,498	\$ 129,112	\$ 1,477	\$ 676,461	\$ 11,342	\$ —	\$ 129,112	\$ 1,477	\$ 687,803	\$ 818,392	\$ (30,980)		

* This is an allocation of a \$43,000 loan secured by three properties.

See accompanying report of registered public accounting firm.

DIGITAL REALTY TRUST, INC.
NOTES TO SCHEDULE III
PROPERTIES AND ACCUMULATED DEPRECIATION
December 31, 2004
(In thousands)

(1) Tax Basis Cost

The aggregate gross cost of Digital Realty Trust, Inc. (the company) properties for federal income tax purposes approximated \$793.4 million (unaudited) as of December 31, 2004.

(2) Historical Cost and Accumulated Depreciation and Amortization

The following table reconciles the historical cost of the Company's properties for financial reporting purposes for each of the years in the three year period ended December 31, 2004.

	The Company and the Company Predecessor Year Ended December 31	The Company Predecessor Years Ended December 31,	
	2004	2003	2002
Balance, beginning of year	\$ 404,763	\$220,630	\$ —
Additions during period (acquisitions and improvements)	414,877	184,673	220,630
Deductions during period (write-off of tenant improvements)	(1,248)	(540)	—
Balance, end of year	\$ 818,392	\$404,763	\$220,630

The following table reconciles accumulated depreciation and amortization of the Company's properties for financial reporting purposes for each of the years in the three-year period ended December 31, 2004.

	The Company and the Company Predecessor Year Ended December 31	The Company Predecessor Years Ended December 31,	
	2004	2003	2002
Balance, beginning of year	\$ 13,026	\$ 3,621	\$ —
Additions during period (depreciation and amortization expense)	18,207	9,480	3,621
Deductions during period (write-off of tenant improvements)	(253)	(75)	—
Balance, end of year	\$ 30,980	\$13,026	\$3,621

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We have adopted and maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by SEC Rule 13a-15(b), we have carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the quarter covered by this report. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting that has occurred during the fiscal quarter ended December 31, 2004 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information concerning our directors and executive officers required by Item 10 will be included in the Proxy Statement to be filed relating to our 2005 Annual Meeting of Stockholders and is incorporated herein by reference.

Pursuant to instruction G(3) to Form 10-K, information concerning audit committee financial expert disclosure set forth under the heading “Categorical Standards for Board Service and Audit Committee Financial Expert” will be included in the Proxy Statement to be filed relating to our 2005 Annual Meeting of Stockholders and is incorporated herein by reference.

Pursuant to instruction G(3) to Form 10-K, information concerning compliance with Section 16(a) of the Securities Act of 1933 concerning our directors and executive officers set forth under the heading entitled “Section 16(a) Beneficial Ownership Reporting Compliance” will be included in the Proxy Statement to be filed relating to our 2005 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information concerning our executive compensation required by Item 11 will be included in the Proxy Statement to be filed relating to our 2005 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information concerning our security ownership of certain beneficial owners and management and equity compensation plan information required by Item 12 will be included in the Proxy Statement to be filed relating to our 2005 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information concerning certain relationships and related transactions required by Item 13 will be included in the Proxy Statement to be filed relating to our 2005 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information concerning our principal accountant fees and services required by Item 14 will be included in the Proxy Statement to be filed relating to our 2005 Annual Meeting of Stockholders and is incorporated herein by reference.

PART IV**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES****Exhibit**

****3.1	Articles of Amendment and Restatement of Digital Realty Trust, Inc.
****3.2	Amended and Restated Bylaws of Digital Realty Trust, Inc.
**3.3	Articles Supplementary of Digital Realty Trust, Inc.
***4.1	Form of Certificate for Common Stock for Digital Realty Trust, Inc.
*4.2	Form of Certificate for Series A Preferred Stock for Digital Realty Trust, Inc.
****10.1	Amended and Restated Agreement of Limited Partnership of Digital Realty Trust, L.P.
**10.2	Second Amended and Restated Agreement of Limited Partnership of Digital Realty Trust, L.P.
****10.3	Registration Rights Agreement among Digital Realty Trust, Inc. and the persons named therein.
****10.4	2004 Incentive Award Plan of Digital Realty Trust, Inc., Digital Services, Inc. and Digital Realty Trust, L.P.
***10.5	Form of Indemnification Agreement between Digital Realty Trust, Inc. and its directors and officers.
***10.6	Executive Chairman Agreement between Digital Realty Trust, Inc. and Richard Magnuson.
***10.7	Employment Agreement between Digital Realty Trust, Inc. and Michael Foust.
***10.8	Employment Agreement between Digital Realty Trust, Inc. and A. William Stein.
***10.9	Employment Agreement between Digital Realty Trust, Inc. and Scott E. Peterson
***10.10	Employment Agreement between Digital Realty Trust, Inc. and John O. Wilson
****10.11	Non-competition Agreement between Digital Realty Trust, Inc. and Global Innovation Partners, LLC.
***10.12	Contribution Agreement, dated as of July 31, 2004, by and between Global Innovation Partners, LLC and Digital Realty Trust, L.P.
***10.13	Contribution Agreement, dated as of July 31, 2004, by and among San Francisco Wave eXchange, LLC, Santa Clara Wave eXchange, LLC and eXchange colocation, LLC, Digital Realty Trust, L.P. and Digital Realty Trust, Inc.
***10.14	Contribution Agreement, dated as of July 31, 2004, by and between Pacific-Bryan Partners, L.P. and Digital Realty Trust, L.P.
***10.15	Option Agreement (Carrier Center) dated as of July 31, 2004.
***10.16	Right of First Offer Agreement (Denver Data Center) dated as of July 31, 2004.
***10.17	Right of First Offer Agreement (Frankfurt) dated as of July 31, 2004.
***10.18	Allocation Agreement, dated as of July 31, 2004, entered into by and between Global Innovation Partners, LLC and Global Innovation Contributor, LLC.
***10.19	Unit Purchase Agreement, dated as of July 31, 2004, entered into by and between Digital Realty Trust, Inc. and Global Innovation Contributor, LLC.
***10.20	Allocation Agreement, dated as of July 31, 2004, entered into by and between Global Innovation Partners, LLC and State of California Public Employees' Retirement System, a unit of the State and Consumer Service Agency of the State of California.

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Exhibit

***10.21	Unit Purchase Agreement, dated as of July 31, 2004, entered into by and between Digital Realty Trust, Inc. and State of California Public Employees' Retirement System, a unit of the State and Consumer Service Agency of the State of California.
***10.22	Loan Agreement, dated as of March 31, 2004, entered into by and between Global Innovation Partners, LLC and Digital Realty Trust, Inc.
***10.23	Purchase and Sale Agreement, dated as of September 16, 2004, by and between Global Innovation Partners, LLC and Digital Realty Trust, L.P.
***10.24	Registration Rights Agreement among Digital Realty Trust, Inc. and the persons named therein (option and right of first offer agreement).
***10.25	Loan and Security Agreement, dated as of August 18, 2003, between Global Marsh Property Owner, L.P. and German American Capital Corporation.
***10.26	Omnibus First Amendment to Loan Documents, dated as of November 10, 2003, by and among Global Marsh Property Owner, L.P., Global Innovation Partners, LLC and German American Capital Corporation.
***10.27	Note, dated as of August 18, 2003, by Global Marsh Property Owner, L.P. in favor of German American Capital Corporation.
***10.28	First Amendment to Note, dated as of November 10, 2003, by and between Global Marsh Property Owner, L.P. and German American Capital Corporation.
***10.29	Mezzanine Loan and Security Agreement, dated as of August 18, 2003, between Global Marsh Member, LLC and Global Marsh Limited Partner, LLC and German American Capital Corporation.
***10.30	Omnibus First Amendment to Mezzanine Loan Documents, dated as of November 10, 2003, by and among Global Marsh Member, LLC, Global Marsh Limited Partner, LLC, Global Innovation Partners, LLC and German American Capital Corporation.
***10.31	Note, dated as of August 18, 2003, by Global Marsh Property Owner, L.P. in favor of German American Capital Corporation.
***10.32	Mezzanine Note, dated as of August 18, 2003, by Global Marsh Member, LLC and Global Marsh Limited Partner, LLC in favor of German American Capital Corporation.
***10.33	First Amendment to Mezzanine Note, dated as of November 10, 2003, by and among Global Marsh Member, LLC, Global Marsh Limited Partnership, LLC and German American Capital Corporation.
***10.34	Loan and Security Agreement, dated as of January 31, 2003, among San Francisco Wave eXchange, LLC, 200 Paul Wave eXchange, LLC, The Cambay Group, Inc. and Greenwich Capital Financial Products, Inc.
***10.35	Amendment No. 1 to Loan Agreement, entered into as of March 31, 2003, by and among San Francisco Wave eXchange, LLC, 200 Paul Wave eXchange, LLC, The Cambay Group, Inc. and Greenwich Capital Financial Products, Inc.
***10.36	Promissory Note A, dated as of January 31, 2003, by San Francisco Wave eXchange, LLC in favor of Greenwich Capital Financial Products, Inc.
***10.37	Promissory Note B, dated as of January 31, 2003, by San Francisco Wave eXchange, LLC in favor of Greenwich Capital Financial Products, Inc.

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Exhibit

****10.38	Revolving Credit Agreement among Digital Realty Trust, L.P., as borrower, Digital Realty Trust, Inc., as parent guarantor, the subsidiary guarantors named therein, Citicorp North America, Inc., as administrative agent, Merrill Lynch, Pierce, Fenner & Smith Incorporated, as syndication agent, Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as joint lead arrangers and joint book running managers, and the other agents and lenders named therein.
****10.39	Loan Agreement, dated as of November 3, 2004, by and among Global Webb, L.P. and Citigroup Global Markets Realty Corp.
****10.40	Note, dated as of November 3, 2004, by Global Webb, L.P. in favor of Citigroup Global Markets Realty Corp.
****10.41	Loan Agreement, dated as of November 3, 2004, by and among Global Weehawken Acquisition Company, LLC and Citigroup Global Markets Realty Corp.
****10.42	Note, dated as of November 3, 2004, by Global Weehawken Acquisition Company, LLC in favor of Citigroup Global Markets Realty Corp.
****10.43	Loan Agreement, dated as of November 3, 2004, by and among GIP Wakefield, LLC and Citigroup Global Markets Realty Corp.
****10.44	Note, dated as of November 3, 2004, by GIP Wakefield, LLC in favor of Citigroup Global Markets Realty Corp.
****10.45	Form of Profits Interest Units Agreements.
****10.46	Form of Digital Realty Trust, Inc. Incentive Stock Option Agreement.
*10.47	Purchase and Sale Agreement, dated as of January 11, 2005, between LB 833 Chestnut, LLC and Digital Realty Trust, L.P.
*10.48	Loan Agreement, dated as of November 3, 2004, by and between Digital-Bryan Street Partnership, L.P. and Countrywide Commercial Real Estate Finance, Inc.
*10.49	Promissory Note, dated as of November 3, 2004, by Digital-Bryan Street Partnership, L.P. in favor of Countrywide Commercial Real Estate Finance, Inc.
*10.50	Consent Agreement, dated as of October 27, 2004, by and among LaSalle Bank National Association, as Trustee, and Global Marsh Property Owner, L.P.
10.51	Consent Agreement, dated as of October 27, 2004, by and among Five Mile Capital Pooling International II, LLC and Global Marsh Member, LLC, Global Marsh Limited Partner, LLC, Global Innovation Partners, LLC and Digital Realty Trust, L.P.
10.52	Purchase and Sale Agreement, dated as of March 14, 2005, between Lakeside Purchaser, LLC and Digital Realty Trust, L.P.
***21.1	List of Subsidiaries of Registrant.
23.1	Consent of Independent Registered Public Accounting Firm.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit

32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*	Incorporated by reference to the registrant’s registration statement on Form S-11 (File No. 333-122099) declared effective by the commission on February 3, 2005.
**	Incorporated by reference to the registrant’s current report on Form 8-K (File No. 001-32336) filed with the Commission on February 14, 2005.
***	Incorporated by reference to the registrant’s registration statement on Form S-11 (File No. 333-117865) declared effective by the commission on November 3, 2004.
****	Incorporated by reference to the registrant’s quarterly report on Form 10-Q (File No. 001-32336) filed with the commission on December 13, 2004.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1934, as amended, the Registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Menlo Park, State of California, on this 31st day of March 2005.

DIGITAL REALTY TRUST, INC.

By: /s/ MICHAEL F. FOUST

Michael F. Foust
Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each individual whose signature appears below constitutes and appoints Michael F. Foust and A. William Stein, and each of them, with full power to act without the other, such person's true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign this Annual Report on 10-K, and any and all amendments thereto (including post-effective amendments), and to file the same, with exhibits and schedules thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary or desirable to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1934, as amended, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ RICHARD A. MAGNUSON</u>	Chairman of the Board	March 31, 2005
Richard A. Magnuson		
<u>/s/ MICHAEL F. FOUST</u>	Chief Executive Officer	March 31, 2005
Michael F. Foust		
<u>/s/ A. WILLIAM STEIN</u>	Chief Financial Officer & Chief Investment Officer	March 31, 2005
A. William Stein		
<u>/s/ CARY ANDERSON</u>	Controller (Principal Accounting Officer)	March 31, 2005
Cary Anderson		
<u>/s/ LAURENCE A. CHAPMAN</u>	Director	March 31, 2005
Laurence A. Chapman		
<u>/s/ RUANN F. ERNST</u>	Director	March 31, 2005
Ruann F. Ernst, Ph.D.		
<u>/s/ KATHLEEN EARLEY REED</u>	Director	March 31, 2005
Kathleen Earley Reed		
<u>/s/ DENNIS E. SINGLETON</u>	Director	March 31, 2005
Dennis E. Singleton		

CONSENT AGREEMENT

(MEZZANINE LOAN)

THIS CONSENT AGREEMENT (the “**Agreement**”) is executed and entered into as of October 27, 2004 by and among FIVE MILE CAPITAL POOLING INTERNATIONAL II, LLC, having an address at 4 Stamford Plaza, Stamford, Connecticut 06902 (“**Lender**”), and GLOBAL MARSH MEMBER, LLC, a Delaware limited liability company (“**Global Marsh Member**”), GLOBAL MARSH LIMITED PARTNER, LLC, a Delaware limited liability company (“**Mortgage Borrower LP**”, and together with Global Marsh Member, collectively, “**Borrower**”), GLOBAL INNOVATION PARTNERS, LLC, a Delaware limited liability company (“**Original Guarantor**”), DIGITAL REALTY TRUST, L.P., a Maryland limited partnership (“**Replacement Guarantor**”), each having an address c/o GI Partners, 2730 Sand Hill Road, Suite 280, Menlo Park, California 94025 Attn: Mr. Richard Magnuson and Mr. Michael Foust (,). The term “**Effective Date**” as used in this Agreement shall mean the date upon which this Agreement has been signed and delivered by both Lender and Borrower.

RECITALS

A. On August 18, 2003, German American Capital Corporation, a Maryland corporation (“**Original Lender**”), made a loan (“**Loan**”) in the original principal amount of \$22,000,000.00 to Borrower pursuant to the terms of that certain Mezzanine Loan and Security Agreement dated as of August 18, 2003 by and among between Original Lender and Borrower, as amended by that certain Omnibus First Amendment to Mezzanine Loan Documents dated as of November 10, 2003 by and among Borrower and Original Lender (as it has been, and may hereinafter be, amended, the “**Loan Agreement**”; all capitalized terms used herein and not defined shall have the meanings ascribed to such terms in the Loan Agreement).

B. Original Lender has previously assigned to Lender the Loan Agreement the other loan documents described on **Exhibit A** attached hereto and any other loan document described in the Loan Agreement evidencing and/or securing the Loan (collectively, the “**Loan Documents**”). The Loan is secured by, among other things, that certain Pledge and Security Agreement dated as of August 18, 2003 from Borrower to Lender (as the same may be amended, modified or supplemented from time to time, the “**Pledge**”) and the other Loan Documents.

C. Global Marsh Property Owner, L.P., a Texas limited partnership (“**Mortgage Borrower**”) is the owner of certain real property commonly known as: (a) Ardenwood Corporate Park located in the City of Fremont, County of Alameda, State of California (the “**Ardenwood Corporate Park Property**”), (b) 2334 Lundy Place located in the City of San Jose, County of Santa Clara, State of California (the “**2334 Lundy Place Property**”) and (c) 2440 Marsh Lane located in the City of Carrollton, County of Dallas, State of Texas (the “**2440 Marsh Lane Property**” and together with Ardenwood Corporate Park Property and the 2334 Lundy Place Property, collectively, the “**Properties**”), which Properties are more particularly described in the Loan Agreement.

D. In connection with the proposed initial public offering (the “**IPO**”) of the shares in Digital Realty Trust, Inc., a Maryland real estate investment trust (the “**REIT**”), and the

sole general partner of Replacement Guarantor, Original Guarantor desires to transfer (“**Transfer**”) all of its membership interests in Global Marsh Member which is (i) the sole member of Mortgage Borrower LP, which is the 99.5% limited partner of Mortgage Borrower, and (ii) the sole member of Global Marsh General Partner, LLC, a Delaware limited liability company, which is the 0.5% general partner of Borrower (“**Mortgage Borrower GP**”), to Replacement Guarantor.

E. The Loan Documents prohibit the Transfer without first obtaining Lender’s written consent; and

F. Lender has agreed to consent to the Transfer subject to the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the foregoing premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

Article I.

**BORROWER ACKNOWLEDGMENTS, WARRANTIES,
REPRESENTATIONS AND COVENANTS**

As a material inducement to Lender to enter into this Agreement and to consent to the Transfer, Borrower (prior to the consummation of the Transfer) acknowledges, represents, warrants, covenants and agrees to and with Lender as follows:

1.1 **Authority of Borrower Prior to Transfer.** Prior to the Transfer:

(a) Mortgage Borrower is a duly organized, validly existing limited partnership in good standing under the laws of the State of Texas and is duly authorized to transact business in the State of California. Mortgage Borrower GP is the sole general partner of Mortgage Borrower, and Mortgage Borrower LP is the sole limited partner of Mortgage Borrower.

(b) Mortgage Borrower GP is a duly organized, validly existing limited liability company in good standing under the laws of the State of Delaware and is duly authorized to transact business in the States of Texas and California. Global Marsh Member is the sole member of Mortgage Borrower GP.

(c) Mortgage Borrower LP is a duly organized, validly existing limited liability company in good standing under the laws of the State of Delaware and is duly authorized to transact business in the States of Texas and California. Global Marsh Member is the sole member of Mortgage Borrower LP. Global Marsh Member, acting alone without the joinder of any other party, has the power and authority to execute this Agreement on behalf of and to duly bind Mortgage Borrower LP under this Agreement. The execution and delivery of, and performance under, this Agreement by Mortgage Borrower LP has been duly and properly authorized pursuant to all requisite limited liability company action and will not (i) violate any provision of any law, rule, regulation, order, writ, judgment, injunction, decree, determination or award presently in effect having applicability to Mortgage Borrower LP or the certificate of

incorporation, the operating agreement or any other organizational document of Mortgage Borrower LP or (ii) result in a breach of or constitute or cause a default under any indenture, agreement, lease or instrument to which Mortgage Borrower LP is a party or by which any of the Collateral may be bound or affected.

