Digital Realty Trust, Inc.
Form 424B4
November 01, 2004
**Table of Contents**

Filed Pursuant to Rule 424(b)(4)

Registration No. 333-117865

**P R O S P E C T U S**

# 20,000,000 Shares

# Common Stock

---

This is the initial public offering of Digital Realty Trust, Inc. and no public market currently exists for our shares. All of the shares of our common stock offered by this prospectus are being sold by us. Our common stock has been approved for listing on the New York Stock Exchange, subject to official notice of issuance, under the symbol DLR . We have granted the underwriters an option to purchase up to 3,000,000 additional shares of our common stock to cover over-allotments. We expect to qualify as a real estate investment trust, or REIT, for federal income tax purposes.

We will receive or purchase from Global Innovation Partners, LLC, or GI Partners, and others contributions of our initial property investments in exchange for aggregate consideration with a value of $1,097.7 million, consisting of $21.4 million in cash, assumption of indebtedness and 38,262,206 limited partnership units in our operating partnership having a total value of $459.1 million based on the public offering price. Immediately following the completion of this offering, we will purchase 6,810,036 of these units (having an aggregate value of approximately $81.7 million based on the public offering price) from the investors in GI Partners for a per unit purchase price equal to the per share public offering price, net of underwriting discounts and commissions and financial advisory fees. If the underwriters exercise their over-allotment option, we will purchase additional units from these investors at the same price. Upon completion of this offering, consummation of the formation transactions and the purchase of units described above, GI Partners and the other third-party contributors, together with our directors and management, will own an approximate 62.8% interest in our company on a fully diluted basis.

---

**See Risk Factors beginning on page 19 for certain risk factors relevant to an investment in our common stock, including, among others:**

Our properties depend upon the technology industry and demand for technology-related real estate. A decline in the technology industry 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 dependent on significant tenants that may be costly or difficult to replace, and many of our properties are occupied by single tenants. The loss of significant tenants could cause a material decrease in cash available for distribution to you.

The majority of our initial properties are being contributed to our operating partnership by, or purchased from, GI Partners, an affiliated entity, for aggregate consideration with a value of $934.3 million, including $2.4 million in cash, assumption of indebtedness and 31,930,695 limited partnership units, having a total value of $383.2 million based on the public offering price. Conflicts of interest exist in connection with the transactions in which these properties will be contributed to us. We have not obtained appraisals for the initial properties in connection with the formation transactions and the consideration to be given by us in exchange for them may exceed their aggregate fair market value.

We have agreed to indemnify certain third-party contributors against adverse tax consequences if we were to sell, in taxable transactions, either of two of our properties that together represented 14.6% of our portfolio s annualized rent as of June 30, 2004, for a period of up to nine years, and to make up to $20.0 million of indebtedness available for guaranty by these contributors.

If we fail to qualify as a REIT for federal income tax purposes, we will be taxed as a corporation and our liability for certain federal, state and local income taxes may significantly increase, which could result in a material decrease in cash available for distribution to our stockholders.

---

| | Per Share | Total |
|---|---|---|
| Public Offering Price | $ 12.00 | $ 240,000,000 |
| Underwriting Discount | $ 0.75 | $ 15,000,000 |
| Proceeds, before expenses, to us | $ 11.25 | $ 225,000,000 |

The underwriters expect to deliver the shares on or about November 3, 2004.

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

---

**Citigroup** **Merrill Lynch & Co.**

**Credit Suisse First Boston**

**UBS Investment Bank**

**RBC Capital Markets**

**KeyBanc Capital Markets**

**JMP Securities**

The date of this prospectus is October 28, 2004.

**Table of Contents**

**Table of Contents**

## TABLE OF CONTENTS


| | Page |
|---|---|
| Prospectus Summary | 1 |
| Digital Realty Trust, Inc. | 1 |
| Overview | 1 |
| Our Competitive Strengths | 2 |
| Business and Growth Strategies | 3 |
| Summary Risk Factors | 4 |
| The Properties | 6 |
| Our Initial Portfolio | 6 |
| Right of First Offer Properties | 7 |
| Structure and Formation of Our Company | 8 |
| Our Structure | 10 |
| Material Benefits to Related Parties | 11 |
| Restrictions on Transfer | 12 |
| Conflicts of Interest | 12 |
| Restrictions on Ownership of our Stock | 13 |
| Unsecured Credit Facility | 13 |
| This Offering | 14 |
| Dividend Policy | 15 |
| Our Tax Status | 15 |
| Summary Selected Financial Data | 16 |
| Risk Factors | 19 |
| Forward-Looking Statements | 37 |
| Use Of Proceeds | 38 |
| Dividend Policy | 40 |
| Capitalization | 44 |
| Dilution | 45 |
| Selected Financial Data | 48 |

| | Page |
|---|---|
| Management s Discussion And Analysis Of Financial Condition And Results Of Operations | 51 |
| Industry Background/Market Opportunity | 74 |
| Business And Properties | 78 |
| Management | 116 |
| Certain Relationships And Related Transactions | 129 |
| Policies With Respect To Certain Activities | 135 |
| Structure And Formation Of Our Company | 139 |
| Description Of The Partnership Agreement Of Digital Realty Trust, L.P. | 144 |
| Principal Stockholders | 149 |
| Description Of Securities | 151 |
| Material Provisions Of Maryland Law And Of Our Charter And Bylaws | 156 |
| Shares Eligible For Future Sale | 161 |
| Federal Income Tax Considerations | 164 |
| ERISA Considerations | 181 |
| Underwriting | 184 |
| Legal Matters | 188 |
| Experts | 188 |
| Where You Can Find More Information | 189 |

**You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with different information. You should not assume that the information in this prospectus is accurate as of any date other than the date on the front cover of this prospectus.**

---

**Dealer Prospectus Delivery Requirement**

Until November 22, 2004 (25 days after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to a dealer s obligation to deliver a prospectus when acting as an underwriter and with respect to unsold allotments or subscriptions.

Table of Contents

## PROSPECTUS SUMMARY

*You should read the following summary together with the more detailed information regarding our company and the historical and pro forma financial statements appearing elsewhere in this prospectus, including under the caption Risk Factors. References in this prospectus to 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 in this prospectus as our operating partnership. Unless otherwise indicated, the information contained in this prospectus (including debt balances) is as of June 30, 2004, assumes that the underwriters over-allotment option is not exercised and gives effect to a 1.61193 for 1.0 stock and unit split immediately prior to the completion of this offering. Information related to the consideration to acquire our initial properties and with respect to uses of proceeds is estimated as of the anticipated consummation of this offering and the formation transactions.*

## Digital Realty Trust, Inc.

### Overview

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 expect to qualify as a REIT for federal income tax purposes beginning with our initial taxable year ending December 31, 2004.

Upon completion of this offering and consummation of the formation transactions, we will own 22 properties located throughout the U.S. and one property located in London, England, containing a total of approximately 5.6 million net rentable square feet. Our operations and acquisition activities are focused on 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. As of June 30, 2004, our properties were approximately 87.1% leased at an average annualized rent per leased square foot of $20.01. 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 collocation;
- 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.

We will pay to the entities that will contribute or sell our initial properties aggregate consideration with a value of $1,097.7 million, consisting of $21.4 million in cash, assumption of indebtedness and 38,262,206 units, having a total value of $459.1 million based upon the public offering price. Of this amount, we will pay

Table of Contents

consideration with a value of $934.3 million to our predecessor, Global Innovation Partners, LLC, or GI Partners, including $2.4 million in cash, assumption of indebtedness and 31,930,695 units. We will use a portion of the proceeds of this offering to purchase 6,810,036 of these units from the investing members of GI Partners. Subsequent to the completion of this offering and the purchase by us of such units, GI Partners will own 25,120,659 units, or an approximate 46.8% interest in our company on a fully diluted basis.

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 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 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.** Our portfolio is primarily located in 11 major metropolitan areas, including the Boston, Dallas, Los Angeles, New York, San Francisco and Silicon Valley metropolitan areas, and is diversified so that no one market represents more than 28.9% of the aggregate annualized rent of our portfolio as of June 30, 2004.

**Long-Term Leases.** We have long-term leases with stable cash flows. As of June 30, 2004, our average lease term was in excess of 12.6 years, with an average of 7.9 years remaining. Through 2007, leases representing only 7.9% of our net rentable square feet, or 7.8% of our aggregate annualized rent are scheduled to expire. Moreover, through 2005, only 1.6% of our net rentable square feet is scheduled to expire.

**Specialized Focus in Dynamic and Growing Industry.** We focus solely on technology-related real estate because we believe that the growth in 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 technology industry 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.** Since 2002, we have acquired or will acquire upon completion of this offering and consummation of the formation transactions an aggregate of 23 technology-related real estate properties with 5.6 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.

Table of Contents

**Experienced and Committed Management Team.** Our senior management team, including our Executive Chairman, collectively have an average of over 22 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. Upon completion of this offering, our senior management team is expected to collectively own an approximate 3.2% equity interest in our company on a fully diluted basis, which aligns management s interests with those of our stockholders.

**Unique Sourcing Relationships.** Upon completion of this offering, the members of our contributors will hold a substantial indirect investment in our company, and accordingly, we anticipate that they will continue to play an active role. We expect that CBRE 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. In addition, 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.

**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 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 87.1% leased as of June 30, 2004, leaving approximately 720,000 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 June 30, 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 Collocation Use.** We own approximately 181,000 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 and intend to continue to convert these spaces to multi-tenant collocation use, with each tenant averaging between 100 and 1,000 square feet of net rentable space. Multi-tenant collocation is a cost-effective solution for smaller tenants who cannot afford their own extensive infrastructure and security. Because we can provide such features, we are able to lease space to these smaller tenants at a significant premium to other uses.

**Leverage Strong Industry Relationships.** We use our strong industry relationships with national and regional technology intensive companies to comprehensively identify and 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 technology tenants.

**Use Capital Efficiently.** We have and will continue to opportunistically sell assets. 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.

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.

**Summary Risk Factors**

You should carefully consider the following important risks as well as the additional risks described in Risk Factors beginning on page 19:

Our portfolio of properties consists primarily of technology-related real estate. A decline in the technology industry 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 dependent on significant tenants that may be costly or difficult to replace, and many of our properties are occupied by single tenants. The loss of significant tenants could cause a material decrease in cash available for distribution to you.

The majority of our initial properties are being contributed or sold by GI Partners, an affiliated entity, for aggregate consideration with a value of $934.3 million, consisting of $2.4 million in cash, assumption of indebtedness and 31,930,695 units, having a total value of $383.2 million based upon the public offering price. Conflicts of interest exist in connection with the contribution of such properties to our operating partnership. We have not obtained appraisals of the properties and other assets to be contributed to our operating partnership. The negotiation with GI Partners of the contribution of the contributed properties and other assets and liabilities was not conducted at arm s length, and the consideration to be given by us in exchange for them may exceed their aggregate fair market value.

Under the contribution agreement with the third party contributors who will contribute the direct and indirect interests in the 200 Paul Avenue and 1100 Space Park Drive properties to our operating partnership, we agreed to indemnify them against adverse tax consequences if we were to sell, exchange or otherwise dispose of these properties in a taxable transaction until the earlier of the ninth anniversary of the completion of this offering and the date on which these contributors (or certain transferees) hold less than 25% of the units of our operating partnership issued to them in the formation transactions. These properties represented 14.6% of our portfolio s annualized rent as of June 30, 2004. In addition, under this contribution agreement, we agreed to make up to $20.0 million of indebtedness available for guaranty by these contributors which will, among other things, allow them to defer the recognition of gain in connection with the formation transactions.