(d) Global Marsh Member is a duly organized, validly existing limited liability company in good standing under the laws of the State of Delaware and is duly authorized to transact business in the States of Texas and California. Original Guarantor is the sole member of Global Marsh Member. Original Guarantor, acting alone without the joinder of any other party, has the power and authority to execute this Agreement on behalf of and to duly bind Global Marsh Member under this Agreement. The execution and delivery of, and performance under, this Agreement by Global Marsh Member has been duly and properly authorized pursuant to all requisite limited liability company action and will not (i) violate any provision of any law, rule, regulation, order, writ, judgment, injunction, decree, determination or award presently in effect having applicability to Global Marsh Member or the certificate of incorporation, the operating agreement or any other organizational document of Global Marsh Member or (ii) result in a breach of or constitute or cause a default under any indenture, agreement, lease or instrument to which Global Marsh Member is a party or by which any of the Collateral may be bound or affected.

(e) Original Guarantor is a duly organized, validly existing limited liability company in good standing under the laws of the State of Delaware and is duly authorized to transact business in the States of Texas and California. Global Innovation Manager, LLC, a Delaware limited liability company ("**Manager**") is the Manager of Original Guarantor. Manager, acting alone without the joinder of any other party, has the power and authority to execute this Agreement on behalf of and to duly bind Original Guarantor under this Agreement. The execution and delivery of, and performance under, this Agreement by Original Guarantor has been duly and properly authorized pursuant to all requisite limited liability company action and will not (i) violate any provision of any law, rule, regulation, order, writ, judgment, injunction, decree, determination or award presently in effect having applicability to Original Guarantor or the certificate of formation, the limited liability company agreement or any other organizational document of Original Guarantor or (ii) result in a breach of or constitute or cause a default under any indenture, agreement, lease or instrument to which Original Guarantor is a party or by which any of the Collateral may be bound or affected.

(f) Manager is a duly organized, validly existing limited liability company in good standing under the laws of the State of Delaware and is qualified to do business in the States of Texas and California. Richard Magnuson and Michael Foust are authorized signatories (each, an "**Original Guarantor Authorized Person**") for Manager. Either Original Guarantor Authorized Person, acting alone without the joinder of the other or of any other party, has the power and authority to execute this Agreement on behalf of and to duly bind Manager under this Agreement. The execution and delivery of, and performance under, this Agreement by Manager has been duly and properly authorized pursuant to all requisite limited liability company action and will not (i) violate any provision of any law, rule, regulation, order, writ, judgment, injunction, decree, determination or award presently in effect having applicability to Manager or the certificate of formation, the limited liability company agreement or any other organizational document of Manager or (ii) result in a breach of or constitute or cause a default

under any indenture, agreement, lease or instrument to which Manager is a party or by which any of the Collateral may be bound or affected.

(g) The organizational documents of Borrower, Mortgage Borrower GP, Mortgage Borrower, Original Guarantor and Manager (collectively, “**Original Mezzanine Borrower Parties**”) have not been modified (other than to reflect the Transfers) since loan origination.

1.2 Loan Documents. The Loan Documents to which Borrower and/or Original Guarantor is a party constitute the valid and legally binding obligations of Borrower and Original Guarantor, enforceable against Borrower, Original Guarantor, the Collateral and the Properties in accordance with their terms, except to the extent that such enforcement may be limited by applicable bankruptcy, insolvency, reorganization or other similar laws affecting the rights of creditors generally or general principles of equity. The Pledge is a valid first lien on the Pledged Collateral for the full unpaid principal amount of the Loan and all other amounts stated in the Loan Documents. Borrower and Original Guarantor have no defenses, setoffs, claims, counterclaims or rights of defense, rights of setoff or counterclaim, whether legal, equitable or otherwise, to the obligations evidenced by or set forth in the Loan Agreement, the Note (as defined in **Exhibit A**), the Pledge or any of the other Loan Documents or causes of action of any kind or nature whatsoever against Lender or any of Lender’s officers, directors, servicers or predecessors in interest (collectively, “**Lender Parties**”) with respect to (i) the Loan, (ii) any of the Loan Documents to which Borrower is a party, (iii) the Debt (as such term is defined in the Loan Agreement), (iv) any other documents or instruments now or previously evidencing, securing or in any way relating to the Loan, (v) the administration or funding of the Loan, (vi) the Collateral or (vii) the development, operation or financing of the Properties.

1.3 Affirmation of Obligations of Borrower. Borrower hereby affirms the existence and the validity of its and Original Guarantor’s respective obligations, as applicable, and the other provisions in the Loan Agreement, the Note, the Pledge and the other Loan Documents in accordance with their respective terms and conditions. Borrower further confirms that the Transfer shall not affect its or Original Guarantor’s obligations to, and Borrower agrees to continue, and at and after the Transfer, to abide by and be bound by all of the terms of the Loan Documents to which it is a party, or upon the Transfer has become a party, including but not limited to, the representations, warranties, covenants, assurances and indemnifications in the respective agreements to which it is a party.

1.4 No Default. To the best of Borrower’s knowledge, there currently exist no Defaults nor Events of Default under the Loan Documents.

1.5 Liens. There are no: (a) subordinate liens of any kind covering or relating to the Properties or the Collateral and Borrower has not received written notice, and has no actual knowledge of, any mechanics’ liens or liens for unpaid taxes or assessments encumbering the Pledged Collateral or any of the Properties other than those not yet due and payable, nor has notice of a lien or notice of intent to file a lien been received by Borrower, or (b) pending or, to the best of knowledge of Borrower, threatened (in writing) condemnation proceedings or annexation proceedings affecting the Pledged Collateral or any of the Properties, nor any agreements to convey the Pledged Collateral or any portion of any of the Properties, or any rights thereto to any person or entity, including, without limitation, any government or governmental agency.

1.6 Financial Statements. The financial information regarding Borrower and the Properties, including, but not limited to the rent roll for each of the Properties (collectively, the “**Rent Rolls**”) supplied by, or on behalf of, Borrower in connection with Borrower’s request for Lender consent to the Transfer (collectively, the “**Financial Information**”) were, in all material respects, true and correct on the dates they were supplied to Lender, and since such date no material adverse change in the financial condition of Borrower or the Properties has occurred, and there is no pending or, to the best knowledge of Borrower, threatened litigation or proceedings of any kind which might materially impair the business or financial condition of Borrower, the Collateral or the Properties. Borrower acknowledges that the Financial Information has been provided to Lender to induce Lender to consent to the Transfer and enter into this Agreement and is being relied upon by Lender for such purposes.

1.7 Legal Proceedings. There is no action, proceeding or investigation pending or, to the best knowledge of Borrower, threatened in writing which questions, directly or indirectly, the validity or enforceability of this Agreement or any of the Loan Documents applicable to Borrower, or any action taken or to be taken pursuant hereto or thereto, or which might result in any material adverse change in the condition (financial or otherwise) or business of Borrower.

1.8 Acknowledgement of Indebtedness. To Borrower’s knowledge, Borrower confirms that, and by its execution hereof, Lender confirms that to Lender’s actual knowledge, as of September 30, 2004, the outstanding principal balance of the Note was \$22,000,000. Borrower acknowledges and agrees that the Loan, as evidenced and secured by the Loan Documents and described above, is a valid and existing indebtedness payable by Borrower to Lender. Lender further confirms that to its actual knowledge, it has not issued any written notices of default to Borrower which have not been cured.

1.9 Rent Rolls. The Rent Rolls contain true, complete and accurate summaries, in all material respects, of all tenant leases affecting each of the Properties (“**Leases**”) as of the date of each Rent Roll.

1.10 Leases. The Leases are the only leases affecting the Properties and are currently in full force and effect, and unless otherwise indicated on the Rent Rolls, are unmodified. Borrower has not been notified in writing and has no actual knowledge of any landlord default in any material respect under any of the Leases. The rents under the Leases shown on the Rent Roll are true and correct. Borrower has not received any prepaid rents for more than one month in advance or given any concessions for free or reduced rent under the Leases, except as provided in the Leases. All tenants at the Properties are currently in possession of their leased premises, and, to the best of Borrower’s knowledge, operating businesses therefrom.

1.11 Bankruptcy. None of Original Mezzanine Borrower Parties has any intent to (a) file any voluntary petition under any Chapter of the Bankruptcy Code, Title 11, U.S.C.A. (“Bankruptcy Code”), or in any manner to seek any proceeding for relief, protection,

reorganization, liquidation, dissolution or similar relief for debtors (“**Debtor Proceeding**”) under any local, state, federal or other insolvency law or laws providing relief for debtors or (b) directly or indirectly to intentionally cause any involuntary petition under any Chapter of the Bankruptcy Code to be filed against any of Original Mezzanine Borrower Parties, or (c) directly or indirectly to intentionally cause any of the Collateral or Properties or any portion or any interest of Borrower in the Collateral or any of the Properties to become the property of any bankrupt estate or the subject of any Debtor Proceeding.

1.12 Single Purpose Entity Status. None of the representations set forth in Section 4.1.19 of the Loan Agreement are untrue or incorrect in any material respect.

1.13 No Modification. After the Transfer, all of the terms, covenants and conditions of the Loan Documents shall continue in full force and effect unmodified, except that Section 5.2.2 of the Loan Agreement shall not be applicable to Guarantor (as such term is defined in the Loan Agreement) upon Replacement Guarantor’s assumption of Original Guarantor’s rights and obligations under the Loan Documents and its execution and delivery of that certain Guarantee of Recourse Obligations (Mezzanine) and that certain Environmental Indemnity (Mezzanine). The Transfer will not cause any breach or default of any of the terms, conditions, covenants, agreements or any of the other provisions of the Loan Documents. Except as set forth in this Agreement, the execution and delivery of this Agreement or the consummation of the Transfer shall not, in any way, release, diminish, waive, lessen or compromise Borrower’s or Original Guarantor’s obligations to Lender under the Loan Documents.

1.14 Reaffirmations and Release. Borrower and Original Guarantor reaffirm, affirm and confirm, to the best of their knowledge, the truth and accuracy of all representations and warranties set forth in the Loan Documents as if made on the date hereof. Borrower acknowledges and agrees that nothing contained in this Agreement, nor the Transfer, shall release Borrower from any of its obligations, agreements duties and liabilities under the Loan Documents (the “**Guaranteed Obligations**”); provided, however, by its execution and delivery hereof, Lender hereby agrees that, upon the consummation of the IPO, Original Guarantor shall be deemed to have been released from its obligations under the Guaranty (as defined in Exhibit A attached hereto) and the Environmental Indemnity (as defined in Exhibit A attached hereto) pursuant to the terms of the Joinder of Original Guarantor attached hereto.

1.15 Assets of Borrower. The only assets of Borrower are (i) the Collateral and (ii) its limited liability company membership interest in and to Mortgage Borrower LP and Mortgage Borrower GP.

1.16 Same Indebtedness; Priority of Liens Not Affected. This Agreement and the execution of other documents contemplated hereby do not constitute the creation of a new debt or the extinguishment of the debt evidenced by the Loan Documents, nor will they in any way affect or impair the liens and security interests created by the Loan Documents. Borrower agrees that the lien and security interests created by the Pledge continue to be in full force and effect, unaffected and unimpaired by this Agreement and that said liens and security interests shall so continue in their perfection and priority until the Debt is fully discharged.

1.17 Consents. Original Mezzanine Borrower Parties have obtained and provided Lender with true and correct copies of all consents to the Transfer required to be obtained by any Original Mezzanine Borrower Party under any applicable agreement, instrument document, law, rule, or regulation, including, the consent of Mortgage Lender under the Loan Documents (Mortgage).

1.18 Release and Covenant Not To Sue. Borrower on behalf of itself and the other Original Mezzanine Borrower Parties, on behalf of itself and each of its successors and assigns and each of the successors and assigns of the other Original Mezzanine Borrower Parties, remises, releases, acquits, satisfies and forever discharges Lender Parties from any and all manner of debts, accountings, bonds, warranties, representations, covenants, promises, contracts, controversies, agreements, liabilities, obligations, expenses, damages, judgments, executions, actions, inactions, claims, demands and causes of action of any nature whatsoever, at law or in equity, known or unknown, either now accrued or subsequently maturing, which Borrower or any of the other Original Mezzanine Borrower Parties now have or hereafter can, shall or may have by reason of any matter, cause or thing, from the beginning of the world to and including the date of this Agreement, arising out of or relating to (a) the Loan, including, but not limited to, its administration or funding, (b) the Loan Documents, (c) the Debt, (d) any other agreement or transaction between any of the Original Mezzanine Borrower Parties and any of the Lender Parties, (e) the Collateral and (f) the Properties or their development, financing and operation, but excluding any claims or causes of action resulting from or in connection with this Agreement. Borrower on behalf of itself and the other Original Mezzanine Borrower Parties, on behalf of itself and each of its successors and assigns and each of the successors and assigns of the other Original Mezzanine Borrower Parties, covenants and agrees never to institute or cause to be instituted or continue prosecution of any suit or other form of action or proceeding of any kind or nature whatsoever against any of the Lender Parties by reason of or in connection with any of the foregoing matters, claims or causes of action, but excluding any claims or causes of action resulting from or in connection with this Agreement.

1.19 Transfer Documents. Other than those documents listed on Exhibit C attached hereto (the "Transfer Documents"), no other documents, instruments, certificates or opinions were executed and/or delivered by Borrower or by any of the other Original Mezzanine Borrower Parties in connection with the Transfer and related to the Collateral.

1.20 Further Assurances. Borrower shall execute and deliver to Lender such agreements, instruments, documents, financing statements and other writings as may be reasonably requested from time to time by Lender to consummate the transactions contemplated by this Agreement.

1.21 UCC Policy. The Eagle 9 UCC Insurance Policy No. E9002885 issued by First American Title Insurance Company remains in full force and effect and the Transfer and the execution and delivery of this Consent do not affect or impair the insurance coverage provided to Lender thereunder.

Article II.
BORROWER ACKNOWLEDGMENTS, WARRANTIES,
REPRESENTATIONS AND COVENANTS

As a material inducement to Lender to enter into this Agreement and to consent to the Transfer, Borrower (after the consummation of the Transfer) acknowledges, represents, warrants, covenants and agrees to and with Lender as follows:

2.1 Authority of Borrower Simultaneously With and After the Transfer. Simultaneously with and after the Transfer:

(a) Mortgage Borrower is a duly organized, validly existing limited partnership in good standing under the laws of the State of Texas and is duly authorized to transact business in the State of California. Mortgage Borrower GP is the sole general partner and Mortgage Borrower LP is the sole limited partner of Mortgage Borrower.

(b) Mortgage Borrower GP is a duly organized, validly existing limited liability company in good standing under the laws of the State of Delaware and is qualified to do business in the States of Texas and California. Global Marsh Member is the sole member of Mortgage Borrower GP.

(c) Mortgage Borrower LP is a duly organized, validly existing limited liability company in good standing under the laws of the State of Delaware and is qualified to do business in the States of Texas and California. Global Marsh Member is the sole member of Mortgage Borrower LP. Global Marsh Member, acting alone without the joinder of any other party, has the power and authority to execute this Agreement on behalf of and to duly bind Mortgage Borrower LP under this Agreement. The execution and delivery of, and performance under, this Agreement by Mortgage Borrower LP has been duly and properly authorized pursuant to all requisite limited liability company action and will not (i) violate any provision of any law, rule, regulation, order, writ, judgment, injunction, decree, determination or award presently in effect having applicability to Mortgage Borrower LP or the certificate of incorporation, the operating agreement or any other organizational document of Mortgage Borrower LP or (ii) result in a breach of or constitute or cause a default under any indenture, agreement, lease or instrument to which Mortgage Borrower LP is a party or by which any of the Collateral may be bound or affected.

(d) Global Marsh Member is a duly organized, validly existing limited liability company in good standing under the laws of the State of Delaware and is qualified to do business in the States of Texas and California. Replacement Guarantor is the sole member of Global Marsh Member. Replacement Guarantor, acting alone without the joinder of any other party, has the power and authority to execute this Agreement on behalf of and to duly bind Global Marsh Member under this Agreement. The execution and delivery of, and performance under, this Agreement by Global Marsh Member has been duly and properly authorized pursuant to all requisite limited liability company action and will not (i) violate any provision of any law, rule, regulation, order, writ, judgment, injunction, decree, determination or award presently in effect having applicability to Global Marsh Member or the certificate of incorporation, the operating agreement or any other organizational document of Global Marsh Member or (ii) result in a breach of or constitute or cause a default under any indenture, agreement, lease or instrument to which Global Marsh Member is a party or by which any of the Collateral may be bound or affected.

(e) Replacement Guarantor is a duly organized, validly existing limited partnership in good standing under the laws of the State of Maryland and is not required to become qualified to transact business in the States of Texas and California. The REIT is the sole general partner of Replacement Guarantor. The REIT, acting alone without the joinder of any other party, has the power and authority to execute this Agreement on behalf of and to duly bind Replacement Guarantor under this Agreement. The execution and delivery of, and performance under, this Agreement by Replacement Guarantor has been duly and properly authorized pursuant to all requisite limited liability company action and will not (i) violate any provision of any law, rule, regulation, order, writ, judgment, injunction, decree, determination or award presently in effect having applicability to Replacement Guarantor or the certificate of limited partnership, the limited partnership agreement or any other organizational document of Replacement Guarantor or (ii) result in a breach of or constitute or cause a default under any indenture, agreement, lease or instrument to which Replacement Guarantor is a party or by which any of the Collateral may be bound or affected.

(f) The REIT is a duly organized, validly existing real estate investment trust in good standing under the laws of the State of Maryland and is not required to become qualified to transact business in the States of Texas and California. Richard Magnuson and Michael Foust are authorized signatories (each, a “**REIT Authorized Person**”) for the REIT. Either REIT Authorized Person, acting alone without the joinder of the other or of any other party, has the power and authority to execute this Agreement on behalf of and to duly bind the REIT under this Agreement. The execution and delivery of, and performance under, this Agreement by the REIT has been duly and properly authorized pursuant to all trust action and will not (i) violate any provision of any law, rule, regulation, order, writ, judgment, injunction, decree, determination or award presently in effect having applicability to the REIT or the certificate of trust, the trust agreement or any other organizational document of the REIT or (ii) result in a breach of or constitute or cause a default under any indenture, agreement, lease or instrument to which the REIT is a party or by which any of the Collateral may be bound or affected.

2.2 Loan Documents. The Loan Documents to which Borrower is a party constitute the valid and legally binding obligations of Borrower, enforceable against Borrower, the Collateral and the Properties in accordance with their terms, except to the extent that such enforcement may be limited by applicable bankruptcy, insolvency, reorganization or other similar laws affecting the rights of creditors generally or general principles of equity. The Pledge is a valid first lien on the Pledged Collateral for the full unpaid principal amount of the Loan and all other amounts stated in the Loan Documents. Borrower has no defenses, setoffs, claims, counterclaims or rights of defense, rights of setoff or counterclaim, whether legal, equitable or otherwise, to the obligations evidenced by or set forth in the Loan Agreement, the Note (as defined in **Exhibit A**), the Pledge or any of the other Loan Documents or causes of action of any kind or nature whatsoever against any of the Lender Parties with respect to (i) the Loan, (ii) any of the Loan Documents to which Borrower is a party, (iii) the Debt, (iv) any other documents or instruments now or previously evidencing, securing or in any way relating to the

Loan, (v) the administration or funding of the Loan, (vi) the Collateral or (vii) the development, operation or financing of the Properties.