We have owned our properties for a limited time and therefore our properties may have characteristics or deficiencies unknown to us that could affect such properties valuation or revenue potential.

If we fail to qualify as a REIT for federal income tax purposes, we will be taxed as a corporation and our liability for certain federal, state and local income taxes may significantly increase, which could result in a material decrease in cash available for distribution to

you.

Table of Contents

Potential losses from fires, floods, earthquakes, terrorist attacks or other liabilities, including liabilities for environmental matters, may not be fully covered by our insurance policies or may be subject to significant deductibles. Our tenants generally retain title to the extensive and highly valuable technology-related improvements in many of our buildings, and as such are generally required to insure them. 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.

Upon completion of this offering and consummation of the formation transactions, we anticipate that our total consolidated indebtedness will be approximately $510.0 million, and we may incur significant additional debt to finance future acquisition and development activities. Our debt service obligations with respect to such indebtedness will reduce cash available for distribution and expose us to the risk of default.

Our charter and bylaws, the Maryland General Corporation Law and the partnership agreement of our operating partnership contain provisions that may delay or prevent a change of control transaction or limit the opportunity for stockholders to receive a premium for their common stock in such a transaction, including a 9.8% limit on ownership of our common stock and a 9.8% limit on ownership of the value of our outstanding capital stock.

Upon completion of this offering, we will repay $243.7 million of a bridge loan made to GI Partners by an affiliate of Citigroup Global Markets Inc., one of the underwriters in this offering, and will assume the remaining $8.0 million outstanding under this loan. Additionally, affiliates of Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated are joint lead arrangers and joint bookrunning managers of our unsecured credit facility and we expect that affiliates of one or more of our underwriters may participate as agents or lenders under this facility. These transactions create potential conflicts of interest because the underwriters have an interest in the successful completion of this offering beyond the underwriting discounts and commissions and financial advisory fees they will receive. Consequently, the initial public offering price recommended by the underwriters could be higher than if such conflicts of interest did not exist.

Our performance and value are subject to risks associated with events and conditions generally applicable to owners and operators of real property that are beyond our control. 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, thus harming our financial condition.

Our estimated initial distributions represent approximately 94.7% of our estimated initial cash available for distribution for the 12 months ending June 30, 2005. We are party to debt agreements that contain lockbox and cash management provisions pursuant to which revenues generated by properties subject to such indebtedness are immediately swept into an account for the benefit of the lenders and are typically available to be distributed to us only after the funding of reserve accounts for, among other things, debt service, taxes, insurance, tenant improvements and leasing commissions. If our properties do not generate sufficient cash flow, we may be required to fund distributions from working capital or borrowings under our new credit facility or reduce such distributions.

Differences between the book value of properties contributed to our operating partnership and the aggregate price paid for our common stock in this offering will result in an immediate and substantial dilution in the pro forma net tangible book value of our common stock equal to $6.65 per share.

Table of Contents

**The Properties**

**Our Initial Portfolio**

The following table presents an overview of the initial portfolio of properties that we will own upon completion of this offering and consummation of the formation transactions, referred to herein as our portfolio, based on information as of June 30, 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] | Annualized Net Effective Rent Per Leased Square Foot[5] |
|---|---|---|---|---|---|---|---|---|
| **Telecommunications Infrastructure** | | | | | | | | |
| 200 Paul Avenue | San Francisco | 100.0% | 1955/1999&2001 | 532,238 | 82.9% | $ 10,617,600 | $ 24.05 | $ 28.02 |
| Univision Tower | Dallas | 100.0 | 1983 | 477,107 | 79.7 | 7,949,798 | 20.90 | 19.99 |
| Carrier Center[6] | Los Angeles | 100.0 | 1922/1999 | 449,254 | 80.5 | 7,484,586 | 20.70 | 24.53 |
| Camperdown House[7] | London, UK | 100.0 | 1983/1999 | 63,233 | 100.0 | 4,023,972 | 63.64 | 63.64 |
| 1100 Space Park Drive | Silicon Valley | 100.0 | 2001 | 167,951 | 46.6 | 3,481,041 | 44.51 | 52.35 |
| 36 Northeast Second Street | Miami | 100.0 | 1927/1999 | 162,140 | 81.1 | 2,986,641 | 22.72 | 25.69 |
| VarTec Building | Dallas | 100.0 | 1999 | 135,250 | 100.0 | 1,352,500 | 10.00 | 10.45 |
| | | | | **1,987,173** | **80.1** | **37,896,138** | **23.81** | **26.23** |
| **Information Technology Infrastructure** | | | | | | | | |
| Hudson Corporate Center | New York | 100.0 | 1989/2000 | 311,950 | 88.7 | 6,207,590 | 22.43 | 24.46 |
| Savvis Data Center | Silicon Valley | 100.0 | 2000 | 300,000 | 100.0 | 5,580,000 | 18.60 | 22.07 |
| AboveNet Data Center | Silicon Valley | 100.0 | 1987/1999 | 179,489 | 97.1 | 4,259,986 | 24.45 | 35.73 |
| Webb at LBJ | Dallas | 100.0 | 1966/2000 | 365,449 | 78.9 | 4,176,959 | 14.48 | 14.75 |
| NTT/Verio Premier Data Center | Silicon Valley | 100.0 | 1982-83/2001 | 130,752 | 100.0 | 3,781,200 | 28.92 | 31.11 |
| eBay Data Center | Sacramento | 75.0[8] | 1983/2000 | 62,957 | 100.0[9] | 1,133,226 | 18.00 | 19.20 |
| Brea Data Center | Los Angeles | 100.0 | 1981/2000 | 68,807 | 100.0 | 1,176,600 | 17.10 | 19.83 |
| AT&T Web Hosting Facility | Atlanta | 100.0 | 1998 | 250,191 | 50.0 | 1,098,036 | 8.78 | 10.59 |
| | | | | **1,669,595** | **85.5** | **27,413,597** | **19.21** | **22.31** |
| **Technology Manufacturing** | | | | | | | | |
| Ardenwood Corporate Park | Silicon Valley | 100.0 | 1985-86 | 307,657 | 100.0 | 7,580,645 | 24.64 | 25.39 |
| Maxtor Manufacturing Facility | Silicon Valley | 100.0 | 1991 & 1997[10] | 183,050 | 100.0 | 3,272,934 | 17.88 | 19.92 |
| ASM Lithography Facility[11] | Phoenix | 100.0 | 2002 | 113,405 | 100.0 | 2,549,165 | 22.48 | 25.52 |
| | | | | **604,112** | **100.0** | **13,402,744** | **22.19** | **23.75** |
| **Technology Office/Corporate Headquarters** | | | | | | | | |
| Comverse Technology Building | Boston | 100.0 | 1957 & 1999[12] | 388,000 | 99.7 | 5,891,393 | 15.22 | 16.11 |
| Stanford Place II | Denver | 98.0[13] | 1982 | 348,573 | 78.4 | 3,081,267 | 11.28 | 11.46 |
| 100 Technology Center Drive | Boston | 100.0 | 1989/2001 | 197,000 | 100.0 | 3,743,000 | 19.00 | 20.20 |
| Granite Tower | Dallas | 100.0 | 1999 | 240,151 | 98.0 | 3,528,909 | 15.00 | 15.41 |
| Siemens Building | Dallas | 100.0 | 1999 | 125,538 | 100.0 | 1,917,505 | 15.27 | 17.57 |
| | | | | **1,299,262** | **93.7** | **18,162,074** | **14.91** | **15.75** |

| | | | | | |
|---|---|---|---|---|---|
| **Portfolio Total/Weighted Average** | **5,560,142** | **87.1%** | **$ 96,874,553** | **$ 20.01** | **$ 22.13** |

(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.

Table of Contents

(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.
(3) Annualized rent represents the annualized monthly contractual rent under existing leases as of June 30, 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. Total abatements for leases in effect as of June 30, 2004 for the 12 months ending June 30, 2005 were $852,448.
(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) For properties owned as of June 30, 2004, annualized net effective rent per leased square foot represents the contractual rent for leases in place as of June 30, 2004, calculated on a straight line basis from the date of acquisition by GI Partners or the date the lease commenced, if later. This amount 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. This amount is further reduced by the annual amortization of any tenant improvement and leasing costs incurred by GI Partners for such leases, and is then divided by the net rentable square footage under lease as of the same date. For properties acquired or to be acquired after June 30, 2004, the same approach is used, except that the straight line rent calculation is as of the acquisition date or the projected acquisition date.
(6) We have been granted an option to purchase this property by GI Partners, which we intend to exercise simultaneously with, or shortly after, completion of this offering.
(7) Rental amounts for Camperdown House were calculated based on the exchange rate in effect on June 30, 2004 of $1.8126 per £1.00.
(8) Upon completion of this offering and consummation of the formation transactions, we will own a 75% tenancy-in-common interest in this property. Beginning in January 2005, we will have the right to acquire the remaining 25% interest in this property from a third party, which we intend to exercise.
(9) As of June 30, 2004, the eBay Data Center property was 100% leased to Sprint Communications Company. Commencing October 1, 2004, pursuant to leases entered into on June 1, 2004, the property will be 100% leased by two tenants, eBay and Sprint.
(10) This property consists of two buildings: 1055 Page Avenue was built in 1991 and 47700 Kato Road was built in 1997.
(11) Upon completion of this offering and consummation of the formation transactions, we will own the subsidiary that is party to a ground sublease covering this property. The term of the ground sublease expires on December 31, 2082.
(12) This property consists of two buildings: 100 Quannapowitt was built in 1999 and 200 Quannapowitt was built in 1957 and has subsequently been renovated.
(13) Upon completion of this offering and consummation of the formation transactions, we will indirectly own a 98% interest in a subsidiary that holds the fee simple interest in this property. An unrelated third party will continue to hold the remaining 2% interest in this subsidiary.

**Right of First Offer Properties**

In addition to its interests in the properties that will comprise a majority of our initial portfolio, including our option property, Carrier Center, GI Partners owns interests in two additional vacant technology-related properties. The first is an 84,000 square foot data center located in Englewood, Colorado (Denver metropolitan area) and the second is a 129,366 square foot data center located in Frankfurt, Germany. We will not acquire either of these properties in the formation transactions and we do not have an option to purchase either of them as of the close of this offering. However, we do have rights of first offer with respect to the sale of either of these properties by GI Partners.

Table of Contents

### Structure and Formation of Our Company

Prior to or simultaneously with the completion of this offering, we will engage in formation transactions, which are designed to consolidate the ownership of a portfolio of properties currently owned by GI Partners and private investors who are not affiliated with GI Partners into our operating partnership, facilitate this offering, enable us to raise necessary capital to repay existing indebtedness related to certain of the properties in our portfolio and other obligations, enable us to qualify as a REIT for federal income tax purposes commencing with the taxable year ending December 31, 2004 and preserve the tax position of certain continuing investors. Pursuant to the formation transactions and in conjunction with this offering:

Our operating partnership will receive a contribution of, or purchase, direct and indirect interests in a portfolio of properties owned by GI Partners, including the Carrier Center option property, in exchange for aggregate consideration with a value of $934.3 million, consisting of $2.4 million in cash, assumption of indebtedness and 31,930,695 units, having a total value of $383.2 million. It will also receive a contribution of, or purchase, properties and interests in properties from unaffiliated third parties in exchange for aggregate consideration with a value of $163.4 million, consisting of $19.0 million in cash, assumption of indebtedness and 6,331,511 units, having a total value of $76.0 million.

We will sell 20,000,000 shares of our common stock in this offering and an additional 3,000,000 shares if the underwriters exercise their over-allotment option in full.

Immediately following the completion of this offering, GI Partners will make a pro rata allocation, in accordance with their respective interests and its constitutive documents, to its investors, CalPERS and Global Innovation Contributors, LLC, or GI Contributors, of 6,810,036 of the operating partnership units received by GI Partners in the formation transactions (having an aggregate value of approximately $81.7 million based on the public offering price of our common stock in this offering). Immediately thereafter, as part of the formation transactions, we will purchase from CalPERS and GI Contributors these operating partnership units at a price per unit equal to the per share public offering price, net of underwriting discounts and commissions and financial advisory fees. If the underwriters exercise their over-allotment option, GI Partners will make an additional pro rata allocation to CalPERS and GI Contributors of an aggregate number of operating partnership units equal to the number of shares sold pursuant to such exercise, and we will purchase such operating partnership units from CalPERS and GI Contributors at a price per unit equal to the per share public offering price, net of underwriting discounts and commissions and financial advisory fees. The units purchased by us from CalPERS and GI Contributors will automatically convert from limited partner interests to general partner interests upon purchase. We structured the transaction in this manner because certain of GI Partners members, CalPERS and GI Contributors, wished to receive cash in connection with the formation transactions, while its other member did not. This structure is also consistent with the intent of GI Partners and its other member to not recognize taxable gain in connection with the formation transactions.

Upon consummation of the offering or shortly thereafter, our operating partnership or the property-owning entities will use certain of the properties to be contributed by GI Partners to secure approximately $215.0 million of new mortgage loans and our operating partnership will enter into a $200 million unsecured credit facility under which our operating partnership will initially borrow approximately $31.4 million.

Our operating partnership will use a portion of the net proceeds of this offering, the new mortgage loans and borrowings under our new unsecured credit facility to repay approximately $354.0 million of indebtedness and prepayment penalties, including amounts to be repaid to an affiliate of Citigroup Global Markets Inc., and will use $4.7 million to purchase the remaining 25% interest in the eBay Data Center property in early 2005. In addition, we will repay GI Partners for approximately $4.5 million loaned to us to pay costs related to this offering and the formation transactions.

Table of Contents

Richard A. Magnuson, the chief executive officer of the advisor to GI Partners, and Michael F. Foust and Scott E. Peterson, both managing directors of GI Partners, will become executives of our company and our operating partnership. Additional professionals and consultants dedicated to GI Partners real estate business will become employees of our company and our operating partnership.

We will issue an aggregate of 1,490,561 vested long-term incentive units and unvested options to purchase 783,902 shares of our common stock with an exercise price equal to the public offering price to the Executive Chairman of our board of directors and our officers and certain key employees. These long-term incentive units will not be transferable for a period of three years from the date of grant and will receive the same quarterly per unit distributions as common units in our operating partnership, which equal per share distributions on our common stock. Initially, long-term incentive units will 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 our operating partnership for all purposes, and therefore accrete to an economic value equivalent to our common stock on a one-for-one basis.

The number of units to be issued by our operating partnership in exchange for the initial properties was determined through negotiations among us and the contributors, based on the historical performance, growth prospects, leverage and other factors relating to the properties contributed by the various contributors. We have not obtained any recent third-party appraisals of the properties and other assets to be contributed to our operating partnership or purchased by our operating partnership for cash in the formation transactions, or any other independent third-party valuations or fairness opinions in connection with the formation transactions. As a result, the consideration to be given by us for these properties and other assets in the formation transactions may exceed their fair market value.

Upon completion of this offering and consummation of the formation transactions:

Purchasers of our common stock in this offering will own 100% of our outstanding common stock, or approximately 37.2% of our common stock on a fully diluted basis, and we will be the sole general partner of our operating partnership and will own approximately 37.8% of the outstanding units therein.

We expect to have total consolidated indebtedness of approximately $510.0 million.

Table of Contents

**Our Structure**

The following diagram depicts our ownership structure upon completion of this offering, consummation of the formation transactions and exercise of the Carrier Center option. Our operating partnership will own the various properties depicted below directly or indirectly, and in some cases through special purpose entities that were created in connection with various financings.

---

(1) Reflects the purchase by us of 6,810,036 units from the investors in GI Partners immediately following completion of this offering as part of the formation transactions.
(2) Excludes shares issuable with respect to stock options that have been granted but are not yet exercisable.
(3) Reflects limited partnership interests held by our officers and directors in the form of vested long-term incentive units that will be issued in connection with this offering and the formation transactions.
(4) This property will be held through a taxable REIT subsidiary.
(5) Upon completion of this offering and consummation of the formation transactions, we will own a 75% tenancy-in-common interest in this property. Beginning in January 2005, we will have the right to acquire the remaining 25% interest in this property from a third party, which we intend to exercise.
(6) Upon completion of this offering and consummation of the formation transactions, we will 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.

Table of Contents

**Material Benefits to Related Parties**

Upon completion of this offering or in connection with the formation transactions, GI Partners and other related persons or entities will receive material benefits, including the following:

- Aggregate consideration with a value of $934.3 million, consisting of $2.4 million in cash, assumption of indebtedness and 31,930,695 units (with a total value of $383.2 million), in exchange for the contribution or sale of its interests in the property entities and other assets (including the Carrier Center option property). The aggregate historical combined net tangible book value of the interests to be contributed to us by GI Partners was approximately $114.6 million as of June 30, 2004.

- The release of recourse carve-out guarantees and environmental indemnities by GI Partners related to approximately $463.1 million of indebtedness that will be repaid or assumed by us upon completion of this offering and consummation of the formation transactions.

- In connection with this offering, GI Partners will cause the property entities to make distributions to GI Partners in an aggregate amount that we currently anticipate to be no greater than $8.0 million. These distributions are intended to approximate customary commercial real estate prorations, whereby the buyer and seller apportion rents, taxes, utilities, escrowed or restricted funds and other operating expenses.

- Immediately following the completion of this offering, GI Partners will make a pro rata allocation, in accordance with their respective interests and with terms of its constitutive documents, to its investors, CalPERS and GI Contributors, of 6,810,036 of the operating partnership units received by GI Partners in the formation transactions (having a total value of approximately $81.7 million based on the public offering price of our common stock), and immediately thereafter, as part of the formation transactions, we will purchase from these investors the operating partnership units allocated to them at a price per unit equal to the per share public offering price, net of underwriting discounts and commissions and financial advisory fees payable to the underwriters. If the underwriters exercise their over-allotment option, GI Partners will make an additional pro rata allocation to CalPERS and GI Contributors of an aggregate number of operating partnership units equal to the number of shares sold pursuant to such exercise, and we will purchase such operating partnership units from CalPERS and GI Contributors at a price per unit equal to the per share public offering price, net of underwriting discounts and commissions and financial advisory fees payable to the underwriters. The units purchased by us from CalPERS and GI Contributors will automatically convert from limited partner interests to general partner interests upon purchase by us.

Our senior officers will receive material benefits, including the following:

- Richard A. Magnuson will serve as Executive Chairman of our board. Michael F. Foust will serve as our Chief Executive Officer. A. William Stein will serve as our Chief Financial Officer and Chief Investment Officer. Scott E. Peterson will serve as our Senior Vice President, Acquisitions. John O. Wilson will serve as our Executive Vice President, Technology Infrastructure. Each is party to an employment agreement providing for salary, bonus and other benefits, including the grant of long-term incentive units of our operating partnership and stock options, and potentially, severance upon a termination of employment under certain circumstances, and indemnification by us for certain liabilities and expenses incurred as a result of actions brought, or threatened to be brought, against them as officers.

Table of Contents

**Restrictions on Transfer**

Under the partnership agreement of our operating partnership, except under certain circumstances, holders of operating partnership units do not have redemption or exchange rights for a period of 14 months and may not otherwise transfer their units for a period of 12 months following completion of this offering. In addition, our senior officers and directors have agreed not to sell or otherwise transfer or encumber any shares of our common stock or securities convertible or exchangeable into our common stock (including units) owned by them at the completion of this offering or thereafter acquired by them for a period of one year after the completion of this offering without the consent of Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated. Furthermore, our officers and directors have agreed not to sell or otherwise transfer any long-term incentive units granted to them under our incentive award plan for a period of three years from the date of grant.

**Conflicts of Interest**

Following the completion of this offering, there will be conflicts of interest with respect to certain transactions between the holders of units in our operating partnership, including GI Partners and certain executive officers, on the one hand, and us and our stockholders, on the other.

GI Partners and certain other contributors have ownership interests in the properties and in the other assets and liabilities to be contributed to our operating partnership in the formation transactions, including the property subject to the Carrier Center option, and in the properties on which we have rights of first offer. Following the completion of this offering and the consummation of the formation transactions, we, under the agreements relating to the contribution of such interests, will 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 will enter into a non-competition agreement with us pursuant to which it will agree, 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 on an arm s-length basis. 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.

GI Partners will also have a conflict of interest because our operating partnership executed the Carrier Center option and two right of first offer agreements with entities directly or indirectly owned by GI Partners and it could be economically beneficial to GI Partners if the operating partnership exercised this option or such rights of first offer.

An affiliate of Citigroup Global Markets Inc., one of our underwriters, is the lender under a bridge loan facility that has been made to GI Partners prior to this offering and will in its capacity as a lender receive a significant portion of the proceeds of this offering in addition to the underwriting discounts and commissions and financial advisory fees, reimbursement of some expenses and indemnification for some liabilities that may result from this offering. Additionally, affiliates of Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated are joint lead arrangers and joint bookrunning managers of our unsecured credit facility and we expect that affiliates of one or more of our underwriters may participate as agents or lenders under this facility. These transactions create potential conflicts of interest because the underwriters have an interest in the successful completion of this offering beyond the underwriting discounts and commissions and financial advisory fees they will receive.

12

Table of Contents

We have adopted policies that are designed to eliminate or minimize certain potential conflicts of interest and the limited partners of our operating partnership have agreed that if there is a conflict between the interests of our stockholders on the one hand and the limited partners on the other, we, as general partner of our operating partnership, will endeavor in good faith to resolve the conflict in a manner not adverse to either our stockholders or the limited partners; provided, however, 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. In addition, we have adopted a policy requiring that any decision to acquire the right of first offer properties requires the consent of a majority of our independent directors.

**Restrictions on Ownership of our Stock**

Due to limitations on the concentration of ownership of REIT stock imposed by the Internal Revenue Code of 1986, as amended, or the Code, our charter documents generally prohibit any person from actually or constructively owning more than 9.8% of the outstanding shares of our common stock and 9.8% of the value of our outstanding capital stock. Our charter documents, however, do permit exceptions to be made for stockholders provided our board of directors determines such exceptions will not jeopardize our tax status as a REIT.