2.3 **Affirmation of Obligations of Borrower.** Borrower hereby affirms the existence and the validity of its obligations and the other provisions in the Loan Agreement, the Note, the Pledge and the other Loan Documents in accordance with their respective terms and conditions. Borrower further confirms that the Transfer shall not affect its obligations under, and Borrower agrees to continue to abide by and be bound by all of the terms of, the Loan Documents to which it is a party, including but not limited to, the representations, warranties, covenants, assurances and indemnifications therein, except to the extent such representations, warranties, covenants, assurances and indemnifications are affected by the Transfer. Borrower further agrees to pay, perform, and discharge each and every obligation of payment and performance under, pursuant to and as set forth in the Note, the Pledge and the other Loan Documents at the time, in the manner and otherwise in all respects as therein provided.

2.4 **No Default.** To the best of Borrower's knowledge, there currently exist no Defaults nor Event of Default under the Loan Documents.

2.5 **Financial Statements.** The financial information regarding Replacement Guarantor and the REIT supplied by or on behalf of Borrower in connection with Borrower's request for Lender consent to the Transfer (collectively, the "**REIT Financial Information**") was, in all material respects, true and correct on the dates they were supplied to Lender, and since such date no material adverse change in the financial condition of Replacement Guarantor or the REIT has occurred, and there is no pending or, to the best knowledge of Replacement Guarantor and the REIT, threatened litigation or proceedings of any kind which might materially impair the business or financial condition of Replacement Guarantor or the REIT. Replacement Guarantor and the REIT acknowledge that the REIT Financial Information has been provided to Lender to induce Lender to consent to the Transfer and enter into this Agreement and is being relied upon by Lender for such purposes.

2.6 **Legal Proceedings.** There is no action, proceeding or investigation pending or, to the best knowledge of Replacement Guarantor and the REIT, threatened in writing which questions, directly or indirectly, the validity or enforceability of this Agreement or any of the Loan Documents, or any action taken or to be taken pursuant hereto or thereto, or which might result in any material adverse change in the condition (financial or otherwise) or business of Replacement Guarantor or the REIT.

2.7 **Bankruptcy.** None of Replacement Guarantor, the REIT nor any REIT Authorized Person (collectively, the "**REIT Borrower Parties**") has any intent to (a) file any voluntary petition under any Chapter of the Bankruptcy Code, Title 11, U.S.C.A. ("Bankruptcy Code"), or in any manner to seek any proceeding for relief, protection, reorganization, liquidation, dissolution or similar relief for debtors under any local, state, federal or other insolvency law or laws providing relief for debtors, (b) directly or indirectly to intentionally cause any involuntary petition under any Chapter of the Bankruptcy Code to be filed against any of the REIT Borrower Parties, or (c) directly or indirectly to intentionally cause any of the Properties or any portion or any interest of Borrower in any of the Collateral to become the property of any bankrupt estate or the subject of any Debtor Proceeding.

2.8 Single Purpose Entity Status. The Transfer will not affect any of the REIT Borrower Parties status as a Special Purpose Entity or cause any of the representations set forth in Section 4.1.19 of the Loan Agreement to be untrue or incorrect in any material respect.

2.9 Bankruptcy Proceedings. None of the REIT Borrower Parties has been a party to any Debtor Proceeding within seven (7) years prior to the date of this Agreement.

2.10 Defaults on Other Indebtedness. None of the REIT Borrower Parties has materially defaulted under its or their obligations with respect to any other indebtedness for which a lender was required to enforce its remedies.

2.11 Non-Consolidation Opinion. All of the assumptions in that certain non-consolidation opinion letter dated as of the date hereof by Paul, Hastings, Janofsky & Walker LLP in connection with the Transfer (the “**Transfer Non-Consolidation Opinion**”) are true and correct in all material respects. From and after the date hereof, the Transfer Non-Consolidation Opinion shall be deemed an Additional Non-Consolidation Opinion as such term is defined in the Loan Agreement.

2.12 No Modification. After the Transfer, all of the terms, covenants and conditions of the Loan Documents shall continue in full force and effect unmodified, except as set forth in Sections 1.13 and 2.22 hereto. Except as set forth in this Agreement, the execution and delivery of this Agreement or the consummation of the Transfer shall not, in any way, release, diminish, waive, lessen or compromise Borrower’s obligations to Lender under the Loan Documents.

2.13 Reaffirmations. Borrower acknowledges and agrees that nothing contained in this Agreement, nor the Transfer, shall release Borrower from any of its obligations, agreements duties and liabilities under the Loan Documents nor make any of the representations and warranties contained in the Loan Documents, including, but not limited to, those in Article 4 of the Loan Agreement untrue or incorrect in any material respect.

2.14 Original Guarantor Ownership. Upon the consummation of the IPO, Original Guarantor shall own at least a thirty percent (30%) interest in Replacement Guarantor.

2.15 Property Management. There are no other property management agreements (the “**Existing Management Agreements**”) affecting any of the Properties other than the property management agreements described in the Manager Consents (as such term is defined in **Exhibit A** attached hereto). Immediately following the Transfer, the Existing Management Agreements shall remain unmodified and in full force and effect.

2.16 Assets of Borrower. The only assets of Borrower are (i) the Collateral and (ii) its limited liability company membership interest in and to Mortgage Borrower LP and Mortgage Borrower GP.

2.17 Transfer Documents. Other than the Transfer Documents, no other documents, instruments, certificates or opinions were executed and/or delivered by Borrower (after consummation of the Transfer) or by any of the other REIT Borrower Parties related to the Collateral and in connection with the Transfer.

2.18 No Financing of Transfer. Replacement Guarantor is not obtaining financing to purchase any of the interests of Original Guarantor in Borrower, or pledging any of its interests in any REIT Borrower Party to any party in connection with the Transfer. No third Person has the right to take over control, directly or indirectly, of Borrower from Replacement Guarantor.

2.19 Same Indebtedness; Priority of Liens Not Affected. This Agreement and the execution of other documents contemplated hereby do not constitute the creation of a new debt or the extinguishment of the debt evidenced by the Loan Documents, nor will they in any way affect or impair the liens and security interests created by the Loan Documents. Borrower agrees that the lien and security interests created by the Pledge continue to be in full force and effect, unaffected and unimpaired by this Agreement and that said liens and security interests shall so continue in their perfection and priority until the Debt is fully discharged.

2.20 Further Assurances. Borrower shall execute and deliver to Lender such agreements, instruments, documents, financing statements and other writings as may be reasonably requested from time to time by Lender to consummate the transactions contemplated by this Agreement.

2.21 Incorporation of Recitals. Each of the Recitals set forth above in this Agreement are true and correct and are incorporated herein by reference.

2.22 Amendments to Loan Documents.

(a) Guarantor. Upon the Transfer, all references to the “Guarantor” in the Loan Documents shall hereinafter mean and refer to Replacement Guarantor.

(b) Restrictions on Transfers. Notwithstanding anything to the contrary in Section 7.1 or 7.3 of the Loan Agreement, without first obtaining Lender’s prior written consent, which consent may be withheld or given in Lender’s sole and absolute discretion:

(1) Borrower shall not, and shall not permit a Transfer (as such term is defined in the Loan Agreement) of Replacement Guarantor’s (Digital Realty Trust, L.P.) direct or indirect interest in Borrower, General Partner or Mortgage Borrower (as such terms are defined in the Loan Agreement);

(2) During the twelve (12) month period following the date of the consummation of the IPO, neither Original Guarantor nor any of its Permitted Transferees (as defined below) shall be permitted to make any Transfer(s) of its interest in Replacement Guarantor, other than transfers of such interest to: (a) its members, including CalPERS (as such term is defined in the Loan Agreement), (b) its other Affiliates (with the consent of the REIT as general partner of Replacement Guarantor), or (c) a trust for the benefit of a charitable beneficiary or a charitable foundation to which Original Guarantor may have transferred its interest in accordance with the provisions of Section 11.3 of the Amended and Restated Agreement of Limited Partnership of the Operating Partnership dated October 27, 2004 (the “**Replacement Guarantor Partnership Agreement**”) ((a), (b) and (c) collectively, the “**Permitted Transferees**”), if such Transfer(s) result in Original Guarantor and any of its

Permitted Transferees collectively owning less than 30% of the outstanding voting partnership interests in Replacement Guarantor. In addition, during the twelve (12) month period following the date of the consummation of the IPO, CalPERS shall not be permitted to make any Transfer(s) of its interest in Original Guarantor or any of its Permitted Transferees if such Transfer(s) result in CalPERS owning less than a 30% direct or indirect voting partnership interest in Replacement Guarantor (capitalized terms used in this paragraph, if not defined in this Agreement, shall have the meanings ascribed to them in the Replacement Guarantor Partnership Agreement); and

(3) A change in the general partner of Replacement Guarantor shall not be permitted; provided however, Transfers of shares of the REIT on the open market shall be permitted without consent of Lender. At any point beginning 12 months after the date of the consummation of the IPO, Transfers of interests in the Replacement Guarantor shall be permitted without Lender's consent provided that no change in control of Replacement Guarantor and Borrower results from such Transfers.

(c) Encumbrances. Section 5.2.2 of the Mezzanine Loan Agreement shall not be applicable to the Guarantor (as such term is defined in the Loan Agreement) upon Replacement Guarantor's assumption of Original Guarantor's rights and obligations under the Loan Documents and its execution of that certain Guarantee of Recourse Obligations (Mezzanine) and that certain Environmental Indemnity (Mezzanine). At such time, the introductory words in Section 5.2.2 of the Loan Agreement shall be amended and restated as follows: "Other than in connection with the Loan Documents (Mezzanine) and the Loan Documents (Mortgage), none of Mezzanine Borrower, Mortgage Borrower or General Partner will: ..."

2.23 Market Capitalization. Replacement Guarantor and its general partners, the REIT, shall have a combined market capitalization (based on all outstanding units of limited partnership interests of Replacement Guarantor) of at least three hundred million dollars (\$300,000,000) upon the Transfer and shall maintain such position until the Loan is paid in full. Replacement Guarantor shall provide Lender with a written confirmation of such status quarterly.

2.24 OFAC List. The REIT Borrower Parties will not permit the transfer of any interests in Replacement Guarantor, Global Marsh Member, Mortgage Borrower LP, Mortgage Borrower GP or Mortgage Borrower to any person or entity (or any beneficial owner of such entity) who is listed on the specially Designated Nationals and Blocked Persons List maintained by the Office of Foreign Asset Control, Department of the Treasury pursuant to Executive Order No. 13224, 66 Fed. Reg. 49079 (Sept. 25, 2001) and/or any other list of terrorists or terrorist organizations maintained pursuant to any of the rules and regulations of Office of Foreign Asset Control, Department of the Treasury or pursuant to any other applicable Executive Orders (such lists are collectively referred to as the "**OFAC Lists**"). Borrower will not knowingly enter into a lease with any party who is listed on the OFAC Lists. Borrower shall promptly notify Lender if Borrower has knowledge that any of the REIT Borrower Parties is listed on the OFAC Lists or (A) is indicted on or (B) arraigned and held over on charges involving money laundering or predicate crimes to money laundering. Borrower shall promptly notify Lender if Borrower knows that any tenant is listed on the OFAC Lists or (A) is convicted

on, (B) pleads nolo contendere to, (C) is indicted on or (D) is arraigned and held over on charges involving money laundering or predicate crimes to money laundering. Borrower further represents and warrants to Lender on behalf of itself and the other REIT Borrower Parties that none of the REIT Borrower Parties (before or after the Transfer) is currently listed on the OFAC Lists.

2.25 Representations and Warranties. No representation or warranty of Original Mezzanine Borrower Parties made in this Agreement contains any untrue statement of material fact or intentionally omits to state a material fact necessary in order to make such representations and warranties not misleading in light of the circumstances under which they are made. Any breach by Borrower or by any of the other Original Mezzanine Borrower Parties or any of the REIT Borrower Parties of any of the representations, warranties or covenants set forth herein, after expiration of all applicable notice and cure periods, shall constitute an Event of Default under the Loan Agreement, the Note, the Pledge and the other Loan Documents.

2.26 Consent of Lender and Unwinding Transaction. Lender hereby consents to the Transfer subject to the terms of this Agreement. Subject to receiving satisfactory evidence of the consummation of the IPO and the terms of this Agreement, Lender hereby consents to the release of Original Guarantor from its obligations under the Guaranty (as defined in Exhibit A attached hereto) and the Environmental Indemnity (as defined in Exhibit A attached hereto) pursuant to the terms of the Joinder of Original Guarantor attached hereto. Borrower agrees that this Agreement shall not be deemed an agreement by Lender to consent to any other action in connection with the Loan or the Properties.

Borrower acknowledges and agrees that Lender's consent is subject to Borrower's agreement to cause the Operating Partnership to immediately unwind the Transfer (the "**Unwinding Transaction**") and transfer back to Original Guarantor its interests in Borrower and in connection therewith, to execute and cause Original Guarantor or any of the other Original Mezzanine Borrower Parties and any of the REIT Borrower Parties to execute any and all documents reasonably required by Lender to evidence such Unwinding Transaction in the event that the IPO is not consummated within thirty (30) days from the date hereof (the "**IPO Outside Date**"). Failure to complete the Unwinding Transaction to the reasonable satisfaction of Lender within thirty (30) days from the IPO Outside Date shall constitute an Event of Default under the Loan Agreement and the other Loan Documents.

2.27 Consent of Lender. Lender hereby consents to the Transfer subject to the terms of this Agreement. Subject to receiving satisfactory evidence of the consummation of the IPO and the terms of this Agreement, Lender hereby consents to the release of Original Guarantor from its obligations under the Guaranty (as defined in **Exhibit A** attached hereto) and the Environmental Indemnity (as defined in **Exhibit A** attached hereto) pursuant to the terms of the Joinder of Original Guarantor attached hereto. Borrower agrees that this Agreement shall not be deemed an agreement by Lender to consent to any other action in connection with the Loan or the Properties.

2.28 Payment of Fees and Expenses. Simultaneously with or prior to the execution of this Agreement, Borrower shall pay to or shall have paid to Lender a consent fee in the amount of \$220,000, which is 1.0% of the outstanding principal balance of the Loan and the

costs and expenses of Lender incurred with the approval of the Transfer, each of which are fees for new consideration and are not interest charged in connection with the Loan. Borrower shall also pay at the time of execution of this Agreement the legal fees and expenses of Lender's counsel, Paul, Hastings, Janofsky & Walker LLP ("PHJ&W"), in connection with the preparation of this Agreement and the transactions contemplated in this Agreement, if such amount exceeds the \$25,000 retainer amount previously received by PHJ&W toward such purpose. Any unused portion of the \$25,000 retained shall be returned to Borrower.

2.29 Additional Documents. Contemporaneously with the execution and delivery of this Agreement and as a material inducement to Lender to enter into this Agreement: (a) Original Guarantor shall have executed and delivered to Lender the Joinder attached hereto with respect to the Guaranty and the Environmental Indemnity, (b) Replacement Guarantor shall have executed and delivered to Lender that certain Guaranty of Recourse Obligations (Mezzanine) and that certain Environmental Indemnity (Mezzanine) in substantially the same forms as such agreements executed by Borrower and/or Original Guarantor in connection with the origination of the Loan, and (c) such other documents as may be necessary to comply with the terms of this Agreement and/or the Loan Documents. On or prior to the consummation of the IPO, Borrower shall cause to be delivered the legal opinions from Borrower's New York and Maryland counsel with respect to that certain Guaranty of Recourse Obligations (Mezzanine) and that certain Environmental Indemnity (Mezzanine) to be delivered in connection with this Agreement, substantially in the forms attached hereto as Exhibit B. Failure to deliver such legal opinions described herein shall constitute an Event of Default under the Loan Agreement and the other Loan Documents.

2.30 References to Loan Documents. All references to the term "**Loan Documents**" in the Loan Agreement and the other Loan Documents shall hereinafter mean and refer to: (i) the Loan Documents described therein; (ii) this Agreement; (iii) the replacement Guaranty of Recourse Obligations (Mezzanine) given by Replacement Guarantor, (iv) the replacement Environmental Indemnity (Mezzanine) given by Replacement Guarantor and (v) any and all of the documents now or hereafter executed by Borrower and/or others and by or in favor of Original Lender or Lender, which evidences, secures or guarantees all or any portion of the payments due under the Note or otherwise is executed and/or delivered in connection with the Note, the Loan Agreement, this Agreement or the other Loan Documents. All references herein to the term "Loan Documents" shall mean and refer to the Loan Documents defined herein.

Article III.

MISCELLANEOUS PROVISIONS

3.1 Relationship with Loan Documents. To the extent that this Agreement is inconsistent with the Loan Documents, this Agreement will control and the Loan Documents will be deemed to be modified hereby. Except as modified hereby, the Loan Documents shall remain unchanged and in full force and effect.

3.2 References. All references in the Loan Documents to any of the Loan Documents will be deemed to be references to the Loan Documents, as affirmed by this Agreement.

3.3 No Limitation of Remedies. No right, power or remedy conferred upon or reserved to or by Lender in this Agreement is intended to be exclusive of any other right, power or remedy conferred upon or reserved to or by Lender under this Agreement, the Loan Documents or at law, but each and every remedy shall be cumulative and concurrent, and shall be in addition to each and every other right, power and remedy given under this Agreement, the Loan Documents or now or subsequently existing at law.

3.4 No Waivers. Except as otherwise expressly set forth in this Agreement, nothing contained in this Agreement shall constitute a waiver of any rights or remedies of Lender under the Loan Documents or at law. No delay or failure on the part of any party hereto in the exercise of any right or remedy under this Agreement shall operate as a waiver, and no single or partial exercise of any right or remedy shall preclude other or further exercise thereof or the exercise of any other right or remedy. No action or forbearance by any party hereto contrary to the provisions of this Agreement shall be construed to constitute a waiver of any of the express provisions. Any party hereto may in writing expressly waive any of such party's rights under this Agreement without invalidating this Agreement.

3.5 Successors or Assigns. Whenever any party is named or referred to in this Agreement, the heirs, executors, legal representatives, successors, successors-in-title and assigns of such party shall be included. All covenants and agreements in this Agreement shall bind and inure to the benefit of the heirs, executors, legal representatives, successors, successors-in-title and assigns of the parties, whether so expressed or not.

3.6 Construction of Agreement. Each party hereto acknowledges that it has participated in the negotiation of this Agreement and no provision shall be construed against or interpreted to the disadvantage of any party hereto by any court or other governmental or judicial authority by reason of such party having or being deemed to have structured, dictated or drafted such provision. Each party has at all times had access to an attorney in the negotiation of the terms of and in the preparation and execution of this Agreement. Each party has had the opportunity to review and analyze this Agreement for a sufficient period of time prior to execution and delivery. No representations or warranties have been made by or on behalf of Lender, or relied upon by Borrower, pertaining to the subject matter of this Agreement, other than those set forth in this Agreement. All oral statements, representations and warranties, if any, are superseded and merged into this Agreement, which represents the final agreement of the parties with respect to the subject matter herein. All of the terms of this Agreement were negotiated at arm's length, and this Agreement was prepared and executed without fraud, duress, undue influence or coercion of any kind exerted by any of the parties upon the others. The execution and delivery of this Agreement is the free and voluntary act of Borrower and Lender.

3.7 Invalid Provision to Affect No Others. If, from any circumstances whatsoever, fulfillment of any provision of this Agreement or any related transaction at the time performance of such provision shall be due, shall involve transcending the limit of validity presently prescribed by any applicable usury statute or any other applicable law, with regard to obligations of like character and amount, then ipso facto, the obligation to be fulfilled shall be reduced to the limit of such validity. If any clause or provision operates or would prospectively operate to invalidate this Agreement, in whole or in part, then such clause or provision only shall

be deemed deleted, as though not contained, and the remainder of this Agreement shall remain operative and in full force and effect.

3.8 **Notices.** Except as otherwise specifically provided to the contrary, any and all notices, elections, approvals, consents, demands, requests and responses (“**Communications**”) permitted or required to be given under this Agreement and the Loan Documents shall be effective if in writing, signed by or on behalf of the party giving the same, and sent by certified or registered mail, postage prepaid, return receipt requested, or by hand delivery or overnight courier service (such as Federal Express), to the party to be notified at the address of such party set forth below or at such other address within the continental United States as such other party may designate by notice specifically designated as a notice of change of address and given in accordance with this Section. Any Communications shall be effective upon the earlier of their receipt or three days after mailing in the manner indicated in this Section. Receipt of Communications shall occur upon actual delivery but if attempted delivery is refused or rejected, the date of refusal or rejection shall be deemed the date of receipt. Any Communications given in accordance with this Section shall be deemed to satisfy all general “notice” provisions contained in the Loan Documents. Any Communication, if given to Lender, must be addressed as follows, subject to change as provided above:

Five Mile Capital Pooling International II, LLC
4 Stamford Plaza
Stamford, CT 06902
Attention: James Glasgow

With a copy to:

Paul, Hastings, Janofsky & Walker LLP
75 East 55th Street
New York, New York 10022
Attn: Dean Stiffle, Esq.

and, if given to Borrower (before or after the Transfer), must be addressed as follows, notwithstanding any other address set forth in the Loan Documents to the contrary, subject to change as provided above:

Global Marsh Member, LLC and Global Marsh Limited Partner, LLC
2730 Sand Hill Road, Suite 280
Menlo Park, California 94025
Attn: Mr. Richard Magnuson and Mr. Michael Foust
Telephone: (650) 233-3610
Facsimile: (650) 233-3601

With a courtesy copy to:

Latham & Watkins
633 West Fifth Street, Suite 4000
Los Angeles, CA 90071-2007
Attn: Martha Jordan
Telephone: 213-485-1234
Facsimile: 213-891-8763

3.9 Governing Law. The provisions of Section 14.3 of the Loan Agreement are hereby incorporated into this Agreement.

3.10 Headings; Exhibits. The headings of the articles, sections and subsections of this Agreement are for the convenience of reference only, are not to be considered a part of this Agreement and shall not be used to construe, limit or otherwise affect this Agreement.

3.11 Modifications. The terms of this Agreement may not be changed, modified, waived, discharged or terminated orally, but only by an instrument or instruments in writing, signed by the party against whom the enforcement of the change, modification, waiver, discharge or termination is asserted.

3.12 Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original, and all such counterparts together shall constitute one and the same instrument.

3.13 WAIVER OF JURY TRIAL. EACH OF LENDER AND BORROWER AND ALL PERSONS CLAIMING BY, THROUGH OR UNDER THEM, HEREBY EXPRESSLY, KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (I) ARISING UNDER THIS AGREEMENT, THE PLEDGE, THE NOTE OR ANY OTHER LOAN DOCUMENT, INCLUDING, WITHOUT LIMITATION, ANY PRESENT OR FUTURE MODIFICATION THEREOF OR (II) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO OR ANY OF THEM WITH RESPECT TO THIS AGREEMENT, THE PLEDGE, THE NOTE OR ANY OTHER LOAN DOCUMENT (AS NOW OR HEREAFTER MODIFIED) OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HERewith, OR THE TRANSACTIONS RELATED HERETO OR THERETO, IN EACH CASE WHETHER SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION IS NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE; AND EACH OF LENDER AND BORROWER HEREBY AGREES AND CONSENTS THAT AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION MAY BE FILED WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT HERETO TO THE WAIVER OF ANY RIGHT TO TRIAL BY JURY. EACH OF LENDER AND BORROWER ACKNOWLEDGES THAT IT HAS CONSULTED WITH LEGAL COUNSEL REGARDING THE MEANING OF THIS WAIVER AND ACKNOWLEDGES THAT THIS WAIVER IS AN ESSENTIAL INDUCEMENT FOR CONSENTING TO THE TRANSFER. THIS WAIVER SHALL SURVIVE THE REPAYMENT OF THE LOAN.

[NO FURTHER TEXT APPEARS ON THIS PAGE; SIGNATURE PAGES FOLLOW]

The parties have executed and delivered this Agreement as of the day and year first above written.

LENDER:
FIVE MILE CAPITAL PARTNERS, LLC

By: Five Mile Capital Pooling International II, LLC, its nominee

By: Five Mile Capital Partners, LLC, its manager

By: _____/s/ (signature illegible)
Name:
Title:

STATE OF CONNECTICUT)
) SS.:
COUNTY OF FAIRFIELD)

This instrument was acknowledged before me, a notary public this _____ day of _____, 2004, by _____, as _____ of Five Mile Capital Partners, LLC, a Delaware limited liability company. He is personally known to me or has produced a driver’s license as identification.

Notary Public
My Commission Expires: _____

SIGNATURES CONTINUE ON NEXT PAGE

(PRIOR TO COMPLETION OF THE TRANSFER):

BORROWER:

GLOBAL MARSH MEMBER, LLC, a Delaware limited liability company

By: Global Innovation Partners, LLC, a Delaware limited liability company, its member

By: Global Innovation Manager, LLC, a Delaware limited liability company, its manager

By: /s/ RICHARD A. MAGNUSON
Name: **Richard A. Magnuson**
Title: **CEO**

GLOBAL MARSH LIMITED PARTNER, LLC, a Delaware limited liability company

By: Global Marsh Member, LLC, a Delaware limited liability company, its sole member

By: Global Innovation Partners, LLC, a Delaware limited liability company, its member

By: Global Innovation Manager, LLC, a Delaware limited liability company, its manager

By: /s/ RICHARD A. MAGNUSON
Name: **Richard A. Magnuson**
Title: **CEO**

ORIGINAL GUARANTOR:

GLOBAL INNOVATION PARTNERS, LLC, a Delaware
limited liability company

By: Global Innovation Manager, LLC, a Delaware limited
liability company, its manager

By: /s/ RICHARD A. MAGNUSON

Name: **Richard A. Magnuson**

Title: **CEO**

STATE OF California)
) SS:
COUNTY OF San Francisco)

On this 27th day of October, 2004, before me, the undersigned, a Notary Public in and for said state, personally appeared Richard Magnuson, personally known to me or proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that he/she executed the same in his/her/their capacity(ies), and that by his/her signature on the instrument, the person, or the entity upon behalf of which the person acted, executed the instrument.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

/s/ CHRISTOPHER G. VISILIO

Notary Public

(NOTARIAL SEAL)

My Commission Expires: 2/18/07

STATE OF California)
) SS:
COUNTY OF San Francisco)

On this 27th day of October, 2004, before me, the undersigned, a Notary Public in and for said state, personally appeared Richard Magnuson, personally known to me or proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that he/she executed the same in his/her/their capacity(ies), and that by his/her signature on the instrument, the person, or the entity upon behalf of which the person acted, executed the instrument.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

_____/s/ CHRISTOPHER G. VISGLIO
Notary Public
(NOTARIAL SEAL)
My Commission Expires: 2/18/07

STATE OF California)
) SS:
COUNTY OF San Francisco)

On this 27th day of October, 2004, before me, the undersigned, a Notary Public in and for said state, personally appeared Richard Magnuson, personally known to me or proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that he/she executed the same in his/her/their capacity(ies), and that by his/her signature on the instrument, the person, or the entity upon behalf of which the person acted, executed the instrument.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

_____/s/ CHRISTOPHER G. VISGLIO
Notary Public
(NOTARIAL SEAL)
My Commission Expires: 2/18/07

SIGNATURES CONTINUE ON NEXT PAGE

(AFTER the COMPLETION OF THE TRANSFER):

BORROWER:

GLOBAL MARSH MEMBER, LLC, a Delaware limited liability company

By: Digital Realty Trust, L.P., a Maryland limited partnership, its sole member

By: Digital Realty Trust, Inc. a Maryland corporation, its general partner

By: _____ /s/ MICHAEL F. FOUST
Name:
Title:

GLOBAL MARSH LIMITED PARTNER, LLC, a Delaware limited liability company

By: Global Marsh Member, LLC, a Delaware limited liability company, its sole member

By: Digital Realty Trust, L.P., a Maryland limited partnership, its sole member

By: Digital Realty Trust, Inc. a Maryland corporation, its general partner

By: _____ /s/ MICHAEL F. FOUST
Name:
Title:

REPLACEMENT GUARANTOR:

DIGITAL REALTY TRUST, L.P., a Maryland limited partnership, its member

By: Digital Realty Trust, Inc. a Maryland corporation, its general partner

By: _____ /s/ MICHAEL F. FOUST
Name:
Title:

STATE OF California)
) SS:
COUNTY OF San Francisco)

On this 27th day of October, 2004, before me, the undersigned, a Notary Public in and for said state, personally appeared Michael F. Foust, personally known to me or proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that he/she executed the same in his/her/their capacity(ies), and that by his/her signature on the instrument, the person, or the entity upon behalf of which the person acted, executed the instrument.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

_____/s/ CHRISTOPHER G. VISILIO
Notary Public
(NOTARIAL SEAL)
My Commission Expires: 2/18/07

STATE OF California)
) SS:
COUNTY OF San Francisco)

On this 27th day of October, 2004, before me, the undersigned, a Notary Public in and for said state, personally appeared Michael F. Foust, personally known to me or proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that he/she executed the same in his/her/their capacity(ies), and that by his/her signature on the instrument, the person, or the entity upon behalf of which the person acted, executed the instrument.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

_____/s/ CHRISTOPHER G. VISILIO
Notary Public
(NOTARIAL SEAL)
My Commission Expires: 2/18/07

STATE OF California)
) SS:
COUNTY OF San Francisco)

On this 27th day of October, 2004, before me, the undersigned, a Notary Public in and for said state, personally appeared Michael F. Foust, personally known to me or proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that he/she executed the same in his/her/their capacity(ies), and that by his/her signature on the instrument, the person, or the entity upon behalf of which the person acted, executed the instrument.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

_____/s/ CHRISTOPHER G. VISGLIO
Notary Public
(NOTARIAL SEAL)
My Commission Expires: 2/18/07

PURCHASE AND SALE AGREEMENT

This Purchase and Sale Agreement ("Agreement") is made and entered into as of this 14th day of March, 2005 (the "Effective Date") by and between **LAKESIDE PURCHASER, LLC**, a Delaware limited liability company ("Seller") and **DIGITAL REALTY TRUST, L.P.**, a Maryland limited partnership ("Purchaser").

The circumstances underlying the execution of this Agreement are as follows:

A. Seller owns the real estate located at 350 East Cermak Road, Chicago, Illinois, consisting of approximately 5.46 acres and legally described on **Exhibit A** attached hereto (the "Land"), which is improved with an eight (8) story commercial building consisting of approximately 1,133,391 square feet (the "Building"), a parking garage with approximately 170 spaces (the "Garage"), and related facilities and access ways, commonly known as "The Lakeside Technology Center".

B. Seller wishes to sell the Property (as defined herein), together with the Appurtenances and Improvements (as defined herein) located thereon and all Personal Property, Leases, Records, Licenses and Permits, Contracts and Intangible Personal Property (all as defined herein), all of which Purchaser desires to acquire.

NOW, THEREFORE, Seller and Purchaser agree as follows:

ARTICLE 1: DEFINITIONS

1.1 **Definitions.** As used in this Agreement, the following terms shall have the meanings provided for them in this Section 1.1 (any term defined in this Section in the plural shall have the comparable meaning in the singular, and vice versa).

1.1.1 "**Actual Knowledge**" means (a) with respect to Seller, the actual knowledge of Terence J. Woolfe, Director of Corporate Real Estate, Seller's representative having ongoing management oversight with respect to the Property, without inquiry or investigation, and (b) with respect to Purchaser, the actual knowledge of Scott E. Peterson, Purchaser's representative having ongoing management oversight with respect to Purchaser's due diligence review of the Purchased Assets, without inquiry or investigation.

1.1.2 "**Affiliate**" means any person or entity that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with Purchaser or Seller, as the case may be; for the purposes of this definition, "control" means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person or entity, whether through the ownership of voting securities, by contract or otherwise, and the terms "controlling" and "controlled" have the meanings correlative to the foregoing.

- 1.1.3 “Appurtenances” means all of Seller’s right, title and interest, if any, in and to all air, mineral and riparian rights and all tenements, hereditaments, privileges and appurtenances belonging or in any way appertaining to the Property.
- 1.1.4 “Assignment of Contracts” means the document described in Subsection 1.1.38(e).
- 1.1.5 “Assignment of Leases” means the document described in Subsection 1.1.38(d).
- 1.1.6 “Business Day” means any day that is not a Saturday, Sunday or other day on which banks are required or authorized by law to be closed in the City of Chicago, Illinois.
- 1.1.7 “Closing” means the consummation of the transaction contemplated by this Agreement.
- 1.1.8 “Closing Date” means the day on which the Closing shall occur which date shall be a Business Day mutually acceptable to Seller and Purchaser occurring not later than ten (10) Business Days following the expiration of the Due Diligence Period.
- 1.1.9 “Closing Statement” is the document described in Subsection 1.1.38(i).
- 1.1.10 “Code” means the Internal Revenue Code of 1986, as amended.
- 1.1.11 “Contracts” means all subsisting contracts and agreements entered into by Seller or Management Company, or under which Seller or Management Company is bound, or has assumed duties and obligations thereunder, associated with, or used in the ownership, maintenance or operation of, the Property, including personal property leases, and the Flat Fee Agreement with real estate tax counsel (with respect to post-Closing periods), but excluding the Management Agreement (which shall be terminated by Seller), all of which are identified on **Exhibit B** attached hereto.
- 1.1.12 “Day” means any calendar day of twenty-four (24) hours, including any Business Day.
- 1.1.13 “Deposit” is defined in Subsection 3.1.1.
- 1.1.14 “Due Diligence Period” means the period beginning on the Effective Date and ending at 5:00 p.m. California time, on that date that is thirty (30) Days after the Effective Date.
- 1.1.15 “Escrow Agent” means the Commonwealth Title Insurance Company.

- 1.1.16 “Existing Confidentiality Agreement” means the Confidentiality Agreement executed by Purchaser and Seller.
- 1.1.17 “Financial Statements” means the unaudited 2003, 2004 year end and year to date 2005 and comparison income statements for the Property delivered, or made available, to Purchaser during the Due Diligence Period.
- 1.1.18 “Hazardous Substance” has the meaning given in Section 7.1.
- 1.1.19 “Improvements” means all buildings, structures and other improvements owned by Seller and located at the Property on the Effective Date, and, to the extent owned by Seller, all fixtures and all mechanical, heating and air conditioning, electrical and plumbing systems constructed as a part of, and utilized in connection with, and affixed to, such buildings and structures, excluding, however, all trade fixtures and improvements owned by any Tenants.
- 1.1.20 “Intangible Personal Property” means, to the extent owned by Seller and to the extent assignable (a) all unexpired warranties, guaranties and sureties, if any, received by or inuring to the benefit of Seller in connection with the ownership, improvement, alteration, repair, restoration, replacement, maintenance, operation or use of the Property or any Personal Property or any portion thereof; (b) any and all future awards paid or payable to Seller in condemnation proceedings relating to all or any portion of the Property which are to be paid from and after the Closing Date; (c) all insurance proceeds payable by reason of any damage to or destruction of the Property or any Personal Property from and after the Closing Date; (d) all plans, specifications, drawings and other architectural and engineering data relating to the Property in Seller’s possession; (e) all claims and causes of action relating to the design, construction, maintenance, repair, restoration, replacement, improvement, ownership, use, operation, damage or destruction of the Property, any Personal Property or any other property to be sold to Purchaser pursuant to this Agreement; and (f) all copyrights, trademarks, service marks, logos and trade names and the internet domain address for the Property, including the name “Lakeside Technology Center”.
- 1.1.21 “Leases” means all subsisting leases and all future leases entered into by Seller in accordance with Subsection 9.1.4 hereunder, under which Seller, as landlord (or having assumed obligations as a landlord) has given rights to occupy any portion of the Property, all of which subsisting leases as of the Effective Date are set forth on the Rent Roll attached hereto as **Exhibit C**, with all of the Leases subsisting as of the Closing to be shown on the Updated Rent Roll, and including the assignments, amendments, guarantees, renewals or extensions thereof and security deposits, rentals or other monetary payments to be made to Seller as landlord pursuant to the terms of such Leases.
- 1.1.22 “Licenses and Permits” means, to the extent assignable without consent of third parties, all current licenses, permits, franchises and other government authorizations and approvals, if any, issued to or inuring to the benefit of any Seller by any state, federal or local municipal authorities relating to the use, occupancy, maintenance or operation of the Property or any portion thereof.

1.1.23 “Management Agreement” means the Commercial Property Management and Leasing Agreement dated as of August 14, 2001 between Seller and the Management Company for the management of portions of the Property described therein, as the same may have been amended.

1.1.24 “Management Company” means Insignia/ESG, Inc. (now known as CB Richard Ellis), solely in its capacity as the manager of the Property pursuant to the Management Agreement.

1.1.25 “Monetary Encumbrances” is defined in Section 6.1.

1.1.26 “Permitted Exceptions” means (a) all Title Exceptions deemed Permitted Exceptions under Section 6.1, (b) all matters shown on the Survey and deemed Permitted Exceptions under Section 6.3; (c) all Contracts; (d) all Leases; (e) any lien for real or personal property taxes against the Purchased Assets that are not yet due and payable as of the Closing Date and real or personal property taxes and assessments which are the responsibility of Purchaser under Section 4.4 hereof; (f) the rights of parties in possession pursuant to the Leases described in (d) above; (g) governmental laws, codes, ordinances and restrictions now or hereafter in effect, and (h) such easements, restrictions, rights-of-way, liens, encumbrances, title exceptions or defects as Purchaser has approved or as Purchaser has been deemed to have approved under the provisions of this Agreement.