**Unsecured Credit Facility**

We will enter into a $200 million unsecured revolving credit facility with affiliates of Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated, our joint bookrunning managers for this offering, as joint lead arrangers and joint bookrunning managers, prior to or contemporaneously with this offering. We expect several of the underwriters to be lenders under this facility. We expect to draw $31.4 million under this facility concurrently with the consummation of this offering in connection with the repayment of existing indebtedness and that a portion of this credit facility will remain available to us pursuant to the terms of this facility upon the closing of this offering and the consummation of the formation transactions. We expect that this credit facility may be guaranteed by certain of our subsidiaries whose governance agreements and loan documents do not otherwise prohibit such guarantees. We expect that the unsecured credit facility will have a one-year extension option. We intend to use the credit facility, among other things, to finance the acquisition of properties (potentially including the right of first offer properties, although the acquisition of the right of first offer properties is not currently probable), provide funds for tenant improvements and capital expenditures, and provide for working capital and other corporate purposes. We anticipate that the credit facility will contain customary covenants for credit facilities of this type.

Table of Contents

**This Offering**

| | |
|---|---|
| Common stock offered by us | 20,000,000 shares |
| Common stock to be outstanding after this offering | 20,000,000 shares(1) |
| Common stock and operating partnership units to be outstanding after this offering | 52,942,731 shares/units(1)(2) |
| Use of proceeds | We intend to use the net proceeds of this offering, borrowings under new mortgage loans incurred contemporaneously with or shortly after this offering and borrowings under our unsecured revolving credit facility to: |

- repay approximately $354.0 million of existing indebtedness, including prepayment penalties;
- purchase operating partnership units issued in connection with the formation transactions (having an aggregate value of approximately $81.7 million based on the public offering price) from the investors in GI Partners at a price per unit equal to the per share public offering price, net of underwriting discounts and commissions and financial advisory fees, or $76.0 million in the aggregate;
- acquire the 75% and 25% interests in the eBay Data Center property for a total purchase price of $14.3 million;
- pay $15.0 million of the consideration to acquire the 200 Paul Avenue and 1100 Space Park Drive properties;
- repay GI Partners for approximately $4.5 million loaned to us for transaction expenses related to this offering and the formation transactions; and
- fund general working capital and potentially to fund future acquisitions.

If the underwriters exercise their over-allotment option, we will purchase additional units from the investors in GI Partners in an amount equal to the number of shares sold pursuant to such exercise, at a price per unit equal to the per share public offering price, net of underwriting discounts and commissions and financial advisory fees, for an aggregate of $33.5 million, assuming exercise of the underwriters over-allotment option in full.

| | |
|---|---|
| New York Stock Exchange symbol | DLR |

(1)

Excludes 3,000,000 shares issuable upon exercise of the underwriters over-allotment option, 2,199,639 shares available for future issuance under our incentive award plan and 783,902 shares underlying options granted under our incentive award plan.

(2) Includes 31,452,170 units held by limited partners expected to be outstanding following consummation of the formation transactions and 1,490,561 vested long-term incentive units to be granted under our incentive award plan that in each case may, subject to limits in the partnership agreement for our operating partnership, be exchanged for cash or, at our option, shares of our common stock on a one-for-one basis generally commencing 14 months after the date of this prospectus.

Table of Contents

## Dividend Policy

We intend to pay regular quarterly dividends to holders of our common stock. We intend to pay a pro rata dividend with respect to the period commencing on the completion of this offering and ending December 31, 2004, based on $0.24375 per share for a full quarter. On an annualized basis, this would be $0.975 per share, or an annual distribution rate of approximately 8.1% based on the public offering price. We expect to pay our first dividend in 2005; accordingly, none of these distributions will represent a return of capital for the tax period ending December 31, 2004. We estimate that our initial annual distribution rate will represent approximately 94.7% of estimated cash available for distribution for the 12 months ending June 30, 2005. We established this distribution rate based upon an estimate of cash available for distribution after this offering, which we have calculated based on adjustments to our pro forma net income before minority interests for the year ended December 31, 2003. We have estimated cash available for distribution for the sole purpose of determining our initial distribution amount. Our estimate of cash available for distribution should not be considered as an alternative to cash flow from operating activities (determined in accordance with accounting principles generally accepted in the United States of America, or GAAP) as an indicator of our liquidity or our ability to pay dividends or make other distributions. We intend to maintain our initial distribution rate for the 12-month period following completion of this offering unless actual results of operations, economic conditions or other factors differ materially from the assumptions used in our estimate. Dividends and other distributions made by us will be authorized and determined by our board of directors in its sole discretion out of funds legally available therefor and will be dependent upon a number of factors, including restrictions under applicable law and the capital requirements of our company. We believe that our estimate of cash available for distribution constitutes a reasonable basis for setting the initial dividend; however, we cannot assure you that the estimate will prove accurate, and actual distributions may therefore be significantly different from the expected distributions. If we have underestimated our cash available for distribution, we may need to increase our borrowings in order to fund our intended distributions. We expect our distributions to be greater than net income under GAAP because of non-cash expenses included in net income. We do not intend to reduce the expected distribution per share if the underwriters exercise their over-allotment option.

## Our Tax Status

We intend to elect to be taxed as a REIT under Sections 856 through 860 of the Code, commencing with our taxable year ending December 31, 2004. We believe that our organization and proposed method of operation will enable us to meet the requirements for qualification and taxation as a REIT for federal income tax purposes. To maintain REIT status, we must meet a number of organizational and operational requirements, including a requirement that we annually distribute at least 90% of our net taxable income to our stockholders, excluding net capital gains. As a REIT, we generally will not be subject to federal income tax on REIT taxable income we currently distribute to our stockholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax at regular corporate rates. Even if we qualify for taxation as a REIT, we may be subject to some federal, state and local taxes on our income or property and the income of our taxable REIT subsidiaries will be subject to taxation at normal corporate rates.

Table of Contents

**Summary Selected Financial Data**

The following table sets forth summary selected financial and operating data on a combined historical basis for the Digital Realty Predecessor. The Digital Realty 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 Digital Realty Trust, Inc. because we have not had any corporate activity since our formation 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 Digital Realty Trust, Inc. would not be meaningful. The Digital Realty Predecessor combined historical financial information includes:

- the wholly owned real estate subsidiaries and majority-owned real estate joint ventures that GI Partners intends to contribute to our operating partnership in connection with this offering;

- an allocation of GI Partners line of credit to the extent that borrowings and related interest expense relate to (1) borrowings to partially 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 are unpaid as of the date of the financial statements and an allocation of GI Partners general and administrative expenses.

You should read the following summary selected financial data in conjunction with our combined historical consolidated financial statements and the related notes and with Management s Discussion and Analysis of Financial Conditions and Results of Operations, which are included elsewhere in this prospectus.

The historical combined balance sheet information as of December 31, 2003 and 2002 of the Digital Realty Predecessor and the combined statements of operations information for the years then ended and for the period from February 28, 2001 (inception) through December 31, 2001 of the Digital Realty Predecessor have been derived from the historical combined financial statements audited by KPMG LLP, independent registered public accounting firm, whose report with respect thereto is included elsewhere in this prospectus. The historical combined balance sheet information as of June 30, 2004 and December 31, 2001 and the combined statements of operations information for the six months ended June 30, 2004 and 2003 have been derived from the unaudited combined financial statements of the Digital Realty Predecessor. In the opinion of the management of our company, the historical combined balance sheet information as of June 30, 2004 and the historical combined statements of operations for the six months ended June 30, 2004 and 2003 include all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the information set forth therein. Our results of operations for the interim period ended June 30, 2004 are not necessarily indicative of the results to be obtained for the full fiscal year.

Our unaudited summary selected pro forma consolidated financial statements and operating information as of and for the six months ended June 30, 2004 and for the year ended December 31, 2003 assume completion of this offering and consummation of the formation transactions as of the beginning of the periods presented for the operating data and as of the stated date for the balance sheet data. Our pro forma consolidated financial statements include the effects of the acquisition by us of the properties acquired or expected to be acquired subsequent to June 30, 2004 along with the related financing transactions as if those acquisitions and financing transactions had occurred as of the beginning of the period presented for the operating data and as of the stated date for the balance sheet data. Our pro forma financial information is not necessarily indicative of what our actual financial position and results of operations would have been as of the date and for the periods indicated, nor does it purport to represent our future financial position or results of operations.

16

Table of Contents

**The Company and the Digital Realty Predecessor**

**(Amounts in thousands, except per share data)**

| | Six Months Ended June 30, | | | Year Ended December 31, | | | Period from February 28, 2001 (inception) through December 31, |
|---|---|---|---|---|---|---|---|
| | Pro Forma Consolidated | Historical Combined | | Pro Forma Consolidated | Historical Combined | | Historical Combined |
| | 2004 | 2004 | 2003 | 2003 | 2003 | 2002 | 2001 |
| | (Unaudited) | (Unaudited) | | (Unaudited) | | | |
| **Statement of Operations Data:** | | | | | | | |
| Rental revenues | $ 60,548 | $ 34,461 | $ 22,298 | $ 118,881 | $ 50,099 | $ 21,203 | $ |
| Tenant reimbursements | 11,180 | 5,397 | 4,317 | 22,288 | 8,661 | 3,894 | |
| Other revenues | 2,320 | 1,712 | 4,222 | 6,016 | 4,328 | 458 | 12 |
| Total revenues | 74,048 | 41,570 | 30,837 | 147,185 | 63,088 | 25,555 | 12 |
| Rental property operating and maintenance expenses | 12,427 | 6,289 | 3,638 | 22,954 | 8,624 | 4,997 | |
| Property taxes | 5,835 | 3,833 | 2,416 | 11,013 | 4,688 | 2,755 | |
| Insurance | 1,230 | 562 | 208 | 2,278 | 626 | 83 | |
| Interest expense | 14,899 | 7,878 | 4,099 | 29,789 | 10,091 | 5,249 | |
| Asset management fees to related party | | 1,592 | 1,592 | | 3,185 | 3,185 | 2,663 |
| Depreciation and amortization expense | 22,065 | 12,218 | 7,187 | 43,473 | 16,295 | 7,659 | |
| General and administrative expenses | 20,189 | 157 | 43 | 22,448 | 329 | 249 | |
| Other expenses | 2,588 | 2,540 | 2,480 | 2,698 | 2,459 | 1,249 | 107 |
| Total expenses | 79,233 | 35,069 | 21,663 | 134,653 | 46,297 | 25,426 | 2,770 |
| Income (loss) before minority interests (deficit) | (5,185) | 6,501 | 9,174 | 12,532 | 16,791 | 129 | (2,758) |
| Minority interests (deficit) | (3,231) | (56) | 73 | 7,797 | 149 | 190 | |
| Net income (loss) | $ (1,954) | $ 6,557 | $ 9,101 | $ 4,735 | $ 16,642 | $ (61) | $ (2,758) |
| **Balance Sheet Data (at period end)[1]** | | | | | | | |
| Investments in real estate, after accumulated depreciation and amortization | 780,211 | $ 582,737 | $ | $ | $ 391,737 | $ 212,009 | $ |
| Total assets | 1,000,471 | 731,237 | | | 479,698 | 269,836 | 1,893 |
| Notes payable under line of credit | 31,440 | 75,317 | | | 44,436 | 53,000 | |
| Notes payable under bridge loan | 7,950 | 99,500 | | | | | |
| Mortgages and other secured loans | 470,628 | 299,079 | | | 253,429 | 103,560 | |
| Total liabilities | 559,871 | 509,684 | | | 328,303 | 183,524 | 903 |
| Minority interests | 274,205 | 3,250 | | | 3,444 | 3,135 | |
| Stockholders /owner s equity | 166,395 | 218,303 | | | 147,951 | 83,177 | 990 |
| Total liabilities and stockholders /owner s equity | 1,000,471 | 731,237 | | | 479,698 | 269,836 | 1,893 |
| **Per Share Data:** | | | | | | | |
| Pro forma earnings (loss) per share basic and diluted | $ (0.10) | | | $ 0.24 | | | |
| | 20,000 | | | 20,000 | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Pro forma weighted average common shares outstanding basic and diluted | | | | | | | |
| **Other Data:** | | | | | | | |
| Funds from operations[2] | 16,894 | | | $ 56,005 | | | |
| Cash flows from: | | | | | | | |
| Operating activities | | $ 15,008 | $ 13,343 | | $ 28,986 | $ 9,645 | $ (1,867) |
| Investing activities | | (227,747) | (107,130) | | (215,263) | (164,755) | (1,881) |
| Financing activities | | 211,833 | 92,225 | | 187,873 | 158,688 | 3,748 |

(1) Balance sheet data as of December 31, 2001 is unaudited.

(2) We calculate funds from operations, or FFO, in accordance with the standards established by the National Association of Real Estate Investment Trusts, or NAREIT. FFO represents net income (loss) (computed in accordance with accounting principles generally accepted in the United States of America, or GAAP), excluding gains (or losses) from sales of property, real estate related depreciation and amortization (excluding amortization of deferred financing costs) and after adjustments for unconsolidated partnerships and joint ventures. Management uses FFO as a supplemental performance measure because, in excluding real estate related depreciation and

amortization and gains and losses from property dispositions, it provides a performance measure that, when compared year over year, captures trends in occupancy rates, rental rates and operating costs. We also believe that, as a widely recognized measure of the performance of REITs, FFO will be used by investors as a basis to compare our operating performance with that of other REITs. However, because FFO excludes depreciation and amortization and captures neither the changes in the value of our properties that result from use or market conditions nor the level of capital expenditures and leasing commissions necessary to maintain the operating performance of our properties, all of which have real economic effect and could materially impact our results from operations, the utility of FFO as a measure of our performance is limited. Other equity REITs may not calculate FFO in accordance with the NAREIT definition and, accordingly, our FFO may not be comparable to such other REITs FFO. Accordingly, FFO should be considered only as a supplement to net income as a measure of our performance. FFO should not be used as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to pay dividends or make distributions. FFO also should not be used as a supplement to or substitute for cash flow from operating activities computed in accordance with GAAP. The following table sets forth a reconciliation of our pro forma funds from operations for the periods presented (in thousands):

| | Pro Forma | |
|---|---|---|
| | Six Months Ended June 30, 2004 | Year Ended December 31, 2003 |
| Pro forma income (loss) before minority interest in operating partnership but after minority interest in consolidated joint ventures | $ (5,171) | $ 12,532 |
| Plus: pro forma real estate depreciation and amortization | 22,065 | 43,473 |
| Pro forma funds from operations[(a)] | $ 16,894 | $ 56,005 |

(a) Pro forma funds from operations as set forth above includes $17.9 million of compensation expense related to fully-vested long-term incentive units granted in connection with this offering and the formation transactions for the periods presented.

18

**Table of Contents**

## RISK FACTORS

*Investment in our common stock involves risks. In addition to other information contained in this prospectus, you should carefully consider the following factors before acquiring shares of our common stock offered by this prospectus. The occurrence of any of the following risks might cause you to lose all or a part of your investment. Some statements in this prospectus, including statements in the following risk factors, constitute forward looking statements. Please refer to the section entitled Forward Looking Statements.*

### 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 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 technology industry (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 June 30, 2004, the 20 largest tenants in our property portfolio represented approximately 74.1% of the total annualized rent generated by our properties. Our largest tenants by annualized rent are Savvis Communications and Qwest Communications. Savvis Communications leased 588,359 square feet of net rentable space as of June 30, 2004, representing approximately 12.6% of the total annualized rent generated by our properties. Qwest Communications leased 260,442 square feet of net rentable space as of June 30, 2004, representing approximately 7.9% of the total annualized rent generated by our properties. In addition, ten 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 also 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. Currently, one tenant, Universal Access Global Holdings Inc., leasing approximately 22,562 square feet of net rentable space, is in bankruptcy. 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, 8 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 the date of this prospectus.

Our revenue and cash available for distribution to you could be materially adversely affected if any of our significant tenants were to become bankrupt or insolvent, or suffer a downturn in their business, or fail to renew their leases at all or renew on terms less favorable to us than their current terms.

Table of Contents

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

Our properties are located 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 to you 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 initial portfolio is geographically concentrated in the Boston, Dallas, Los Angeles, New York, San Francisco and Silicon Valley metropolitan markets. These markets comprised 9.9%, 19.5%, 8.9%, 6.4%, 11.0% and 28.9%, respectively, of annualized rent as of June 30, 2004 of the properties comprising our initial portfolio. As such, positive or negative changes in conditions in these markets in particular will impact our overall performance.

**We have not obtained appraisals of the properties in connection with this offering and the consideration given by us in exchange for them may exceed their fair market value.**

The majority of our initial properties (including the Carrier Center option property) are being contributed or sold by GI Partners, an affiliated entity, for aggregate consideration with a value of $934.3 million, consisting of $2.4 million in cash, assumption of indebtedness and 31,930,695 units, having a total value of $383.2 million based upon the public offering price. Conflicts of interest exist in connection with the transactions in which these properties are being contributed to our operating partnership. We have not obtained appraisals of the properties and other assets to be contributed to our operating partnership, nor any independent third-party valuations or fairness opinions in connection with the formation transactions. The negotiation with GI Partners of the contributions of the contributed properties was not conducted at arm s length. The initial public offering price of our common stock was determined in consultation with the underwriters. Among the factors that were considered were our record of operations, our management, our estimated net income, our estimated funds from operations, our estimated cash available for distribution to you, our anticipated dividend yield, our growth prospects, the current market valuations, financial performance and dividend yields of publicly traded companies considered by us and the underwriters to be comparable to us and the current state of the commercial real estate industry and the economy as a whole. The initial public offering price does not necessarily bear any relationship to our book value or the fair market value of our assets. As a result, the consideration to be given by us in exchange for the contribution of properties and other assets and liabilities in the formation transactions may exceed the fair market value of these properties and assets and liabilities.

The terms of the Carrier Center option agreement and the terms of the right of first offer agreements related to the Denver and Frankfurt properties also were not determined by arm s-length negotiations, and such terms may be less favorable to us than those that may have been obtained through negotiations with third parties. It may never become economically attractive to exercise our operating partnership s rights of first offer with respect to GI Partners Denver and Frankfurt properties based upon the price formulas set forth in such agreements. Our operating partnership s rights of first offer on the Denver and Frankfurt properties expire on the date that is the earlier of five years following completion of this offering, the completion of the dissolution and winding up of GI Partners and the time GI Partners no longer owns the subject property. Thereafter, GI Partners could manage, own and operate such properties in competition with us or sell them to a competitor without restriction. In addition, the rights of first offer on the Denver and Frankfurt properties expire if our operating partnership declines to exercise its respective right and the property is sold to a third party within 180 days.

Table of Contents

**We have owned our properties for a limited time.**

Upon completion of this offering and consummation of the formation transactions, we will own 22 properties located throughout the U.S. and one property located in London, England, containing a total of approximately 5.6 million net rentable square feet. All the properties have been under our management for less than three years, and 12 of the properties have 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 currently also provides all of our accounting and financial reporting services. In the months following completion of this offering and consummation of the formation transactions, our asset management function will be internalized and we will undertake accounting and financial reporting obligations and 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 quarter of 2005.

**We have no operating history as a REIT or a public company.**

We were formed in March 2004 and have no operating history as a REIT or 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 to you.

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

In connection with the formation transactions, we have agreed with the third-party contributors who will contribute 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 14.6% of our portfolio s annualized rent as of June 30, 2004. These tax protection provisions apply for a period expiring on the earlier of the ninth anniversary of the completion of this offering and the date on which these contributors (or certain transferees) hold less than 25% of the units issued to them in the formation transactions. 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.**

Upon completion of this offering, we plan to 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 will 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 will not carry

insurance for generally uninsured losses such as loss from riots, war, terrorist attacks or acts of God. Some of our policies, like those covering losses due to floods, will be insured subject to limitations involving large deductibles or co-payments and policy limits which may not be sufficient to cover losses. Some of the properties we will own are located in California, an area especially subject to earthquakes. Together, these properties represented approximately 50.0% of our portfolio s annualized rent as of June 30, 2004. While we will 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 to you and may expose us to the risk of default under our debt obligations.**

Upon completion of this offering and consummation of the formation transactions, we anticipate that our total consolidated indebtedness will be approximately $510.0 million, and we may incur significant additional debt to finance future acquisition and development activities. Prior to or concurrently with the completion of this offering, we intend to enter into an unsecured credit facility. 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 or to pay the dividends currently contemplated or 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

Table of Contents

- 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 to you, per share trading price of our common 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 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 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 acquirors 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.

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 to you, per share trading price of our common 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 a competitive bidding environment, which could potentially lead to higher prices. We obtain access to off-market deal flow from numerous sources, including CalPERS and CBRE. CBRE has assisted us in acquiring three of our properties in off-market transactions. CalPERS and CBRE will reduce their indirect

Table of Contents

interests in us in connection with this offering, and CalPERs and/or CBRE may further dispose of their interests in us in the future. We cannot assure you that CalPERs or CBRE will continue to assist us with obtaining off-market deal flow in the future. 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 to you, per share trading price of our common 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 June 30, 2004, leases representing 0.9% and 0.7% of the square footage of the properties in our portfolio were scheduled to expire in the remainder of 2004 and 2005, respectively, and an additional 12.9% of the square footage of the properties in our portfolio was available. We cannot assure you that leases will be renewed or that our properties will be re-leased at net effective rental rates equal to or above the current average net effective rental rates. If the rental rates for our properties decrease, our existing tenants do not renew their leases or we do not re-lease a significant portion of our available space and space for which leases are scheduled to expire, our financial condition, results of operations, cash flow, cash available for distribution to you, per share trading price of our common 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 the financing on favorable terms or at all. Any additional debt we incur will increase our leverage. Our access to third-party sources of capital depends, in part, on:

- general market conditions;
- the market s perception of our growth potential;
- our current debt levels;

our current and expected future earnings;

our cash flow and cash distributions; and

the market price per share of our common stock.

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

Table of Contents

**Our unsecured credit facility will restrict our ability to engage in some business activities.**

We anticipate that our unsecured credit facility will contain 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.

Upon completion of this offering, we will own a 75% tenancy-in-common interest in the eBay Data Center property and an unrelated third party will hold the remaining 25% of the tenancy-in-common. Although we have the right to manage and direct the eBay Data Center property s operations, including financing, sale or exchange, our rights to incur indebtedness or sell the property under the co-tenancy agreement are limited in certain circumstances.

**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.

Table of Contents

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. Upon completion of this offering, we expect to enter into interest rate swap agreements for $140.3 million of our variable rate debt. As a result, we expect that upon completion of this offering, approximately 79.3% of our total indebtedness will be 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 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 technology industry tenant and could require modification in order for us to re-lease vacant space to another 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.**

Upon completion of this offering, we will own one property located outside of the U.S. and we will 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 to you, per share trading price of our common stock and ability to satisfy our debt obligations.

We intend to 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.

26

Table of Contents

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 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 to you and the value of our properties. These events 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 to you, per share trading price of our common 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, thus harming 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.