1.1.27 “Personal Property” means, collectively, all machinery, fixtures, equipment, supplies, inventory, furnishings and other tangible personal property, if any, as may be owned by Seller and located on the Property and used in connection with the operation, repair and maintenance of the Property.

1.1.28 “Property” means, collectively the Building, Garage, Land, Improvements, and Appurtenances.

1.1.29 “Purchased Assets” means (a) the Property; (b) any land lying in the bed of any street, road or avenue adjoining the Land to the centerline thereof, but only to the extent of Seller’s interest, if any, therein; (c) all easements, whether or not recorded, strips and rights-of-way abutting, adjacent to, contiguous with or adjoining the Land, but only to the extent of Seller’s interest, if any, therein; (d) the Personal Property; (e) the Intangible Personal Property; (f) all of Seller’s right, title and interest in and to the Licenses and Permits; (g) Seller’s right and interest, if assignable, in all of the Contracts; and (h) all of the right, title and interest of Seller as the landlord in all Leases.

1.1.30 “Purchase Price” means the sum of one hundred thirty four million six hundred thousand dollars (\$134,600,000.00), as adjusted in accordance with this Agreement.

1.1.31 “Purchaser’s Closing Certificate” means a certificate of Purchaser to be delivered at Closing certifying (a) that Purchaser’s representations and warranties as set forth in this Agreement are, as of the Closing, true, accurate and correct in all material respects, and (b) that Purchaser has no Actual Knowledge of the breach of any representation or warranty of Seller made in the Seller’s Closing Certificate.

1.1.32 “Purchaser’s Closing Documents” means the following:

- (a) the Closing Statement;
- (b) certificates as to the existence and good standing of Purchaser and authority of Purchaser to enter into and consummate the transaction contemplated by this Agreement as may be required by the Title Company;
- (c) the Assignment of Leases;
- (d) the Assignment of Contracts;
- (e) Purchaser’s Closing Certificate; and
- (f) such other instruments, agreements and documents as are reasonably required by the Title Company to consummate the Closing as

herein provided.

1.1.33 “Records” means all collection and credit records related to the Property, as well as other records and documents relating to the Purchased Assets, to the extent that such records are owned by and are in the possession or control of Seller or any of its respective agents or employees, but excluding (a) any document or correspondence which would be subject to the attorney-client privilege and relates to litigation, the Leases or real property taxes applicable to the Property; (b) any documents pertaining to the marketing of the Property for sale to prospective purchasers; (c) any internal memoranda, reports or assessments of Seller or Seller’s Affiliates relating to Seller’s valuation of the Property; (d) appraisals of the Property whether prepared internally by Seller or Seller’s Affiliates or externally; (e) any documents or items which are not in Seller’s possession and control; and (f) any materials projecting or relating to the future performance of the Property.

1.1.34 “Rent Roll” means the rent roll attached hereto as **Exhibit C** containing information pertaining to the Leases as of the Effective Date.

1.1.35 “Required Estoppel Certificates” means estoppel certificates and subordination and non-disturbance and attornment agreements from the Tenants pursuant to the Required Leases on the forms attached to their respective Leases, or if none are so attached, substantially in the forms of **Exhibit G** and **Exhibit H** attached hereto, modified if required to conform to the provisions of the Required Leases, or as otherwise agreed to by Purchaser, except that no Required Estoppel Certificate shall be deemed defective merely by reason of the fact that a Tenant has qualified any statement contained therein by a “best of knowledge” or similar standard.

1.1.36 “Required Leases” means the Leases with the three (3) Tenants leasing the most square footage in the Building as of the Effective Date and seven (7) of the nine (7) Tenants leasing the next most square footage in the Building as of the date hereof.

1.1.37 “Seller’s Closing Certificate” means a certificate of the Seller to be delivered at Closing certifying (a) that such Seller’s representations and warranties as set forth in Section 8.1 of this Agreement are, as of the Closing, true, accurate and correct in all material respects, and (b) the Updated Rent Roll.

1.1.38 “Seller’s Closing Documents” means the following:

(a) a Special Warranty Deed substantially in the form of **Exhibit D-1** attached hereto (“Deed”) from the Seller conveying to Purchaser good and marketable fee simple title to the Property, subject only to those Permitted Exceptions which pertain to the Property;

(b) a certificate of non-foreign status substantially in the form attached hereto as **Exhibit F** signed under penalties of perjury as of the Closing Date by an officer of El Paso Global Networks Company, the parent of Seller (which is disregarded as an entity separate from El Paso Global Networks Company for federal tax purposes) (i) stating that it is not a foreign corporation, foreign partnership, foreign trust or foreign estate, (ii) stating that it is not a disregarded entity as defined in Treasury Regulation §1.1445-2(b)(2)(iii), (iii) providing its U.S. Employer Identification Number, and (iv) providing its address, all pursuant to Section 1445 of the Code;

(c) (i) a Warranty Bill of Sale substantially in the form of **Exhibit D-3** attached hereto (“Warranty Bill of Sale”) from Seller transferring and assigning to Purchaser Seller’s interest in the Personal Property with warranty of title and against encumbrances, but without warranty, express or implied, as to the condition, marketability or fitness for a particular purpose, and (ii) a Bill of Sale in the form of **Exhibit D-4** attached hereto, without warranty of title, from Seller transferring and assigning such Seller’s interest in any Intangible Personal Property, Licenses, Permits, and Records, to the extent the same are assignable;

(d) an assignment and agreement of assumption in the form of **Exhibit D-5** attached hereto (“Assignment of Leases”) from Seller to Purchaser transferring to Purchaser the landlord’s right, title and interest in, to and under the Leases subsisting at Closing, as identified on the Updated Rent Roll;

(e) an assignment and agreement of assumption in the form of **Exhibit D-6** attached hereto (“Assignment of Contracts”) from Seller to Purchaser transferring to Purchaser Seller’s interest in the Contracts and any contracts entered into pursuant to Subsection 9.1.3 to which Purchaser has provided its written consent or has otherwise agreed to assume and

accept, but excluding any Contracts which have terminated by their terms prior to the Closing Date, with an agreement by Purchaser to assume all obligations of Seller that may arise under such Contracts from and after the Closing Date;

(f) an assignment of each letter of credit held by Seller as security deposits under a Lease, along with the original letter of credit (and Purchaser shall receive a credit at Closing equal to the transfer fee for each such letter of credit to the extent the applicable Tenant is not required to pay such fee);

(g) a closing statement ("Closing Statement") providing for the payment of the Purchase Price by Purchaser and detailing the prorations and adjustments to the Purchase Price required under this Agreement;

(h) a written notice of the acquisition of the Property by Purchaser, signed by Seller, which either Purchaser or Seller may duplicate in sufficient copies for transmittal to all Tenants and to all other parties affected by the sale and purchase of the Property pursuant to this Agreement, including the parties affected by the assignment to Purchaser of the Contracts, advising the addressee of the sale and transfer of the Purchased Assets and containing appropriate instructions relating to the payment of future rentals, the giving of future notices and the responsibility of Purchaser under the Leases, Contracts, Licenses and Permits, and all other matters following the Closing;

(i) a "bulk sales release" sufficient to release Purchaser from any withholding requirements and tax liability under Section 902(d) of the Illinois Revenue Code or an indemnity reasonably satisfactory to Purchaser in lieu thereof which indemnity will be released upon delivery of appropriate releases;

(j) a broker's lien waiver and a property manager's lien waiver in form sufficient to cause the Title Company to remove any exceptions raised for the lien of any broker or property manager;

(k) a title insurance policy or marked up Title Commitment in the form required under Section 6.2;

(l) Seller's Closing Certificate (including the Updated Rent Roll);

(m) the Leases, Contracts and Records, as well as keys to the Property (except that such materials may be provided by delivering such materials promptly following the Closing); and

(n) such other instruments, agreements and documents as are reasonably required by the Title Company to consummate the Closing as herein provided.

1.1.39 “Seller Sharing Agreement” means an agreement regarding sharing future rentals at the Property entered into by Purchaser and Seller dated March 14, 2005, but whose effectiveness is contingent upon the Closing.

1.1.40 “Special Warranty Deed” is defined in Subsection 1.1.38(a).

1.1.41 “Survey” means a survey, certified to Seller, Purchaser and to the Title Company, and legal description of the Property that is prepared by Gremely & Biedermann Surveyors that conforms to the most recently adopted Minimum Standard Detailed Requirements for ALTA/ACSM Land Title Surveys, including Table A, Items 1, 2, 3, 4, 7(a), 7(b)(1), 8, 9, 10, 11(a), 14, 15 and 16.

1.1.42 “Survey Defects” is defined in Section 6.3.

1.1.43 “Tax Agreement” means an agreement regarding real estate taxes at the Property entered into by Purchaser and Seller dated March 14, 2005, but whose effectiveness is contingent upon the Closing.

1.1.44 “Title Commitment” means a commitment to be issued for an ALTA 1970 Form B Owner’s policy of title insurance in form and substance acceptable to Purchaser in its sole discretion (containing the endorsements requested by Purchaser) with insurance in the amount of the Purchase Price issued by the Title Company relating to the Property committing the Title Company to issue such title policy to Purchaser at Closing with no exceptions other than the Permitted Exceptions.

1.1.45 “Title Company” means Commonwealth Title Insurance Company, 888 West Sixth Street, Los Angeles, CA 90017, Attention: Don Hallman.

1.1.46 “Title Exceptions” is defined in Section 6.1.

1.1.47 “Updated Rent Roll” means a rent roll in the same form as the Rent Roll and containing, if applicable, any new information respecting the Leases identified on the Rent Roll and any new Leases, which Updated Rent Roll shall be delivered and certified by Seller to Purchaser on the Closing Date on Seller’s Closing Certificate as complete and correct as of the Closing Date.

1.1.48 “Utilities” means all public utilities, including, but not limited to electricity, telephone, gas, water and sewer services, that are metered at the Property.

1.1.49 “Warranty Bill of Sale” means the document described in Subsection 1.1.39(c)(i).

ARTICLE 2: COVENANT TO SELL AND TO PURCHASE

2.1 Sale of the Purchased Assets. Subject to the terms and conditions of this Agreement, and for the consideration herein set forth, Seller agrees to sell and transfer to Purchaser Seller's right, title and interest in and to the Purchased Assets, and Purchaser agrees to purchase and acquire the Purchased Assets from Seller.

2.2 As-Is Purchase. EXCEPT AS EXPLICITLY PROVIDED IN SELLERS' CLOSING DOCUMENTS OR IN SECTIONS 8.1 OR 9.1 OR ELSEWHERE IN THIS AGREEMENT, PURCHASER AGREES TO PURCHASE THE PURCHASED ASSETS IN THEIR "AS-IS", "WHERE-IS" CONDITION AND "WITH ALL FAULTS" AS THEY EXIST ON THE CLOSING DATE, WITH NO WARRANTIES OF ANY KIND, EXPRESS OR IMPLIED, EITHER ORAL OR WRITTEN, MADE BY SELLER OR ANY AGENT OR REPRESENTATIVE OF SELLER. NEITHER SELLER NOR ANY MEMBER, OFFICER, PERSON, FIRM, AGENT OR REPRESENTATIVE PURPORTING TO REPRESENT SELLER, HAS ASSUMED ANY RESPONSIBILITY WITH RESPECT TO THE CONDITION OR REPAIR OF THE PURCHASED ASSETS EXCEPT AS SET FORTH IN ARTICLE 9. PURCHASER ACKNOWLEDGES THAT SELLER HAS REQUESTED THAT PURCHASER INSPECT, OR CAUSE TO BE INSPECTED, THE PURCHASED ASSETS, AND INVESTIGATE ALL MATTERS RELEVANT THERETO, UP TO AND INCLUDING THE DATE SET FOR CLOSING. IT IS SELLER'S INTENT THAT BY AFFORDING PURCHASER ACCESS TO THE PURCHASED ASSETS AND ALL MATTERS RELEVANT THERETO, PURCHASER WILL HAVE A FULL OPPORTUNITY TO CONSIDER THE INFORMATION ABOUT THE PURCHASED ASSETS. TO THE EXTENT THAT PURCHASER IS EXPECTED TO REVIEW OR WILL HAVE REVIEWED THE PURCHASED ASSETS AND ALL MATTERS RELEVANT THERETO, EXCEPT AS EXPRESSLY PROVIDED FOR IN THIS AGREEMENT, SELLER MAKES NO REPRESENTATIONS OR WARRANTIES WITH RESPECT TO THE ACCURACY OR COMPLETENESS, METHODOLOGY OF PREPARATION OR OTHERWISE CONCERNING THE CONTENT OF SUCH MATERIALS. THE PROVISIONS OF THIS SECTION 2.2 SHALL SURVIVE THE CLOSING OR ANY TERMINATION OF THIS AGREEMENT AND SHALL NOT MERGE WITH THE SPECIAL WARRANTY DEED OR OTHER CONVEYANCE OF THE PURCHASED ASSETS AT CLOSING.

2.3 Conveyance of Title. Seller agrees to convey, and Purchaser agrees to accept title to the Property by Special Warranty Deed, subject only to the Permitted Exceptions affecting such portions of the Purchased Assets, and Seller agrees to convey title to the Personal Property by Warranty Bill of Sale with warranty of title and against encumbrances, but without warranty, express or implied, as to the condition, marketability or fitness for a particular purpose of such Personal Property.

ARTICLE 3: DEPOSIT AND PURCHASE PRICE

3.1 Payment of the Deposit, etc. Purchaser shall pay the Purchase Price to Seller as follows:

3.1.1 Within one (1) Business Day of the Effective Date, Purchaser shall deliver to Escrow Agent an amount equal five hundred thousand dollars (\$500,000.00) (such amount, together with any interest accrued thereon, being herein referred to as the "Deposit"). If Purchaser elects to terminate this Agreement before the end of the Due Diligence Period for any reason other than a material default by Seller under this Agreement, two hundred fifty thousand (\$250,000.00) of the Deposit shall be returned to Purchaser and the balance of the Deposit paid to Seller. If this Agreement is terminated by Purchaser after the end of the Due Diligence Period other than pursuant to a specific termination right granted to Purchaser in this Agreement, the Deposit shall be paid to Seller, provided (a) Seller is not then in material default hereunder, or (b) no event has occurred which would prevent the conditions set forth in Section 13.2 from being fulfilled. If Purchaser terminates (either before or after the end of the Due Diligence Period) and either (x) Seller is in material default, or (b) one of the conditions set forth in Section 13.2 cannot be met, then the Deposit shall be paid to Purchaser (except that if the condition which cannot be met is that the Title Company will not issue an endorsement required by Purchaser, then Seller shall be paid two hundred fifty thousand (\$250,000.00) of the Deposit and Purchaser shall be paid the balance). At Closing, the Deposit shall be delivered to Seller.

3.1.2 At Closing, Purchaser shall pay the Purchase Price (a) minus the sum of the amount of the Deposit (which shall be paid to Seller), and (b) plus or minus the amounts of the apportionments made pursuant to Article 4 which shall be reflected in the Closing Statement to be executed by the parties at Closing. Such amount of the Purchase Price, as so adjusted, shall be paid by wire transfer of immediately available funds consisting of United States currency to a bank account designated by the Title Company.

ARTICLE 4: COSTS, ADJUSTMENTS AND APPORTIONMENTS

4.1 Purchaser's Closing Costs. Purchaser shall pay the following costs:

4.1.1 the fees and disbursements of Purchaser's counsel, inspecting architects, engineers, environmental consultants and other consultants incurred by Purchaser in inspecting or evaluating the Purchased Assets or any aspect of the transaction contemplated by this Agreement;

4.1.2 one-half (1/2) of any closing charge or escrow fees charged by Escrow Agent, if any, in connection with the transaction contemplated by this Agreement;

4.1.3 any premium charges for any zoning endorsement to the title policy to be issued pursuant to the Title Commitment or any additional premiums for any other special endorsements or for any lenders' or mortgagees' policies of title insurance;

4.1.4 any recording fees incurred in connection with the recording of the Special Warranty Deed and any other document delivered by Seller to Purchaser in connection with this transaction; and

4.1.5 one-half (1/2) of all State of Illinois, County of Cook and City of Chicago real estate transfer, stamp or documentary taxes in connection with the conveyance of the Property to Purchaser pursuant to this Agreement.

4.2 Sellers' Closing Costs. Seller shall pay the following costs:

4.2.1 the fees and disbursements of Seller's counsel;

4.2.2 all sales or use taxes relating to the transfer of the Personal Property to Purchaser;

4.2.3 one-half (1/2) of any closing charge or escrow fee charged by the Escrow Agent, if any, in connection with the transaction contemplated by this Agreement;

4.2.4 the title insurance premium for the title policy in the form described in Article 6, excluding any endorsements other than the deletion of the standard exceptions;

4.2.5 the cost to recertify the initial survey provided by Seller;

4.2.6 one-half (1/2) of all State of Illinois, County of Cook and City of Chicago real estate transfer, stamp or documentary taxes in connection with the conveyance of the Property to Purchaser pursuant to this Agreement; and

4.2.7 the cost of the initial survey provided by Seller.

4.3 Other Closing Costs. Any other costs or charges incurred by Seller or Purchaser in connection with the Closing and not specifically described in this Agreement shall be paid in accordance with local custom in Chicago, Illinois.

4.4 Taxes and Assessments.

4.4.1 Any real estate, including any special assessments, or personal property taxes for the Property which first become both due and payable on or before the Closing Date shall be paid by Seller on or before Closing. Current taxes shall be prorated and adjusted as of the Closing Date on a cash basis. For example, if Closing occurs on March 31, 2005, then Seller shall be responsible for three twelfths (3/12) of the 2004 taxes which are payable in 2005. To the extent that Seller has paid the entire cash amount of the first half of 2004 taxes due in March, 2005, then Buyer will credit to the Seller one half (1/2) of such taxes paid in March, 2004. Notwithstanding the foregoing, if real estate taxes reimbursements from any Tenant are collected on an accrual basis, the real estate taxes applicable to such Tenant shall be prorated on an accrual basis.

4.4.2 Claims for tax refunds or like payments pertaining to periods for which real estate taxes were payable prior to the Closing Date shall be retained by Seller, and shall remain the sole property of Seller, irrespective of when recovered, subject to any reimbursement obligation to Tenants. Claims for tax refunds or like payments pertaining to the real estate taxes payable in the year in which the Closing occurs shall be prorated on the same basis as the taxes for such year, after deducting the reasonable costs of obtaining the same, and the appropriate amount shall be remitted by Seller or Purchaser to the other upon collection of the same, subject to any reimbursement obligation to Tenants. Purchaser shall control the handling of any real estate tax protest or proceeding for periods from and after the Closing (including the year of the Closing). Purchaser agrees to consult with Seller before making any decisions which affect any period for which Seller is responsible for any portion of the real estate taxes. Seller agrees to consult with Purchaser before making any decisions which affect any period for which Purchaser is responsible for any portion of the real estate taxes.

4.5 Utilities. Seller shall endeavor to have the respective companies providing the Utilities read the meters for the Utilities on or immediately prior to the Closing Date. Seller shall be responsible for all charges based on such final meter readings, and Purchaser shall be responsible for all charges thereafter. If such readings are not obtainable, then, until such time as readings are obtained, charges for all Utilities for which readings were not obtained shall be prorated as of the Closing Date based upon the per diem rate obtained by using the last period and bills for such Utilities that are available. Upon the taking of a subsequent actual reading, such apportionment shall be adjusted to reflect the actual per diem rate for the billing period in which the Closing Date falls, and Seller or Purchaser, as the case may be, shall promptly deliver to the other the amount determined to be due upon such adjustment.

4.6 Contracts. Amounts payable by Seller under Contracts shall be prorated as of the Closing Date on a per diem basis, and Purchaser or Seller, as the case may be, shall receive a credit at Closing to the extent such credit can be determined as of the Closing Date, or if such credit cannot be determined as of the Closing Date, Seller or Purchaser, as the case may be, shall remit to the other party or parties such amounts invoiced after the Closing Date for the periods prior to the Closing Date. Amounts due under the Flat Fee Agreement with real estate tax counsel (to the extent not payable by Tenants) shall be prorated as of the Closing Date so that Seller is responsible for amounts due with respect to taxes for the Property which first become both due and payable on or before the Closing Date and Purchaser responsible for amounts due with respect to taxes for the Property which first become both due and payable after the Closing Date. In the case of the Flat Fee Agreement with real estate tax counsel, the Assignment of Contracts shall provide that Seller shall retain the right to direct and control the performance of services under such Flat Fee Agreement to the extent that they relate to claims for refunds of real estate taxes due and payable prior to the Closing Date as set forth in Section 4.4.2.

4.7 Rent and Expense Reimbursements.

4.7.1 Rent payments under all Leases and any other payments received by Seller from Tenants pursuant to the terms of the Leases prior to the Closing Date, including such payments that may have been prepaid, shall be prorated on a daily basis and apportioned based upon the actual number of days for the period for which such payment was made to the end that Seller shall be entitled to retain all rent and other payments paid for any period prior to the Closing Date and Purchaser shall be entitled to any prepayments of rent or other payments allocated to the period on and after the Closing Date.

4.7.2 Rent and other payments due under the Leases that are due and payable but uncollected as of the Closing Date shall be apportioned if and when collected by any party. All such payments received by Seller subsequent to the Closing Date shall be paid by Seller to Purchaser. Any such payments that are delinquent as of the Closing Date, if collected by Purchaser, or if collected by Seller and paid to Purchaser, as provided in the immediately preceding sentence, shall be remitted by Purchaser to Seller to the extent they pertain to periods prior to the Closing Date, provided that (a) the relevant Tenant or third party has paid to Purchaser all such payments due and payable from such Tenant or third party, or (b) the applicable Tenant or third party makes the applicable payments in payment of its past due obligation or otherwise acknowledges it is making payment of past due payments; provided, however, that in the event of a payment by such a Tenant or third party without an indication of the payment's application, it shall be assumed that such Tenant or third party is making no more than one (1) month's advance prepayment, and any amount in excess of such amount shall be automatically deemed to be a payment of past due obligations. Purchaser shall use reasonable, good faith efforts to collect and promptly remit to Seller, subject to the immediately preceding sentence, such payments paid or payable under the Leases that are delinquent as of the Closing Date or any other amounts due Seller with respect to the period prior to Closing, and Purchaser shall not waive or discharge any such delinquent payments. Nothing herein contained is intended to obligate Purchaser to institute any action against any Tenant or to exercise any remedy against any Tenant that would terminate such Tenant's tenancy. Notwithstanding the foregoing, if Purchaser has not collected and remitted to Seller all delinquent payments on or before the date one hundred twenty (120) days after the Closing Date or has not paid to Seller the amount thereof on or before such date, Seller shall thereafter have the right, in its sole discretion, to pursue such remedies as Seller may have at law or in equity (including, without limitation, an action in contract) against the relevant Tenant or third party (provided that, in the case of Tenants, the delinquency appeared on an aging report delivered to Purchaser at Closing and in no event shall Seller be entitled after the Closing Date to institute any action to evict any Tenant or to exercise any remedy against any Tenant that would terminate such Tenant's tenancy). This Subsection 4.7.2 shall survive the Closing.

4.7.3 Purchaser shall be responsible for preparing any required expense pass through reconciliation with Tenants for the calendar year in which the Closing occurs. Purchaser shall deliver a copy of such reconciliation to Seller promptly following its preparation and shall

provide to Seller all back up information requested by Seller. Seller shall remit to Purchaser for delivery to the applicable Tenants such amounts, if any, shown as due and owing by Seller to them for the periods prior to the Closing Date. Purchaser shall use reasonable efforts to collect from the applicable Tenants and remit to Seller such amounts, if any, shown as due and owing by them to Seller for the periods prior to the Closing Date. Nothing herein contained is intended to obligate Purchaser to institute any action against any Tenant or to exercise any remedy against any Tenant that would terminate such Tenant's tenancy. Notwithstanding the foregoing, if Purchaser has not collected and remitted to Seller all such amounts on or before the date one hundred twenty (120) days after the date due or has not paid to Seller the amount thereof on or before such date, Seller shall thereafter have the right, in its sole discretion, to pursue such remedies as Seller may have at law or in equity (including, without limitation, an action in contract) against the relevant Tenant or third party (provided that, in the case of Tenants, the delinquency appeared on an aging report delivered to Purchaser at Closing and in no event shall Seller be entitled after the Closing Date to institute any action to evict any Tenant or to exercise any remedy against any Tenant that would terminate such Tenant's tenancy). This Subsection 4.7.3 shall survive the Closing.

4.8 Other Income and Expenses. All other income from, and expenses of, the Property, including but not limited to public utility charges, interest, maintenance charges, and service charges, shall be prorated as of the Closing Date. To the extent that information for any such proration is not available at the Closing, the parties shall effect such proration within the earlier of ninety (90) days after Closing or thirty (30) days after the information first becomes available.

4.9 Security Deposits. Purchaser shall be entitled to a credit against the Purchase Price for the aggregate amount of any cash security deposits held by Seller as of the Closing Date with respect to the Leases. Seller shall promptly notify Purchaser if it applies any security deposit to the obligations of the applicable Tenant before the end of the Due Diligence Period and shall not have the right to apply any security deposit to the obligations of the applicable Tenant after the end of the Due Diligence Period.

4.10 Leasing Commissions. Seller shall pay all leasing or broker's commissions that have accrued before the Closing Date in connection with any of the Leases, provided, however, that notwithstanding the foregoing, commissions which conform to the immediately succeeding sentence and are payable under any Leases executed after the Effective Date and prior to the Closing Date which are in full force and effect on the Closing Date shall be Purchaser's sole responsibility, provided, however, that Purchaser has approved of such new Leases and the amount and terms of the commissions as provided herein. Purchaser shall be responsible for all commissions due Seller's leasing agent with respect to leases entered into after the Closing Date to the extent Seller would be liable for such a commission pursuant to the first sentence of Section 2.5 of the Management Agreement. This Section 4.9 shall survive the Closing.

4.11 Adjustments Following Closing. In the event that final calculations cannot be made for any expense item at Closing, Purchaser and Seller shall estimate the proration at Closing and shall reprorate such items as soon as adequate information is available. Payments in connection with the final adjustments shall be made by Seller or Purchaser, as the case may be, within ten (10) Business Days after notice. This Section 4.10 shall survive the Closing.

ARTICLE 5: DUE DILIGENCE INSPECTION

5.1 Purchaser's Inspection Rights.

5.1.1 During the Due Diligence Period, Purchaser, or its designees, at Purchaser's sole risk, cost and expense, shall have the right to enter upon the Property accompanied, at Seller's election, by an agent of Seller. Upon not less than three (3) Business Day's prior notice, Purchaser shall notify Seller of its intent to conduct any such inspections (except that only one business day's notice shall be required for the inspection of documents), and Seller may elect to accompany Purchaser or its agents at such inspection, however, so long as Purchaser has given the aforesaid notice, Purchaser may enter the Property during reasonable business hours, subject to the rights of Tenants or other occupants of the Property, to make, subject to the terms of Article 7 hereof, physical inspections and tests of the Property and Personal Property, including, without limitation, environmental inspection and tests, structural, mechanical, systems or plans and specifications in relation thereto, regardless of whether Seller or its agents accompany Purchaser or its agents. In exercising its rights under this Section 5.1, Purchaser shall (a) take reasonable steps to avoid terminating or otherwise adversely affecting any warranty applicable to the Property, and (b) use its reasonable good faith efforts not to interfere with the Tenants or other occupants of the Property, or the operations of the Property, and Purchaser shall indemnify and hold harmless Seller, Management Company, El Paso Corporation, and EP Connect, L.L.C. from any losses, costs, damages, expenses, judgments, penalties, liabilities or obligations arising out of or in any way incurred in connection with Purchaser's or its agents', employees', contractors' or representatives' physical or environmental inspection of the Property, including, without limitation, legal fees and expenses; provided, however, that Purchaser shall have no liability for existing conditions discovered by Purchaser at the Property in connection with its inspections pursuant to this Section 5.1, except as otherwise provided in this Agreement. Purchaser shall not permit any construction or mechanics' liens to be placed upon the Property and shall hold Seller harmless from any losses, claims or causes of action resulting from any construction or mechanics' lien claims, including, without limitation, legal fees and expenses. Purchaser shall maintain general liability insurance covering its operations in connection with its inspections and indemnifications under this Section 5.1 against bodily injury and property damage with a minimum combined limit of five million dollars (\$5,000,000) per occurrence. Such insurance shall name Seller as additional insured, and copies of Purchaser's insurance policy or certificates acceptable to Seller, with the coverages required hereby, shall be promptly delivered to Seller upon request. Purchaser shall promptly restore, to conditions existing on the Effective Date, any damage to the Property caused by such inspections and, notwithstanding anything to the contrary in this Agreement, such obligation to indemnify Seller and to restore the Purchased Assets shall survive Closing or the termination or cancellation of this Agreement.

5.1.2 Subject to any applicable disclosure restrictions pursuant to Section 5.2, Seller shall, within five (5) Business Days after the Effective Date, make available for review and copying, at Seller's home offices, at the Property or at the office of the Management Company, all Records in the possession or control of Seller, Management Company or their respective employees, or if reasonably requested by Purchaser, in writing, Seller shall, in good faith, attempt to secure any of the foregoing in the possession or control of Seller's current agents or representatives which pertain to the operation of the Property. Seller may make certain Records available electronically or on a compact disc.

5.2 Confidentiality.

5.2.1 The results of Purchaser's inspections shall be kept strictly confidential, and shall be deemed to be Confidential Information, pursuant to the terms of the Existing Confidentiality Agreement, provided, however, that such Confidential Information and other results of Purchaser's inspection notwithstanding anything contained in the Existing Confidentiality Agreement to the contrary, may be disclosed to Purchaser's partners, agents, officers or employees, as well as its legal counsel, accounting firms, the Securities and Exchange Commission, financial institutions, government authorities (subject to the provisions of Section 5.2.2), mortgagees and their real estate and mortgage brokers, investors, consultants and contractors (so long as the aforesaid nongovernmental parties also execute a confidentiality agreement similar to the Existing Confidentiality Agreement) whom Purchaser shall inform of the confidential nature of any such information. The terms of Section 5.2 shall survive any termination or cancellation of this Agreement for a period coterminous with the Existing Confidentiality Agreement; provided, however, that notwithstanding anything contained in the Existing Confidentiality Agreement to the contrary, for the same coterminous period, Purchaser may disclose such Confidential Information and other results of its inspections of the Purchased Assets to any person(s) so long as such person(s), other than governmental parties, execute a confidentiality agreement in substantially the same form as the Existing Confidentiality Agreement (naming Seller as beneficiaries thereof) and copies of such are delivered to Seller.

5.2.2 Purchaser shall keep confidential the nature and the results of all its work related to the environmental condition of the Property and shall not disclose any matter related to inspections, tests, surveys, and studies to any third party, whether or not the transaction contemplated herein is closed, except as otherwise provided in Section 5.2.1 hereof or as otherwise provided below. Except as expressly provided herein, prior to the Closing, all reports or other submittals to governmental agencies regarding the environmental condition of the Property shall be made by Seller and not by Purchaser. However, notwithstanding anything herein contained to the contrary, in the event Purchaser is required to disclose any such information to any governmental entity pursuant to applicable law, or to any other third party pursuant to any hazard communication standard or other occupational health or safety standard

as required by state or federal law or regulations, prior to disclosing the same, Purchaser shall notify Seller in writing and provide Seller with copies of all information which Purchaser intends to so disclose. To the extent reasonably possible, such notice and information shall be provided to Seller by Purchaser in writing at least five (5) Business Days prior to the disclosure of same to any such governmental entity. Seller shall be given the right to attend and participate in any meeting Purchaser may have with any such governmental entity regarding the Property.

5.2.3 No party shall make any press release or other public announcement regarding the matters contained in this Agreement or the negotiation or execution of this Agreement without the prior consent of the other party prior to Closing unless required by law (in which case the party may make the required disclosure and an accompanying press release but shall consult with the other party before doing so).

5.3 Purchaser's Right to Terminate. If on or prior to the expiration of the Due Diligence Period, Purchaser has decided, in its sole and absolute discretion, not to purchase the Purchased Assets for any reason whatsoever or no reason, Purchaser shall, in writing, notify Seller and Escrow Agent of its decision, and upon such notice duly given under this Agreement, this Agreement shall terminate, except that those provisions which by their terms are expressly required to survive shall survive such termination. If no such notice is received prior to the expiration of the Due Diligence Period, Purchaser shall be deemed to have elected to proceed to Closing in accordance with the terms of this Agreement. Within ten (10) days following any election by Purchaser to terminate this Agreement, Purchaser shall deliver to Seller, without representation or warranty, copies of all third party final written inspection reports in its possession or control or in the possession or control of its members, officers, employees, agents, as well as its legal counsel, accounting firms, and financial institutions, which have been obtained or generated in connection with Purchaser's inspections, which obligation shall survive the termination of this Agreement.

ARTICLE 6: TITLE AND SURVEY

6.1 Title Commitment. Seller has made available to Purchaser a title commitment, together with legible copies of all documents listed in such title commitment as exceptions to title ("Title Exceptions"). Promptly following the Effective Date, Purchaser shall order the Title Commitment. Any mortgage or other encumbrance entered into by Seller which secures the payment of money or any lien claim arising from the actions of Seller is herein referred to as a "Monetary Encumbrance". All matters and exceptions shown in the Title Commitment (other than Permitted Exceptions of the type described in clauses (a) through (h) of the definition of Permitted Exceptions) and not objected to in writing by Purchaser within twenty (20) Days following the Effective Date shall be deemed to be Permitted Exceptions which may be shown on the final title policy. Seller shall pay and discharge (or in the case of mechanics', materialmen's or other statutory liens, provide a bond or other assurances in form reasonably satisfactory to Purchaser covering the payment or discharge) all Monetary Encumbrances at or before Closing so as to be deleted from the title policy to be issued at Closing pursuant to the Title Commitment. If

Purchaser delivers a written objection to any other title matter or exception within the aforesaid twenty (20) Day period, then Seller shall, within five (5) Days thereafter, notify Purchaser in writing of which objections Seller will attempt to cure and Seller shall have twenty (20) Days from the date of receipt of Purchaser's notice of objection in which to cure such objections and to cause the Title Commitment to be reissued or updated to reflect that such claimed defects have been cured or will be removed or insured over in the title policy in a manner satisfactory to Purchaser. Except for the Monetary Encumbrances which Seller has agreed to pay and discharge or assure the payment and discharge as provided above, Seller shall have no obligation to cure any title objection and shall have no obligation to expend any monies to cure same, and any failure to pay, discharge or cure any title objection shall not be or be deemed to be a breach of this Agreement by Seller. If Seller fails to cure all such objections that are timely made by Purchaser within the twenty (20) Day period referred to above, then Purchaser shall be entitled, at Purchaser's option, to either (a) proceed with the transaction and accept conveyance expressly subject to the title matter which was the subject of the objection, which shall then be deemed a "Permitted Exception", or (b) terminate this Agreement by notice in writing to Seller within five (5) Days after the expiration of the twenty (20) Day period. Failure of Purchaser to give such notice of termination in writing within such five (5) Day period shall be deemed an election to so proceed with the purchase, subject to the satisfaction or waiver of the other contingencies contained in this Agreement. If any exceptions to title first appear of record after the Title Commitment is issued and prior to the Closing Date, Purchaser and Seller shall follow the procedures specified herein except that Purchaser shall have two (2) days from the date it has knowledge of the exception to object, Seller shall have two (2) days to elect whether it will cure and five (5) days to complete such cure and Purchaser shall have two (2) days from notice that Seller will not or cannot cure to make its election; the Closing Date shall be postponed, if necessary, to complete such steps.

6.2 Issuance of Coverage. At the Closing, Seller shall cause to be delivered to Purchaser (a) a title insurance policy with extended coverage (but, with respect to unrecorded liens, only over liens arising from contracts entered into by Landlord) issued by the Title Company as of the Closing Date providing the owner's coverages and in the amounts and having the terms and conditions required by this Agreement, or (b) in lieu thereof, the Title Commitment marked up and signed by the Title Company in which the Title Company undertakes to issue such title insurance.

6.3 Survey. Seller has delivered a survey to Purchaser. Promptly following the Effective Date, Purchaser shall order the Survey and provide the surveyor with a copy of the Title Commitment and copies of all documents listed in such Title Commitment as exceptions to title. If the Survey shows an encroachment or shows any matter which is not acceptable to Purchaser (a "Survey Defect"), Purchaser, within twenty (20) Days from the Effective Date, may deliver to Seller written notice of any Survey Defect to which it objects or Purchaser shall be deemed to have waived any right to such objection. Seller shall, within five (5) Days thereafter, notify Purchaser in writing of which objections Seller will attempt to cure and Seller have twenty (20) Days following the date of receipt of Purchaser's notice of objections, if any, to cure such Survey

Defect(s) or to cause the Title Company to commit to insure over such Survey Defect(s) in a manner reasonably satisfactory to Purchaser; provided, however, Seller shall have no obligation to cure any Survey Defect and shall have no obligation to expend any monies to cure same. If Seller fails to do so, Purchaser may, within five (5) Days after the end of such twenty (20) Day period, elect to either terminate this Agreement by delivering written notice thereof to Seller within said five (5) Day period or be deemed to have accepted the Property "as-is" and proceed to consummate the transaction under this Agreement, subject to the satisfaction or waiver of the other contingencies contained herein. If any Survey Defects first appear after the date of the Survey and prior to the Closing Date, Purchaser and Seller shall follow the procedures specified herein except that Purchaser shall have two (2) days from the date it has knowledge of the Survey Defect to object, Seller shall have two (2) days to elect whether it will cure and five (5) days to complete such cure and Purchaser shall have two (2) days from notice that Seller will not or cannot cure to make its election; the Closing Date shall be postponed, if necessary, to complete such steps. All Survey Defects to which Purchaser makes no objection or which Purchaser accepts or has been deemed to have accepted, shall, at Closing, be deemed "Permitted Exceptions".