Table of Contents

**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 initial portfolio. Each of the site assessments has been either completed or updated since January 1, 2002, except 36 Northeast Second Street and Univision Tower. 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 of remediating the problem.**

When excessive moisture accumulates in buildings or on building materials, mold growth may occur, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. 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 the properties in our portfolio substantially comply 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 to you, per share trading price of our common 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 the properties in our portfolio are currently in material compliance with all applicable regulatory requirements. However, we do not know whether existing requirements will change or whether future requirements will require us to make significant unanticipated expenditures that will materially adversely impact our financial condition, results of operations, cash flow, cash available for distribution to you, the per share trading price of our common stock and our ability to satisfy our debt service obligations.

**Risks Related to Our Organizational Structure**

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

Conflicts of interest 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 otherwise provided for in the relevant partnership agreement, 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.

29

Table of Contents

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 our 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 have ownership interests in the properties and in the other assets and liabilities to be contributed to our operating partnership in the formation transactions, including the properties subject to the Carrier Center option, and in the properties on which we have rights of first offer. Following the completion of this offering and the consummation of the formation transactions, we, under the agreements relating to the contribution of such interests, will 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 will enter into a non-competition agreement with us pursuant to which it will agree, 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 on an arm s-length basis. 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 units in our operating partnership than on our stockholders. The parties contributing 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 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 contains a 9.8% ownership limit.*** Our charter, subject to certain exceptions, authorizes our directors to take such actions as are necessary and desirable to preserve our qualification as a REIT and to limit

30

Table of Contents

any person to actual or constructive ownership of no more than 9.8% of the outstanding shares of our common stock and 9.8% of the value of our outstanding capital stock. Our board of directors, in its sole discretion, may exempt a proposed transferee from the ownership limit. However, our board of directors may not grant an exemption from the ownership limit to any proposed transferee whose direct or indirect ownership of in excess of 9.8% of the outstanding shares of our common stock or in excess of 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 involve a premium price for our common stock or otherwise be in the best interest of our 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 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 involve a premium price for our common stock or otherwise 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 provide the holders of shares of our common stock with the opportunity to realize a premium over the then-prevailing market price of such shares, 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 involve a premium price for holders of our common stock or otherwise be in their best interest. 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

31

Table of Contents

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 at least 35% of the partners of our operating partnership (including units held by us), and certain other conditions are met.

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

Our board of directors adopted a policy of limiting our indebtedness to 60% of our total market capitalization. Our total market capitalization is defined as the sum of the market value of our outstanding common stock (which may decrease, thereby increasing our debt to total capitalization ratio), excluding options issued under our incentive award plan, plus the aggregate value of the units not held by us, plus the 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 expected distributions to you. 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. Upon completion of this offering, as permitted by the MGCL, our charter will limit 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 will authorize us to obligate our company, and our bylaws will 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 intend to operate 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 the prospectus 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 to you 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;

Table of Contents

- 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, and all distributions to stockholders will be subject to tax as ordinary dividend income to the extent of our current and accumulated earnings and profits. 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 common 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.

**Risks Related to this Offering**

**Affiliates of our underwriters will receive benefits in connection with this offering and the formation transactions.**

An affiliate of Citigroup Global Markets Inc., one of our underwriters, will receive benefits from this offering and the formation transactions in addition to customary underwriting discounts and commissions and financial advisory fees, reimbursement of some expenses and indemnification for some liabilities that may result

from this offering. These benefits consist of the repayment of $243.7 million of a bridge loan made by an affiliate of Citigroup Global Markets Inc. prior to this offering and the assumption of the remaining $8.0 million outstanding under this loan, which is scheduled to mature in 2005. Additionally, affiliates of Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated are joint lead arrangers and joint bookrunning managers of our unsecured credit facility and we expect that affiliates of one or more of our underwriters may participate as agents or lenders under this facility. These transactions create potential conflicts of interest because the underwriters have an interest in the successful completion of this offering beyond the underwriting discounts and commissions and financial advisory fees they will receive. Consequently, the initial public offering price recommended by the underwriters could be higher than if such conflicts of interest did not exist.

**Estimated initial cash available for distribution to you may not be sufficient to pay dividends at expected levels.**

Our estimated initial annual distributions represent approximately 94.7% of our estimated initial cash available for distribution to you for the 12 months ending June 30, 2005 as calculated in Dividend Policy. We are party to debt agreements that contain lockbox and cash management provisions, pursuant to which revenues generated by properties subject to such indebtedness are immediately swept into an account for the benefit of the lenders and are typically available to be distributed to us only after the funding of reserve accounts for, among other things, debt service, taxes, insurance, tenant improvements and leasing commissions. If our properties do not generate sufficient cash flow, we may be required to fund distributions from working capital or borrowings under our new credit facility or reduce such distributions. If sufficient cash is not available for distribution from our operations, we may have to fund distributions from working capital, borrow to provide funds for such distributions or reduce the amount of such distributions.

**Differences between the book value of contributed properties and the price paid for our common stock will result in an immediate and material dilution of the book value of our common stock.**

As of June 30, 2004, the aggregate historical combined net tangible book value of the interests and assets to be transferred to our operating partnership was approximately $114.6 million, or $4.56 per share of our common stock held by GI Partners, assuming the exchange of units into shares of our common stock on a one-for-one basis. As a result, the pro forma net tangible book value per share of our common stock after the completion of this offering and consummation of the formation transactions will be less than the initial public offering price. The purchasers of our common stock offered hereby will experience immediate and substantial dilution of $6.65 per share in the pro forma net tangible book value per share of our common stock.

**Market interest rates may have an effect on the value of our common stock.**

One of the factors that may influence the price of our common stock will be the dividend yield on the common stock (as a percentage of the price of our common stock) relative to market interest rates. An increase in market interest rates, which are currently at low levels relative to historical rates, may lead prospective purchasers of our common stock to expect a higher dividend yield. Higher interest rates would likely increase our borrowing costs and potentially decrease cash available for distribution. Thus, higher market interest rates could cause the market price of our common stock to go down.

**The number of shares available for future sale could adversely affect the market price of our common stock.**

We cannot predict whether future issuances of shares of our common stock or the availability of shares for resale in the open market will decrease the market price per share of our common stock. Sales of a substantial number of shares of our common stock in the public market, or upon exchange of units, or the perception that such sales might occur could materially adversely affect the market price of the shares of our common stock.

Table of Contents

All holders of the 31,452,170 units issued to the contributors in the formation transactions have the right to require us to register their common stock with the SEC. The holders of these units are restricted, except under limited circumstances, from exercising their redemption rights for a period of 14 months and may not otherwise transfer their units for a period of 12 months. Our officers and directors have agreed not to sell or otherwise transfer any of the 1,490,561 long-term incentive units granted to them for a period of three years from the date of grant. In addition, after completion of this offering, we intend to register the 2,199,639 remaining shares of common stock that we have reserved for issuance under our 2004 equity incentive plan, and once we register these shares they can generally be freely sold in the public market after issuance. Our directors and executive officers have agreed with the underwriters not to offer, sell, contract to sell, pledge or otherwise dispose of any shares of common stock or other securities convertible or exchangeable into our common stock for a period of one year after the date of this prospectus. If any or all of these holders cause a large number of their shares to be sold in the public market, the sales could reduce the trading price of our common stock and could impede our ability to raise future capital.

The exercise of the underwriters over-allotment option, the exchange of units for common stock, the exercise of any options granted to certain directors, executive officers and other employees under our incentive award plan, the issuance of our common stock or units in connection with property, portfolio or business acquisitions and other issuances of our common stock could have an adverse effect on the market price of the shares of our common stock, and the existence of units, options, shares of our common stock reserved for issuance as restricted shares of our common stock or upon exchange of units may materially adversely affect the terms upon which we may be able to obtain additional capital through the sale of equity securities. In addition, future sales of shares of our common stock may be dilutive to existing stockholders.

**There is currently no public market for our common stock. An active trading market for our common stock may not develop following this offering.**

There has not been any public market for our common stock prior to this offering. Our common stock has been approved for listing on the NYSE, subject to official notice of issuance. We cannot assure you, however, that an active trading market for our common stock will develop after this offering or, if one develops, that it will be sustained. In the absence of a public market, you may be unable to liquidate an investment in our common stock. We and our underwriters have determined the initial public offering price. The price at which shares of our common stock trade after the completion of this offering may be lower than the price at which the underwriters sell them in this offering.

**The market price and trading volume of our common stock may be volatile following this offering.**

Even if an active trading market develops for our common stock, the market price of our common stock may be volatile. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur. If the market price of our common stock declines significantly, you may be unable to resell your shares at or above the public offering price. We cannot assure you that the market price of our common stock will not fluctuate or decline significantly in the future.

Some of the factors that could negatively affect our share price or result in fluctuations in the price or trading volume of our common stock include:

- actual or anticipated variations in our quarterly operating results or dividends;
- changes in our funds from operations or earnings estimates;

publication of research reports about us, the real estate industry or the technology industry;

increases in market interest rates that lead purchasers of our shares to demand a higher yield;

changes in market valuations of similar companies;

Table of Contents

adverse market reaction to any additional debt we incur in the future;

additions or departures of key management personnel;

actions by institutional stockholders;

speculation in the press or investment community;

the realization of any of the other risk factors presented in this prospectus; and

general market and economic conditions.

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

In the future, we may attempt to increase our capital resources by making additional offerings of debt or preferred equity securities, including medium-term notes, trust preferred securities, senior or subordinated notes and preferred stock. Upon liquidation, holders of our debt securities and shares of preferred stock and lenders with respect to other borrowings will receive distributions of our available assets prior to the holders of our common stock. Additional equity offerings may dilute the holdings of our existing stockholders or reduce the market price of our common stock, or both. Holders of our common stock are not entitled to preemptive rights or other protections against dilution. Our preferred stock, if issued, could have a preference on liquidating distributions or a preference on dividend payments that could limit our ability to pay a dividend or make another distribution to the holders of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our stockholders bear the risk of our future offerings reducing the market price of our common stock and diluting their stock holdings in us.

Table of Contents

## FORWARD-LOOKING STATEMENTS

We make statements in this prospectus 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, our pro forma financial statements and all of our statements regarding anticipated growth in our funds from operations and 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, e 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, 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.

Table of Contents

## USE OF PROCEEDS

We estimate we will receive gross proceeds from this offering of $240.0 million, or approximately $276.0 million if the underwriters exercise their over-allotment option in full. After deducting the underwriting discounts and commissions, financial advisory fees and estimated expenses of this offering (including approximately $4.5 million loaned to us by GI Partners to pay costs related to this offering and the formation transactions), we expect net proceeds from this offering of approximately $214.2 million, or approximately $247.7 million if the underwriters exercise their over-allotment option in full.

In addition, concurrently with or shortly after the completion of this offering, our operating partnership or the property-owning entities will use the fee simple interests in seven properties to secure approximately $215.0 million of new mortgage loans. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Material Provisions of Consolidated Indebtedness to be Outstanding After this Offering for a description of the indebtedness we will incur.

We will use the net proceeds from this 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 the formation transactions (having an aggregate value of approximately $81.7 million based on the public offering price of our common stock in this offering) from the investors in GI Partners at a price per unit equal to the per share public offering price, net of underwriting discounts and commissions and financial advisory fees payable to the underwriters, or $76.0 million in the aggregate;

- pay the $15.0 million cash portion of the consideration to acquire the 200 Paul Avenue and 1100 Space Park Drive properties. See Certain Relationships and Related Transactions 200 Paul Avenue and 1100 Space Park Drive Contribution Agreement ;

- acquire the 75% interest in the eBay Data Center property upon consummation of this offering and the remaining 25% interest therein in early 2005 for a total of $14.3 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, as more fully described below.