6.4 Discharges. Seller shall, at its expense, on or before Closing, cause any financing statements, tax liens and or judgments covering the Purchased Assets other than the Property (as shown on any UCC, tax lien or judgment search, a copy of which shall be delivered by Purchaser to Seller at Purchaser's expense not later than twenty (20) Business Days prior to the Closing Date) to be terminated, discharged or bonded over at Closing. If Purchaser causes an update of searches which reflects any new financing statement, tax lien or judgment, Seller may postpone the Closing, without any additional expense to Purchaser, for not more than five (5) Business Days to obtain a termination or discharge of such new item.

ARTICLE 7: ENVIRONMENTAL REVIEW, DISCLOSURE, DISCLAIMER, ASSUMPTION OF LIABILITY, AND RELEASE

7.1 Information, Definitions of Environmental Terms. Within five (5) Business Days after the Effective Date, Seller shall make available to Purchaser all surveys and reports, if any, in the possession of Seller regarding the environmental condition of the Property, including, but not limited to, any reports pertaining to the former presence and/or removal of any underground storage tanks, and/or current or historic presence on the Land or Improvements of Hazardous Substances. A "Hazardous Substance" for purposes of this Agreement shall mean asbestos or asbestos-containing products, polychlorinated biphenyls, petroleum or petroleum based products, or any substance or material defined or designated as hazardous or toxic waste, hazardous or toxic material, a hazardous, toxic or radioactive substance, a contaminant, or other similar term, by any federal, state or local environmental statute, regulation or ordinance presently in effect, including, but not limited to, the Resource Conservation and Recovery Act, 42 U.S.C. §6901 et seq., and the Comprehensive Environmental Response, Compensation and Liability Act, as amended, 42 U.S.C. §9601 et seq. Seller shall make the surveys and reports available to Purchaser, at Seller's home offices, at the Property or at the offices of the Management Company during normal business hours.

7.2 Disclaimer. ANY REPORTS PROVIDED TO PURCHASER PURSUANT TO THIS ARTICLE 7 ARE PROVIDED TO PURCHASER TO ASSIST IN PURCHASER'S OWN ASSESSMENT OF THE PROPERTY AND ARE PROVIDED FOR INFORMATIONAL PURPOSES ONLY. SELLER CANNOT AND DOES NOT WARRANT THE COMPREHENSIVENESS OR COMPLETENESS OF THE REPORTS. This Section 7.2 shall survive Closing.

7.3 "As-Is, Where-Is" Nature of Transaction. EXCEPT AS EXPLICITLY PROVIDED IN SELLERS' CLOSING DOCUMENTS, OR IN SECTIONS 8.1 OR 9.1 OR ELSEWHERE IN THIS AGREEMENT, PURCHASER SHALL, AT CLOSING, TAKE THE PURCHASED ASSETS ON AN "AS-IS, WHERE-IS, WITH ALL FAULTS" BASIS, WITH NO WARRANTIES OF ANY KIND, EXPRESS OR IMPLIED, EITHER ORAL OR WRITTEN, MADE BY SELLER OR ANY AGENT OR REPRESENTATIVE OF SELLER WITH RESPECT TO THE PHYSICAL OR STRUCTURAL CONDITION OF THE PURCHASED ASSETS OR WITH RESPECT TO THE EXISTENCE OR ABSENCE OF HAZARDOUS SUBSTANCES ON, UNDER, OR AFFECTING THE PROPERTY OR THE GROUND WATER THEREUNDER OR WITH RESPECT TO THE COMPLIANCE OF THE PURCHASED ASSETS OR ITS PRESENT OR PAST OPERATION WITH ANY LAWS, ORDINANCES OR REGULATIONS OF ANY GOVERNMENT OR OTHER BODY. PURCHASER ACKNOWLEDGES AND AGREES THAT, EXCEPT AS EXPLICITLY STATED IN SELLER'S CLOSING DOCUMENTS, OR IN SECTIONS 8.1 OR 9.1 HEREOF, OR ELSEWHERE IN THIS AGREEMENT, SELLER HAS NOT MADE AND DOES NOT MAKE ANY REPRESENTATIONS, WARRANTIES, OR COVENANTS OF ANY KIND OR CHARACTER WHATSOEVER, WHETHER EXPRESS OR IMPLIED, WITH RESPECT TO THE HABITABILITY, TENANTABILITY OR SUITABILITY FOR COMMERCIAL PURPOSES, MERCHANTABILITY, OR FITNESS FOR A PARTICULAR PURPOSE OF THE PROPERTY, ALL OF WHICH WARRANTIES SELLER HEREBY EXPRESSLY DISCLAIMS. THIS DISCLAIMER SHALL NOT BE LIMITED BY SELLER'S PROVISION TO PURCHASER OF ANY INFORMATION REGARDING THE PROPERTY. This Section 7.3 shall survive Closing or any termination of this Agreement and shall not merge with the Special Warranty Deed or other conveyance of the Purchased Assets at Closing.

7.4 Environmental and Other Inspections. If Purchaser engages a contractor to conduct (a) inspections and tests of the environmental conditions of the Property, (b) any physically intrusive testing (such as roof or floor coring) or (c) any testing of generators, battery back up systems or any other equipment which might cause an interruption of services or otherwise adversely affect Tenants or other occupants of the Property during the Due Diligence Period, Purchaser shall utilize only reputable and adequately insured contractors. Seller and Purchaser acknowledge that Purchaser may wish to obtain and analyze environmental samples as part of its investigation of the environmental condition of the Property. If Purchaser desires to do such environmental work, any physically intrusive testing (such as roof or floor coring) or any testing of generators, battery back up systems or any other equipment which might cause an interruption of services or otherwise adversely affect Tenants or other occupants of the Property, it

shall deliver to Seller for review and comment by Seller or Seller's designee, a copy of the most detailed scope of work available to Purchaser. Such scope of work shall be delivered to Seller or its designees as soon as practicable after it is finalized by Purchaser, but in no event less than five (5) Business Days prior to the time such work is to commence. Purchaser's scope of work shall include detailed site investigation protocols for technical items (e.g. method of sample acquisition, procedures related to equipment decontamination, sample chain of custody, laboratory qualifications, analytical methods, laboratory quality assurance/quality control procedures, data validation procedures, data analysis procedures, etc.). Seller shall promptly review the proposed scope of work and shall approve or disapprove the scope of work within three (3) Business Days after receipt of such notice, such approval not to be unreasonably withheld; Seller's failure to notify Purchaser of its disapproval shall be deemed to be Seller's approval thereof. Purchaser shall use the approved scope of work to conduct all site investigations. The term "reputable and adequately insured contractor(s)" as used in this Agreement and the use of the words "reputable and adequately insured" as applicable to any contractor, representative or agent of Purchaser or Seller in this Agreement shall mean a contractor, representative, or agent who shall be (a) reputable and adequately insured with respect to the nature and extent of the scope of its work and presence on the Property (such insurance including, unless otherwise agreed among the parties hereto, general liability insurance against bodily injury and property damage with a minimum combined limit of five million dollars (\$5,000,000) per occurrence, including amounts covered by any umbrella policies); (b) familiar with all rules and regulations, including federal, state, or local rules or regulations relating to the procedure, assessment, study, inspection, or test which it is undertaking in connection with the Agreement; and (c), to the extent required by applicable law, licensed or qualified under applicable law to undertake the action it is taking in connection with this Agreement. This Section 7.4 shall survive Closing.

7.5 Reports of Purchaser's Findings, Confidentiality. If the transaction contemplated by this Agreement is not consummated, Purchaser shall promptly deliver to Seller, without representation or warranty, copies of all verified data and every third party final written report or findings obtained or generated prior to Closing by Purchaser as a result of Purchaser's investigation of the environmental condition of the Property, and Purchaser shall cause the Property to be restored to substantially the condition that existed prior to any activities of Purchaser or its agents or contractors which altered the condition of the Property.

ARTICLE 8: REPRESENTATIONS AND WARRANTIES

8.1 Seller's Representation and Warranties. Seller hereby represents and warrants to Purchaser the truth and accuracy on the Effective Date of each of the following:

8.1.1 Seller is a limited liability company duly organized, validly existing and in good standing under the laws of the State of Delaware and is authorized to transact business in the State of Illinois and has full power and authority to enter into this Agreement and the Seller Closing Documents and convey the interests in the Purchased Assets owned by it as herein described.

8.1.2 The execution and delivery of this Agreement and consummation of the transactions contemplated hereby are or will be duly authorized by all necessary limited liability company acts on the part of the Seller.

8.1.3 There are no condemnation or eminent domain proceedings or, to Seller's Actual Knowledge, other litigation or proceeding pending or threatened against Seller with respect to the Property or against any other Purchased Asset, except as disclosed on **Exhibit E** attached hereto.

8.1.4 Seller has not received written notice of violation of any applicable law, as the same relates to the Property, which violation remains unremedied, except as disclosed on **Exhibit E** attached hereto.

8.1.5

(a) There are no Contracts except those described in **Exhibit B** attached hereto,

(b) The Contracts listed on **Exhibit B** are in full force and effect and have not been amended except as disclosed in **Exhibit B**, and

(c) Except as disclosed in **Exhibit B**, neither Seller nor, to Seller's Actual Knowledge, any other party to any Contract is in default thereunder, to Seller's Actual Knowledge, no event has occurred which, with the passage of time or giving of notice, or both, could constitute a default under any Contract, and neither Seller nor any other party to any Contract is claiming any such default.

8.1.6 There are no leases, possession agreements or other agreements relating to the leasing or occupancy of the Property or any portion thereof except for the Leases identified on the Rent Roll or that will be identified on the Updated Rent Roll.

8.1.7 The Leases listed on the Rent Roll are in full force and effect.

8.1.8 Rent and other sums payable under the Leases listed on the Rent Roll have been paid in accordance with the terms of such Leases and no Tenants identified on the Rent Roll have made a payment of rent more than one (1) month in advance, except as otherwise disclosed in **Exhibit C**.

8.1.9 There are no security deposits held by Seller under any of the Leases other than those identified in the Rent Roll or that will be identified on the Updated Rent Roll, and no portion of any such security deposit has been applied by Seller against delinquent rent or otherwise to cure a default of a Tenant under any Lease, except as identified on the Rent Roll.

8.1.10 Except as otherwise described in the Rent Roll, neither Seller nor, to Seller's Actual Knowledge, any of the Tenants under any of the Leases listed on the Rent Roll is in default thereunder as of the date of the Rent Roll, to Seller's Actual Knowledge, no event has occurred which, with the passage of time or giving of notice, or both, could constitute such a default, and neither Seller nor any Tenant is claiming any such default.

8.1.11 No Tenant identified on the Rent Roll is entitled to any free rent, rent concession, rebate, abatement or set off or offset against rent except as disclosed in the Leases or the Rent Roll.

8.1.12 No commission is currently due and owing with respect to any of the Leases and no commission shall be due in the future with respect to any of the Leases, except with respect to options to expand or renew in the Lease with Alltel Information Services, Inc. which have not been exercised as of the Effective Date.

8.2 Purchaser's Representations and Warranties. Purchaser hereby represents and warrants to Seller the truth and accuracy on the Effective Date of each of the following:

8.2.1 Purchaser is a limited partnership duly organized, validly existing and in good standing under the laws of the State of Maryland, and the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized.

8.2.2 Purchaser is solvent and has not made an assignment for the benefit of creditors, nor has Purchaser filed, or has had filed against it, a petition in bankruptcy or receivership.

8.2.3 Purchaser has no Actual Knowledge that any of the statements contained in Seller's representations and warranties in Section 8.1 are materially untrue.

8.3 Survival of Representations and Warranties.

8.3.1 Notwithstanding anything to the contrary contained in this Agreement, the representations and warranties of Seller set forth in Section 8.1 and Seller's liability under Section 8.1 will survive the Closing for a period of nine (9) months from the Closing Date. With respect to any suit, claim or cause of action that Purchaser has or may have as a result of any alleged untruth, inaccuracy or breach of such representations or warranties under Section 8.1, Purchaser must give Seller written notice of any such claims in each instance prior to the expiration of such nine (9) month period. In the event Purchaser fails to provide such notice within such nine (9) month period, Seller shall have no liability whatsoever to Purchaser with respect to the representations and warranties set forth in Section 8.1. Purchaser will not have any right to bring any suit, claim or cause of action against Seller as a result of any alleged untruth, inaccuracy or breach of such representations and warranties under Section 8.1 unless and until the aggregate amount of all liability and losses arising out of all such untruths, inaccuracies and

breaches exceeds two hundred fifty thousand dollars (\$250,000). Purchaser agrees to first seek recovery under any insurance policies, and Contracts (but shall not be required to seek recovery from a Tenant) prior to seeking recovery from Seller, and Seller shall not be liable to Purchaser for such untruths, inaccuracies and/or breaches under Section 8.1 if Purchaser's claim is satisfied from such insurance policies, or Contracts; provided that during the period Purchaser is making any such effort to recover from such third parties, the nine (9) month period set forth above shall be tolled until such time as a final determination regarding such third party claims is made. In addition, notwithstanding anything to the contrary contained in this Agreement or any of the Seller's Closing Documents, in no event shall Seller's liability for all such untruths, inaccuracies and/or breaches under Section 8.1 exceed, in the aggregate, five million dollars (\$5,000,000).

8.3.2 Notwithstanding anything to the contrary contained in this Agreement, Seller shall have no liability with respect to any of Seller's representations, warranties and covenants herein if, prior to the Closing, Purchaser has Actual Knowledge of any breach of a representation, warranty or covenant of Seller herein, or Purchaser obtains Actual Knowledge (from whatever source as a result of Purchaser's due diligence tests, investigations and inspections of the Property or the Records; or as a result of written disclosure by Seller or any of Seller's agents, representatives or employees) that contradicts any of Seller's representations, warranties or covenants herein (and the representations and warranties of Seller shall be deemed modified thereby to be accurate), and Purchaser nevertheless consummates the transaction contemplated by this Agreement (in which event any such breach or contradiction shall be deemed waived by Purchaser).

8.4 Seller's Closing Certificate. For purposes of the delivery of Seller's Closing Certificate, Seller's representations and warranties in Section 8.1 shall be certified to be true and accurate in all material respects on the Closing Date and those representations and warranties with respect to the Rent Roll in Subsections 8.1.6 through 8.1.10 shall be modified to certify the "Updated Rent Roll" as of the Closing Date and the "Tenants", as identified on such Updated Rent Roll.

ARTICLE 9: SELLER'S PRE-CLOSING COVENANTS

9.1 Operations of the Property Prior to Closing. Until Closing, and provided that this Agreement has not been terminated or cancelled, Seller shall:

9.1.1 keep the Property and Personal Property insured or cause the Property and Personal Property to be kept insured against fire and other hazards covered by extended coverage endorsements, and maintain or cause to be maintained comprehensive public liability insurance against claims for bodily injury, death and property damage occurring in, on or about the Property, in each case with such coverages, insurance companies and limits of liability as are maintained as of the Effective Date;

9.1.2 operate and maintain the Property in the ordinary course of business and consistent with past practices and, subject to the casualty loss provisions of Article 10, make any and all repairs and replacements to the Property as reasonably are required to deliver the Property to Purchaser at Closing in its present condition, normal wear and tear and damages from the elements excepted;

9.1.3 not, without Purchaser's prior written consent, which consent shall not be unreasonably withheld or delayed (a) enter into third party Contracts relating to the Property except in the ordinary course of business and in accordance with reasonably prudent business practices and only if such third party Contracts are cancelable on thirty (30) Days' written notice, or (b) amend or terminate any existing Contracts except as permitted in this Agreement, provided that, from and after the expiration or earlier termination of the Due Diligence Period and provided Purchaser has elected or is deemed to have elected to purchase the Purchased Assets, Seller shall not execute any new Contracts or amend or terminate any existing Contracts without the prior written consent of Purchaser, which consent may be withheld in Purchaser's sole and absolute discretion;

9.1.4 continue its present rental program and efforts to rent vacant space (and Seller agrees deliver to Purchaser copies of any new Leases entered into by Seller after the Effective Date and prior to the end of the Due Diligence Period along with information concerning tenant improvements costs and leasing commissions with respect to such Leases and unless Purchaser elects to terminate this Agreement in accordance with Section 5.3, Purchaser shall be deemed to have approved of all such Leases), provided that, from and after the expiration or earlier termination of the Due Diligence Period and provided Purchaser has elected or is deemed to have elected to purchase the Purchased Assets, Seller shall not execute any new leases or amend, terminate or accept the surrender of any new or existing tenancies or approve any subleases or consent to the assignment of any lease without the prior written consent of Purchaser, which consent may be withheld in Purchaser's sole and absolute discretion; and

9.1.5 (a) not transfer or convey all or any portion of the Purchased Assets without the prior consent of Purchaser, other than normal retirement of items of Personal Property in the ordinary course of business, or (b) not grant or permit any easements, liens, mortgages, encumbrances or other interests with respect to all or any portion of the Purchased Assets without the prior written consent of Purchaser; Purchaser's approval may be deemed given in the same manner as described in Subsection 9.1.4 hereinabove.

ARTICLE 10: DAMAGE, DESTRUCTION OR CONDEMNATION

10.1 Material Event. If, prior to Closing, any material amount of the rentable portion of the Property (i.e., more than ten percent (10%) is destroyed by fire or other casualty, or is taken, or if any of the Tenants has the right to terminate its Lease as a result of such fire or other casualty, or if proceedings are initiated by any governmental authority under power of eminent domain as to such portion of the Property, then Purchaser may elect, by written notice to Seller and to the Title

Company, to terminate this Agreement within ten (10) Days of receipt of notice from Seller of such event of damage, destruction, taking or initiation of such proceedings. If Purchaser fails to give such written notice within such ten (10) Day period to Seller and to the Title Company, the Closing shall, subject to the satisfaction or waiver of the other contingencies contained in this Agreement, occur on the Closing Date and at the Purchase Price provided for in Article 3. At Closing, following any fire or other casualty, Seller will assign to Purchaser the physical damage proceeds (and, to the extent applicable to the period after the Closing, any rental and/or business interruption proceeds) of any insurance policies payable to Seller, including any proceeds payable with respect to the Personal Property. At such Closing, Purchaser shall receive a credit against the Purchase Price for the amount of any deductible under any casualty insurance policy carried by Seller against such loss, if any, and for any other uninsured portion of such damage or destruction. If Purchaser has elected to close following notice of the initiation of eminent domain proceedings, Purchaser shall receive an assignment of Seller's portion of the condemnation award attributable to the Purchased Assets up to the amount of the Purchase Price.

10.2 Immaterial Event. If, prior to Closing, any portion of the Property or the Personal Property is destroyed by fire or other casualty or is taken or threatened to be taken under power of eminent domain and if Purchaser is not entitled to elect to terminate this Agreement pursuant to Section 10.1 above, Purchaser shall, subject to the satisfaction or waiver of the other contingencies contained in this Agreement, close this transaction on the Closing Date and at the Purchase Price, and Seller will assign to Purchaser the physical damage proceeds (and, to the extent applicable to the period after the Closing, any rental and/or business interruption proceeds) of any insurance policies payable to Seller, or Seller's portion of any condemnation award, provided that Purchaser shall receive at Closing a credit against the Purchase Price for the amount of any deductible under any casualty insurance policy and for any other uninsured portion of such damage or destruction.