In addition, if the underwriters exercise their over-allotment option, we will purchase additional units from the investors in GI Partners in an amount equal to the number of shares sold pursuant to such exercise at a price per unit equal to the per share public offering price of our common stock in this offering, net of underwriting discounts and commissions and financial advisory fees payable to the underwriters, for an aggregate of $33.5 million, assuming exercise of the underwriters over-allotment option in full.

Any net proceeds remaining after the uses set forth above will be used to fund general working capital and potentially to fund future acquisitions. Pending application of cash proceeds, we will invest the net proceeds in interest-bearing accounts and short-term, interest-bearing securities, which are consistent with our intention to qualify for taxation as a REIT.

A tabular presentation of our estimated use of proceeds from this offering is as follows:

| | Dollar Amount | Percentage of Gross Proceeds |
|---|---|---|
| | (In thousands) | |
| Gross offering proceeds | $ 240,000 | 100.0% |
| Underwriting discounts and commissions and financial advisory fees | 16,800 | 7.0 |
| Other expenses of the offering[1] | 9,000 | 3.7 |
| Net offering proceeds | $ 214,200 | 89.3% |
| Purchase operating partnership units issued in connection with the formation transactions from investors in GI Partners | $ 76,000 | 31.7% |
| Repay amounts under the bridge loan facility | 138,200 | 57.6 |
| Total net offering proceeds used | $ 214,200 | 89.3% |

(1) Includes repayment of approximately $4.5 million loaned to us by GI Partners to pay costs related to this offering and the formation transactions.

The remaining funds necessary to consummate the formation transactions will be borrowed under the new mortgages and our unsecured credit facility.

In connection with the formation transactions, we intend to repay to an affiliate of Citigroup Global Markets Inc. $243.7 million of the $251.7 million secured bridge loan obtained for purposes of providing temporary financing for the acquisition of AboveNet Data Center, Brea Data Center, Comverse Technology Building, Hudson Corporate Center, Savvis Data Center, Siemens Building, Webb at LBJ and Carrier Center. As summarized above, a portion of the proceeds from the offering, totaling $138.2 million, will be used to partially fund this repayment. The remaining amount of the repayment will be funded through proceeds from the $215.0 million in new mortgage loans that are expected to close concurrently with, or shortly after completion of this offering and borrowings under our unsecured credit facility. The interest rate on the secured bridge loan is LIBOR plus 2.0% and it matures on December 31, 2004, subject to a three-month extension option.

In connection with the formation transactions, we intend to repay an approximate $13.9 million loan, including prepayment penalties, secured by our interest in the ASM Lithography Facility, which bears interest at a rate of LIBOR plus 2.75% (but at least 4.75%) per annum, that was incurred on June 30, 2003 and matures on June 30, 2006, with two one-year extensions available.

In addition, in connection with the formation transactions, we intend to repay an aggregate of $96.4 million of mortgage, mezzanine and revolving indebtedness, including prepayment penalties, with a weighted average interest rate of approximately 6.3% and an average remaining term to maturity of approximately 0.8 years upon consummation of this offering. The amounts loaned to us by GI Partners to pay costs related to this offering and the formation transactions that we will repay do not bear interest and are payable upon 10 days notice.

Exact payment amounts with respect to indebtedness may differ from estimates due to amortization of principal, accrual of additional interest or prepayment fees and incurrence of additional transaction expenses.

Table of Contents

## DIVIDEND POLICY

We intend to pay regular quarterly dividends to holders of our common stock. We intend to pay a pro rata initial dividend with respect to the period commencing on the completion of this offering and ending December 31, 2004, based on $0.24375 per share for a full quarter. On an annualized basis, this would be $0.975 per share, or an annual distribution rate of approximately 8.1% based on our initial public offering price. We estimate that this initial annual distribution rate will represent approximately 94.7% of estimated cash available for distribution for the 12 months ending June 30, 2005. Our intended initial annual distribution rate has been established based on our estimate of cash available for distribution for the 12 months ending June 30, 2005, which we have calculated based on adjustments to our pro forma income before minority interests for the year ended December 31, 2003. This estimate was based on our predecessor s historical operating results and does not take into account our growth strategy. In estimating our cash available for distribution for the 12 months ending June 30, 2005, we have made certain assumptions as reflected in the table and footnotes below.

Our estimate of cash available for distribution does not include the effect of any changes in our working capital resulting from changes in our working capital accounts. Our estimate also does not reflect the amount of cash estimated to be used for investing activities for acquisition and other activities, other than a provision for recurring capital expenditures, and amounts estimated for leasing commissions and tenant improvements for renewing space. It also does not reflect the amount of cash estimated to be used for financing activities, other than scheduled loan principal payments on mortgage and other indebtedness that will be outstanding upon completion of this offering. Any such investing and/or financing activities may have a material effect on our estimate of cash available for distribution. Because we have made the assumptions set forth above in estimating cash available for distribution, we do not intend this estimate to be a projection or forecast of our actual results of operations or our liquidity, and have estimated cash available for distribution for the sole purpose of determining the amount of our initial annual distribution rate. Our estimate of cash available for distribution should not be considered as an alternative to cash flow from operating activities (computed in accordance with GAAP) or as an indicator of our liquidity or our ability to pay dividends or make other distributions. In addition, the methodology upon which we made the adjustments described below is not necessarily intended to be a basis for determining future dividends or other distributions.

We intend to maintain our initial distribution rate for the 12-month period following completion of this offering unless actual results of operations, economic conditions or other factors differ materially from the assumptions used in our estimate. Dividends and other distributions made by us will be authorized and determined by our board of directors in its sole discretion out of funds legally available therefor and will be dependent upon a number of factors, including restrictions under applicable law and other factors described below. We believe that our estimate of cash available for distribution constitutes a reasonable basis for setting the initial distribution rate; however, we cannot assure you that the estimate will prove accurate, and actual distributions may therefore be significantly different from the expected distributions. We do not intend to reduce the expected dividends per share if the underwriters exercise their over-allotment option; however, this could require us to borrow under our unsecured credit facility to pay dividends.

We anticipate that, at least initially, our distributions will exceed our then current and then accumulated earnings and profits as determined for U.S. federal income tax purposes due to the write-off of prepayment fees paid with offering proceeds and non-cash expenses, primarily depreciation and amortization charges that we expect to incur. Therefore, a portion of these distributions may represent a return of capital for federal income tax purposes. Distributions in excess of our current and accumulated earnings and profits will not be taxable to a taxable U.S. stockholder under current U.S. federal income tax law to the extent those distributions do not exceed the stockholder s adjusted tax basis in his or her common stock, but rather will reduce the adjusted basis of the common stock. In that case, the gain (or loss) recognized on the sale of that common stock or upon our liquidation will be increased (or decreased) accordingly. To the extent those distributions exceed a taxable U.S. stockholder s adjusted tax basis in his or her common stock, they generally will be treated as a capital gain

Table of Contents

realized from the taxable disposition of those shares. We expect to pay our first dividend in 2005; accordingly, none of our estimated initial annual distribution will represent a return of capital for the tax period ending December 31, 2004. The percentage of our stockholder distributions that exceeds our current and accumulated earnings and profits may vary substantially from year to year. For a more complete discussion of the tax treatment of distributions to holders of our common stock, see Federal Income Tax Considerations.

We cannot assure you that our estimated dividends will be made or sustained or that our board of directors will not change our dividend policy in the future. Any dividends or other distributions we pay in the future will depend upon our actual results of operations, economic conditions, debt service requirements and other factors that could differ materially from our current expectations. Our actual results of operations will be affected by a number of factors, including the revenue we receive from our properties, our operating expenses, interest expense, the ability of our tenants to meet their obligations and unanticipated expenditures. For more information regarding risk factors that could materially adversely affect our actual results of operations, please see Risk Factors.

U.S. Federal income tax law requires that a REIT distribute annually at least 90% of its net taxable income excluding net capital gains, and that it pay tax at regular corporate rates to the extent that it annually distributes less than 100% of its REIT taxable income including capital gains. For more information, please see Federal Income Tax Considerations. We anticipate that our estimated cash available for distribution will exceed the annual distribution requirements applicable to REITs. However, under some circumstances, we may be required to pay distributions in excess of cash available for distribution in order to meet these distribution requirements and we may need to borrow funds to make some distributions.

The following table describes our pro forma income before minority interests for the year ended December 31, 2003, and the adjustments we have made thereto in order to estimate our initial cash available for distribution for the 12 months ending June 30, 2005 (amounts in thousands except share data, per share data, square footage data and percentages):

| | |
|---|---|
| **Pro forma income before minority interests for the year ended December 31, 2003** | $ 12,532 |
| Less: pro forma loss before minority interests for the six months ended June 30, 2003 | 1,937 |
| Add: pro forma loss before minority interests for the six months ended June 30, 2004 | (5,185) |
| **Pro forma income before minority interests for the 12 months ended June 30, 2004** | 9,284 |
| Add: pro forma real estate depreciation and amortization[1] | 43,801 |
| Add: non-cash expense related to lease terminations | 2,370 |
| Add: net increases in contractual rent income[2] | 4,034 |
| Less: net decreases in contractual rent income due to lease expirations, assuming no renewals[3] | (3,069) |
| Less: increased interest expense due to interest rate swaps[4] | (1,471) |
| Less: net effect of straight line rents and acquired lease obligations[5] | (12,038) |
| Add: non-cash compensation expense[6] | 18,064 |
| Add: financing costs[7] | 2,830 |
| **Estimated cash flow from operating activities for the 12 months ending June 30, 2005** | 63,805 |
| Estimated cash flows used in investing activities: | |
| Less: estimated annual provision for recurring tenant improvements and leasing commissions[8] | (1,077) |
| Less: estimated annual provision for recurring capital expenditures[9] | (890) |
| Total estimated cash flows used in investing activities | (1,967) |
| Estimated cash flows used in financing activities scheduled mortgage loan principal payments[10] | (7,334) |
| **Estimated cash flow available for distribution for the 12 months ending June 30, 2005** | 54,504 |

| | |
|---|---|
| Our share of estimated cash available for distribution[11] | $ 20,590 |
| Minority interests share of estimated cash available for distribution | $ 33,914 |
| **Total estimated initial annual distributions to stockholders** | $ 19,500 |
| Estimated initial annual distribution per share[12] | $ 0.975 |
| Payout ratio based on our share of estimated cash available for distribution[13] | 94.7% |

41

Table of Contents

| | | |
|---|---|---|
| (1) | Pro forma real estate depreciation and amortization for the 12 months ended December 31, 2003 | $ 43,473 |
| | Less: Pro forma real estate depreciation and amortization for the six months ended June 30, 2003 | (21,737) |
| | Add: Pro forma real estate depreciation and amortization for the six months ended June 30, 2004 | 22,065 |
| | | $ 43,801 |

(2) Represents the net increases in contractual rental income net of expenses and contractual rent abatements from existing leases and from new leases and renewals that were not in effect for the entire 12-month period ended June 30, 2004 or that will go into effect during the 12 months ending June 30, 2005 based upon leases entered into between July 1, 2004 and October 1, 2004.

(3) Assumes no lease renewals or new leases (other than month-to-month leases) for leases expiring after June 30, 2004 unless a new or renewal lease had been entered into by October 1, 2004.

(4) Represents additional interest expense due to interest swap agreements to be entered into upon completion of this offering.