ARTICLE 11: DEFAULT

11.1 Purchaser's Default.

11.1.1 If Purchaser shall default under this Agreement (other than by failing to close the transaction contemplated by this Agreement) and if the default continues for more than two (2) Business Days following Purchaser's receipt of written notice from Seller specifying such default, Sellers shall be entitled to seek an injunctive relief.

11.1.2 If Purchaser shall default under this Agreement by failing to close the transaction contemplated by this Agreement on the Closing Date other than pursuant to the exercise of a specific termination right granted to Purchaser in this Agreement and provided Seller is not then in material default hereunder, the amount of the Deposit specified in Section 3.1.1 of this Agreement, if any, shall be promptly released to Seller by the Escrow Agent as liquidated damages and as Seller's sole and exclusive remedy with respect to such default. Seller and Purchaser agree that such portion of the Deposit is a fair and reasonable amount to be retained by Seller as agreed and liquidated damages in light of the Seller's removal of the Property from the market and the costs incurred by Seller, and that the Deposit shall not constitute a penalty or forfeiture.

11.2 **Seller's Default.** If Seller refuses or fails to convey the Purchased Assets as herein provided for any reason other than (a) a default or a pending default by Purchaser, (b) any other provision of this Agreement that permits Seller to terminate this Agreement or otherwise relieve Seller of the obligation to convey the Purchased Assets, Purchaser shall elect as its sole remedy either (i) to seek specific performance of Seller's obligations hereunder, or (ii) to terminate this Agreement and recover the amount of the Deposit then held by Escrow Agent and reimbursement by Seller for all direct, actual, reasonable third party out-of-pocket costs incurred by Purchaser in connection with Purchaser's investigation of the Purchased Assets prior to or after the Effective Date, including, but not limited to, legal fees, costs of environmental inspections and testing, up to a maximum amount of such third party out-of-pocket costs not to exceed in any case one hundred seventy five thousand dollars (\$175,000.00).

11.3 **Consequential and Punitive Damages.** Each of Seller and Purchaser waive any right to sue the other for any consequential or punitive damages for matters arising under this Agreement. This Section 11.3 shall survive Closing or termination of this Agreement.

ARTICLE 12: BROKERS

12.1 **Representation and Indemnity.** Except to the extent that Purchaser has pre-registered an authorized broker who has entered into a written commission agreement with Seller, Purchaser and Seller each represents that all negotiations relative to this Agreement and the transactions contemplated by this Agreement have been carried on by the parties to this Agreement directly without the intervention of any third party, and such negotiations and the consummation of the transaction contemplated by this Agreement will not result in any liability by any party for any finder's fees, brokerage commissions or other similar fees. Each party shall indemnify and hold the other party or parties harmless against any claim for brokerage or finders' fees or other commissions or similar fees resulting from actions of the indemnitor which are not in accordance with the preceding sentence. Seller shall pay two hundred and fifty thousand dollars (\$250,000.00) to CB Richard Ellis, Purchaser's broker, and Purchaser shall pay any additional amounts owed to CB Richard Ellis. The foregoing indemnity shall survive the Closing or earlier termination of this Agreement.

ARTICLE 13: CLOSING, ETC.

13.1 **Closing.** The Closing shall occur at the offices of the Title Company at noon, local time, on the Closing Date, or at such other time and location as the parties shall agree upon. The sale shall be closed through escrow with the Escrow Holder in accordance with the general provisions of the usual form of escrow agreement used in similar transactions by such holder with special provisions inserted (a) as may be required to conform with this Agreement and (b) as the

parties may otherwise agree. Seller and Purchaser hereby designate Title Company as the “Reporting Person” for the transaction pursuant to Section 6045(e) of the Code and agree to execute such documentation as is reasonably necessary to effectuate such designation.

13.2 Conditions For Purchaser’s Benefit. The obligations of Purchaser to consummate the transaction contemplated hereby are subject to the following conditions, any of which, if not fulfilled by the Closing or as otherwise provided herein, shall entitle Purchaser (at its option) to terminate this Agreement and receive the Deposit as specified in Section 3.1.1 of this Agreement:

13.2.1 The transactions contemplated under this Agreement to be effected on the Closing Date shall not have been restrained or prohibited by any injunction or order or judgment rendered by any court or other governmental agency of competent jurisdiction and no governmental moratorium, statute, or regulation is effected after the end of the Due Diligence Period that would materially and adversely affect the Property or use or operation thereof.

13.2.2 The Title Company is unconditionally committed to issue a title policy based upon the Title Commitment (modified as required by this Agreement) subject only to the Permitted Exceptions upon payment of the applicable premium.

13.2.3 Seller shall have timely complied with its obligations hereunder and is not then in default hereunder beyond any applicable notice or cure period.

13.2.4 All warranties and representations made by Seller herein shall have been and remain truthful in all material respects.

13.2.5 Purchaser shall have received, on or before the Closing Date, the Required Estoppel Certificates.

13.2.6 No material default shall have occurred since the end of the Due Diligence period, and shall be continuing beyond any applicable notice and cure period with respect to any of the Required Leases.

13.3 Conditions for Seller’s Benefits. The obligations of Seller to consummate the transaction contemplated hereby are subject to the following conditions which, if not fulfilled by the Closing or as otherwise provided herein, shall entitle Seller, at its option, to terminate the Agreement.

13.3.1 The transactions contemplated under this Agreement to be effected on the Closing Date shall not have been restrained or prohibited by any injunction or order or judgment rendered by any court or other governmental agency of competent jurisdiction.

13.3.2 Purchaser shall have timely complied with its obligations hereunder.

13.3.3 All warranties and representations made by Purchaser herein shall have been and remain truthful in all material respects.

13.4 **Seller's Deliveries.** At the Closing, Seller shall (a) deliver duly executed copies of Seller's Closing Documents to Purchaser or to the Title Company, as the case may be, against receipt of the Purchase Price and Purchaser's Closing Documents, and (b) take or cause to be taken all necessary actions required to be taken by Seller to deliver possession of the Purchased Assets to Purchaser on the terms set forth in this Agreement.

13.5 **Purchaser's Deliveries.** At the Closing, Purchaser shall (a) pay the Purchase Price as adjusted pursuant to this Agreement and deliver duly executed copies of Purchaser's Closing Documents to Seller or to the Title Company, as the case may be, against receipt from Seller of Seller's Closing Documents, and (b) take or cause to be taken all necessary actions required to be taken by Purchaser to accept possession of the Purchased Assets and to assume the liabilities and obligations required to be assumed by Purchaser pursuant to the terms of this Agreement and Purchaser's Closing Documents.

13.6 **Further Assurances.** Each of the parties agrees to do, execute, acknowledge and deliver all such further acts, instruments, and assurances, and to take all such further actions before or after the Closing as shall be necessary or desirable to fully carry out this Agreement and to fully consummate and effect the transactions contemplated hereby.

ARTICLE 14: NOTICES

14.1 **Form of Notices.** Any notice required or permitted to be given under this Agreement must be given in writing and shall be deemed given (a) when hand delivered or sent by confirmed facsimile transmission during business hours of the sender, or (b) within one (1) Business Day following pick up by Emery Air Freight, Airborne, Federal Express or similar nationally recognized overnight express service, in either case addressed to the parties at their respective addresses referenced below:

If to **Seller:** Lakeside Purchaser LLC
Attn.: Terence J. Woolfe, Esq.
Director, Corporate Real Estate
c/o El Paso Corporation
1001 Louisiana Street, Suite W1020B
Houston, Texas 77002
Phone No. (713) 420-2994
Facsimile No. (713) 420-6242

with a copy to: Seyfarth Shaw LLP
Attn.: Jeffrey B. Schamis, Esq.
55 East Monroe Street, Suite 4300
Chicago, Illinois 60603
Phone No.(312) 781-8648
Facsimile No. (312) 269-8869

If to Purchaser: Scott Peterson
Digital Realty Trust
2730 Sand Hill Road, Suite 280
Menlo Park, CA 94025
Phone No. (650) 233-3616
Facsimile No. (650) 233-3601

with a copy to: Brian Aronson
Mayer, Brown Rowe & Maw LLP
350 South Grand Avenue, 25th Floor
Los Angeles, CA 90071
Phone No. (213) 229-5151
Facsimile No. (213) 625-0248

or, in each case, to such other address for a party as such party may from time to time designate by giving notice in writing to the other party or parties.

ARTICLE 15: MISCELLANEOUS

15.1 Time of Essence. Time is of the essence of this Agreement.

15.2 Governing Law. The validity, meaning and effect of this Agreement shall be determined in accordance with the laws of the State of Illinois without giving effect to principles of conflict of laws.

15.3 Counterparts. This Agreement may be executed and delivered by facsimile signature in any number of counterparts, without the necessity that all parties execute the same counterpart, each of which shall be deemed to be an original and all of which, when taken together, shall constitute one and the same instrument. Seller and Purchaser shall submit to each other original counterparts of their facsimile signatures within five (5) Days of the Execution Date.

15.4 Recording. Neither Purchaser nor Seller may record this Agreement or any memorandum thereof.

15.5 No Partnership. Nothing contained in this Agreement shall be construed to create a partnership or joint venture between the parties or their successors in interest.

15.6 Captions; References. The captions of this Agreement are inserted only as a matter of convenience and for reference, and in no way define, limit, or describe the scope of this Agreement to the scope or content of any other provisions. Unless otherwise stated, references in this Agreement to Articles or Sections are to the Articles and Sections of this Agreement

15.7 Attorneys' Fees. In the event of any litigation arising out of this Agreement, the prevailing party shall be entitled to reasonable attorneys' fees and costs upon the issuance of a final order, no longer subject to appeal, rendered by a court of competent jurisdiction.

15.8 Proper Execution. The submission by Seller to Purchaser of this Agreement in unsigned form shall be deemed to be a submission solely for Purchaser's consideration and not for acceptance and execution. Such submission shall have no binding force or effect, shall not constitute an offer or option, and shall not confer any rights upon Purchaser or impose any obligation upon Seller, irrespective of any reliance thereon, change of position or partial performance. The submission by Seller of this Agreement for execution by Purchaser, and the actual execution and delivery thereof by Purchaser to Seller, shall similarly have no binding force and effect on Seller, unless and until Seller shall have executed this Agreement and a counterpart of this Agreement, as executed by Purchaser, shall have been delivered to Seller. Neither party hereto shall be deemed to have drafted this Agreement.

15.9 Survival. Notwithstanding any earlier termination or cancellation of this Agreement, delivery of the Special Warranty Deed or expiration of this Agreement, the indemnities, liability, obligations and covenants of Seller or Purchaser set forth in any provisions of this Agreement expressly stating that they survive Closing, shall survive Closing according to the terms of this Agreement and shall not merge into the Special Warranty Deed executed in connection with the Closing, except as expressly excepted herein.

15.10 Allocation of the Purchase Price. Seller and Purchaser agree for the purpose of making the requisite filings under Section 1060 of the Code and Treasury Regulations promulgated thereunder, to allocate the Purchase Price (as adjusted under this Agreement) and any liabilities assumed by Purchaser under this Agreement to Class V assets (i.e., land and depreciable property). Seller and Purchaser each agree to report the federal, state and local income and other tax consequences of the transactions contemplated herein, and in particular to report the information required by Section 1060(b) of the Code, and to jointly prepare Form 8594 (Asset Acquisition Statement under Section 1060) in a manner consistent with the terms of this Agreement and shall not take any position inconsistent therewith upon examination of any tax return, in any refund claim, in any litigation, investigation or otherwise unless required to do so by applicable law after notice to and discussions with the other Party, or with such other Party's prior consent.

15.11 No Third Party Rights. Nothing in this Agreement, express or implied is intended to confer upon any person, other than the parties hereto and their respective successors and assigns, any rights or remedies entered into by reason of this Agreement. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

15.12 Entire Agreement. This Agreement, including, without limitation, the Exhibits attached hereto, contains the entire agreement among the parties related to the transactions

contemplated hereby, and all prior or contemporaneous agreements, understandings, representations, or statements, oral or written, are superceded hereby.

15.13 Modifications. No waiver, modification, amendment, discharge, or change of this Agreement shall be valid unless the same is in writing and signed by the party against which the enforcement of such waiver, modification, amendment, discharge, or change is sought.

15.14 Assignability. Purchaser may not assign its rights under this Agreement, without the prior written consent of Seller, which consent shall not be unreasonably withheld. Notwithstanding the foregoing, Purchaser shall have the right to assign its interest in this Agreement to an Affiliate without Seller's consent, provided that the original Purchaser remains liable for the obligations of Purchaser under this Agreement. Seller shall have no right to assign its rights or duties under this Agreement.

15.15 Partial Invalidity. Any provision of this Agreement which is unenforceable or invalid or the inclusion of which would adversely affect the validity, legality, or enforcement of this Agreement, shall be of no effect, but all the remaining provisions of this Agreement shall remain in full force and effect.

15.16 Jurisdiction. Each of the parties hereto agrees that any legal or equitable action or proceeding with respect to this Agreement, or any agreement represented herein or entered in connection herewith or the transactions contemplated hereby shall be brought only in any court of the State of Illinois, or in any court in the United States of America sitting in Chicago, Illinois, and each of the parties hereto hereby submits to and accepts generally and unconditionally the jurisdiction of those courts with respect to such party's person and property, and irrevocably consents to the service of process in connection with any such action or proceeding by the mailing thereof by registered or certified mail, postage prepaid to each party at such party's address set forth above. Nothing in this paragraph shall affect the right of any party hereto to serve process in any other manner permitted by law the right of any party hereto. Each party hereby irrevocably waives any objection to the laying of venue of any such action or proceeding in the above described courts.

15.17 Calculation of Time. Whenever any determination is to be made or action to be taken on a date specified in this Agreement, if such date shall fall upon a day that is not a Business Day, the date for such determination or action shall be extended to the first Business Day immediately thereafter.

15.18 Information and Audit Cooperation. At Purchaser's request, at any time after the Closing, Seller shall provide to Purchaser's designated independent auditor reasonable access to the books and records of the Property, and all related information regarding the period for which Purchaser is required to have the Property audited, and Seller shall use reasonable efforts to cause its former property manager under the Management Agreement to provide to such auditor a representation letter regarding the books and records of the Property, in substantially the form of

15.19 **Board Approval.** The parties acknowledge that the transaction contemplated by this Agreement is subject to the approval of Purchaser's Board of Directors, which approval shall be granted or withheld (and if withheld and if such withholding is timely communicated to Seller, this Agreement shall be terminated) during the Due Diligence Period.

The undersigned Escrow Agent hereby agrees to hold the Deposit in escrow pursuant to the terms of this Agreement for delivery or release under the following terms and conditions: (i) Escrow Agent is authorized and directed to release the Deposit to the Seller upon the consummation of the Closing; or (ii) in the alternative, Escrow Agent is authorized and directed to release the Deposit in accordance with mutual written instructions from Seller and from Purchaser. It is understood and agreed that such written instruction shall clearly indicate the payee, method of delivery and amount.

In the event of a dispute as to the disposition of the Deposit, Escrow Agent is authorized and directed to follow one of the following courses of action, which action Escrow Agent may take at its sole discretion: (i) Escrow Agent may file an interpleader action as provided by law and upon depositing such monies held under this Agreement, with the appropriate court, Escrow Agent shall be released from any further liability under this Agreement, or (ii) Escrow Agent may hold the Deposit until it is in receipt of written instructions signed by the Seller and Purchaser which shall direct and authorize the disposition of the Deposit to the same party or until such time as an order of court of competent jurisdiction which constitutes a final determination as to the disposition of the Deposit. It is understood and agreed that should Escrow agent file an interpleader action, it may charge the Deposit for reasonable attorneys' fees and court costs.

ESCROW AGENT

COMMONWEALTH TITLE INSURANCE COMPANY

By: _____

Its: _____

Dated: _____

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Digital Realty Trust, Inc.:

We consent to the incorporation by reference in the registration statement (No. 333-121353) on Form S-8 of Digital Realty Trust, Inc. of our report dated March 18, 2005, with respect to the consolidated balance sheet of consolidated balance sheet of Digital Realty Trust, Inc. and subsidiaries as of December 31, 2004 and the combined balance sheet of Digital Realty Trust, Inc. Predecessor, as defined in note 1 to the financial statements, as of December 31, 2003 and the related consolidated statements of operations and stockholders' equity and comprehensive income (loss) of Digital Realty Trust, Inc. and subsidiaries for the period from November 3, 2004 (commencement of operations) through December 31, 2004, the related combined statements of operations, and owners' equity of Digital Realty Trust, Inc. Predecessor for the period from January 1, 2004 through November 3, 2004, and the years ended December 31, 2003 and 2002, the related consolidated and combined statements of cash flows of Digital Realty Trust, Inc. and subsidiaries and Digital Realty Trust, Inc. Predecessor for the year ended December 31, 2004, and the related combined statement of cash flows of Digital Realty Trust, Inc. Predecessor for the years ended December 31, 2003 and 2002, and the related financial statement schedule, which report appears in the December 31, 2004, annual report on Form 10-K of Digital Realty Trust, Inc.

KPMG LLP

Los Angeles, California
March 30, 2005

**Certification Of Principal Executive Officer
Pursuant To Section 302 Of The Sarbanes–Oxley Act Of 2002**

I, Michael F. Foust, certify that:

1. I have reviewed this annual report on Form 10-K of Digital Realty Trust, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 31, 2005

By: /s/ MICHAEL F. FOUST
Michael F. Foust
Chief Executive Officer
(Principal Executive Officer)

**Certification Of Principal Financial Officer
Pursuant To Section 302 Of The Sarbanes–Oxley Act Of 2002**

I, A. William Stein, certify that:

1. I have reviewed this annual report on Form 10-K of Digital Realty Trust, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 31, 2004

By: /s/ A. WILLIAM STEIN
A. William Stein
Chief Financial Officer and
Chief Investment Officer
(Principal Financial Officer)

**Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as
Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Digital Realty Trust, Inc. (the “Company”) hereby certifies, to such officer’s knowledge, that:

(i) the accompanying Annual Report on Form 10-K of the Company for the year ended December 31, 2004 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 31, 2005

/s/ MICHAEL F. FOUST

Michael F. Foust
Chief Executive Officer

Pursuant to Securities and Exchange Commission Release 33-8238, dated June 5, 2003, this certification is being furnished and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended or incorporated by reference in any registration statement of the Company filed under the Securities Act of 1933, as amended.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as
Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Digital Realty Trust, Inc. (the “Company”) hereby certifies, to such officer’s knowledge, that:

(i) the accompanying Annual Report on Form 10-K of the Company for the year ended December 31, 2004 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 31, 2005

/s/ A. WILLIAM STEIN

A. William Stein
Chief Financial Officer and
Chief Investment Officer
(Principal Financial Officer)

Pursuant to Securities and Exchange Commission Release 33-8238, dated June 5, 2003, this certification is being furnished and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended or incorporated by reference in any registration statement of the Company filed under the Securities Act of 1933, as amended.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.