(5) Represents the conversion of estimated rental revenues on in-place leases for the 12 months ending June 30, 2005 from GAAP basis to a cash basis of recognition. The adjustment has been computed as follows:

| | |
|---|---|
| Reverse pro forma straight line rent adjustment for the 12 months ended June 30, 2004 | $ (12,895) |
| Less: Amortization of above market leases, net of amortization of below market leases | (328) |
| Add: Contractual rent increases during the 12 months ending June 30, 2005 | 2,184 |
| Less: Contractual rent abatements during the 12 months ending June 30, 2005 | (999) |
| | $ (12,038) |

(6) Pro forma compensation expense related to awards of fully-vested long-term incentive units and stock options that vest over a four year period.

(7) Pro forma amortization of financing costs for the 12 months ended June 30, 2004.

(8) Reflects estimated provision for tenant improvement costs and lease commissions for the 12 months ending June 30, 2005 based on the weighted average tenant improvement costs and leasing commissions expenditures for renewed and retenanted space at the properties in our portfolio incurred during the 12 months ended December 31, 2002 and 2003 and for the six months ended June 30, 2004, multiplied by the number of rentable square feet of leased space for which leases expire in our portfolio during the 12 months ending June 30, 2005. The weighted average annual per square foot cost of tenant improvements and leasing commissions expenditures at the properties in our portfolio is presented below:

| | Year Ended December 31, | | Six Months Ended June 30, | Weighted Average January 1, 2002- |
|---|---|---|---|---|
| | 2002 | 2003 | 2004 | June 30, 2004 |
| Average tenant improvement costs and lease commissions per square foot | $ 18.84 | $ 13.07 | $ 26.71 | $ 17.13 |
| Square feet for which leases expire during the 12 months ending June 30, 2005 | | | | 62,865 |
| Total estimated tenant improvement costs and leasing commissions for the 12 months ending June 30, 2005 | | | | $ 1,077 |

We have commitments under leases in effect as of June 30, 2004 for $2.2 million of tenant improvement costs and leasing commissions to be incurred during the twelve months ending June 30, 2005. We have an existing reserve of $2.2 million from cash on-hand that we expect to cover the entire amount of these commitments.

Table of Contents

(9) For the 12 months ending June 30, 2005, the estimated cost of recurring building improvements (excluding costs of tenant improvements) at the properties in our portfolio is approximately $889,623, based on the weighted average annual capital expenditures cost of $0.16 per square foot at the properties in our portfolio incurred during the 12 months ended December 31, 2002 and 2003 and the six months ended June 30, 2004 multiplied by 5,560,142 net rentable square feet in our portfolio. The following table sets forth certain information regarding historical recurring capital expenditures at the properties in our portfolio through June 30, 2004.

| | Year Ended December 31, | | Six Months Ended June 30, | Weighted Average January 1, 2002- |
|---|---|---|---|---|
| | 2002 | 2003 | 2004 | June 30, 2004 |
| Recurring capital expenditures | $ 208,758 | $ 388,636 | $ 397,606 | |
| Total square feet | 1,145,182 | 2,792,266 | 5,560,142 | |
| Recurring capital expenditure per square foot | $ 0.18 | $ 0.14 | $ 0.07 | $ 0.16 |

We currently do not have any contractual commitments with respect to nonrecurring capital expenditures.

(10) Represents scheduled amortization payments of mortgage loan principal due during the 12 months ending June 30, 2005.

(11) Our share of estimated cash available for distribution and estimated initial annual cash distributions to our stockholders is based on an estimated approximate 37.8% aggregate partnership interest in our operating partnership.

(12) Based on a total of 20,000,000 shares of our common stock to be outstanding after this offering.

(13) Calculated as estimated initial annual distribution per share divided by our share of estimated cash available for distribution per share for the twelve months ending June 30, 2005.

Table of Contents

## CAPITALIZATION

The following table sets forth the historical combined capitalization of the Digital Realty Predecessor as of June 30, 2004 and our consolidated capitalization as of June 30, 2004, pro forma for the formation transactions and before and after giving effect to this offering and use of the net proceeds from this offering as set forth in Use of Proceeds. You should read this table in conjunction with Use of Proceeds, Selected Combined Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources and our consolidated financial statements and the notes to our financial statements appearing elsewhere in this prospectus.

| | | Pro Forma Consolidated | |
|---|---|---|---|
| | Historical Combined | Before Offering | After Offering |
| | | (In thousands) | |
| Mortgages and other loans | $ 473,896 | $ 648,218 | $ 510,018 |
| Minority interests in our operating partnership | | 75,978 | 274,036 |
| Stockholders equity: | | | |
| Preferred stock, $.01 par value per share, 20,000,000 shares authorized, none issued or outstanding | | | |
| Common stock, $.01 par value per share, 100,000,000 shares authorized, 20,000,000 shares issued and outstanding on a pro forma basis[1] | | | 200 |
| Additional paid in capital | | | 165,885 |
| Accumulated other comprehensive income | | | 310 |
| Owner s equity, including accumulated other comprehensive income | 218,303 | 226,253 | |
| Total stockholders /owner s equity | 218,303 | 226,253 | 166,395 |
| **Total capitalization** | $ 692,199 | $ 950,449 | $ 950,449 |

(1) The common stock outstanding as shown includes common stock to be issued in this offering and excludes (i) 3,000,000 shares issuable upon exercise of the underwriters over-allotment option, (ii) 2,199,639 additional shares available for future issuance under our incentive award plan, (iii) 783,902 shares issuable under options expected to be granted under our incentive award plan, (iv) 1,490,561 shares reserved for long-term incentive units expected to be granted under our incentive award plan that may, subject to limits in the partnership agreement of our operating partnership, be exchanged for cash or, at our option, shares of our common stock on a one-for-one basis generally commencing 14 months after the completion of this offering, and (v) 31,452,170 shares reserved for issuance with respect to units held by limited partners expected to be outstanding subsequent to the formation transactions that may, subject to limits in the partnership agreement of our operating partnership, be exchanged for cash or, at our option, shares of our common stock on a one-for-one basis generally commencing 14 months after the completion of this offering.

**DILUTION**

Purchasers of our common stock offered in this prospectus will experience an immediate and substantial dilution of the net tangible book value of our common stock from the initial public offering price. At June 30, 2004, we had a combined net tangible book value of approximately $114.6 million, or $4.56 per share of our common stock to be held by GI Partners after this offering, assuming the exchange of units into shares of our common stock on a one-for-one basis. After giving effect to the sale of the shares of our common stock offered hereby and the formation transactions, the deduction of underwriting discounts and commissions and financial advisory fees and estimated offering and formation expenses, the pro forma net tangible book value at June 30, 2004 attributable to common stockholders would have been $106.9 million, or $5.35 per share of our common stock. This amount represents an immediate increase in net tangible book value of $0.79 per share to GI Partners and an immediate dilution in pro forma net tangible book value of $6.65 per share from the public offering price of $12.00 per share of our common stock to new public investors. The following table illustrates this per share dilution:

| | | | |
|---|---|---|---|
| Public offering price per share | | | $ 12.00 |
| Net tangible book value per share before the formation transactions and this offering[(1)] | | 4.56 | |
| Decrease in net tangible book value per share attributable to the formation transactions, but before this offering[(2)] | (1.82) | | |
| Increase in net tangible book value per share attributable to this offering[(3)] | 2.61 | | |
| Net increase in net tangible book value per share attributable to the formation transactions and this offering | | 0.79 | |
| Pro forma net tangible book value per share after the formation transactions and this offering[(4)] | | | 5.35 |
| Dilution in net tangible book value per share to new investors[(5)] | | | $ 6.65 |

(1) Net tangible book value per share of our common stock before the formation transactions and this offering is determined by dividing net tangible book value (consisting of owner s equity minus intangible assets, which are comprised of deferred financing costs, acquired above market leases net of acquired below market leases, acquired in place lease value and deferred leasing costs) as of June 30, 2004 of the Digital Realty Predecessor by the number of shares of our common stock to be held by GI Partners after this offering, assuming the exchange in full of the units to be held by GI Partners. The following table sets forth the calculation of net tangible book value per share before the formation transactions and the offering:

| | | |
|---|---|---|
| Owner s equity | | $ 218,303,000 |
| Minus net intangible assets: | | |
| Deferred financing costs, net | 4,237,000 | |
| Acquired above market leases, net | 18,953,000 | |
| Acquired below market leases, net | (23,761,000) | |
| Acquired in place lease value and deferred leasing costs, net | 104,290,000 | |
| | | 103,719,000 |
| Net tangible book value of the Digital Realty Predecessor | | $ 114,584,000 |
| Divided by GI Partners units | | 25,120,659 |
| | | $ 4.56 |

(2) Decrease in net tangible book value per share attributable to the formation transactions, but before this offering, is determined by dividing the difference between the June 30, 2004 pro forma net tangible book value, excluding net offering proceeds, and the June 30, 2004 net tangible book value of the Digital Realty Predecessor by the number of shares of our common stock to be held by GI Partners

45

Table of Contents

after this offering, assuming the exchange in full of the units to be held by GI Partners. The following table sets forth the calculation of the decrease in net tangible book value per share attributable to the formation transactions, but before this offering:

| | | |
|---|---|---|
| Pro forma stockholders equity | | $ 166,395,000 |
| Plus pro forma minority interests in operating partnership | | 274,036,000 |
| Minus pro forma net intangible assets: | | |
| Pro forma deferred financing costs, net | 8,556,000 | |
| Pro forma acquired above market leases, net | 46,155,000 | |
| Pro forma acquired below market leases, net | (38,288,000) | |
| Pro forma acquired in place lease value and deferred leasing costs, net | 140,989,000 | |
| | | 157,412,000 |
| Pro forma net tangible book value allocable to common stockholders and unit holders | | 283,019,000 |
| Minus pro forma net offering proceeds | | 214,200,000 |
| Minus net tangible book value of the Digital Realty Predecessor | | 114,584,000 |
| | | $ (45,765,000) |
| Divided by GI Partners units | | 25,120,659 |
| | | $ (1.82) |

(3) Increase in net tangible book value per share of our common stock attributable to this offering is calculated after deducting the underwriters discounts and commissions, financial advisory fees and estimated expenses of this offering.

(4) Based on pro forma net tangible book value attributable to common stockholders of approximately $106.9 million divided by 20,000,000 shares of our common stock to be outstanding, not including 783,902 shares of common stock issuable upon exercise of outstanding stock options, 31,452,170 operating partnership units expected to be issued in connection with the formation transactions that may, subject to limits in the partnership agreement of our operating partnership, be exchanged for cash or, at our option, shares of our common stock on a one-for-one basis generally commencing 14 months after the completion of this offering and 1,490,561 long-term incentive units to be expected to be granted under our incentive award plan that may, subject to limits in the partnership agreement of our operating partnership, be exchanged for cash or, at our option, shares of our common stock on a one-for-one basis generally commencing 14 months after the completion of this offering. There is no further impact on book value dilution attributable to the exchange of units to be issued to the continuing investors in the formation transactions due to the effect of minority interests. The following table sets forth the calculation of pro forma net tangible book value per share after the formation transactions and the offering:

| | | |
|---|---|---|
| Pro forma stockholders equity | | $ 166,395,000 |
| Minus pro forma net intangible assets: | | |
| Pro forma deferred financing costs, net | 8,556,000 | |
| Pro forma acquired above market leases, net | 46,155,000 | |
| Pro forma acquired below market leases, net | (38,288,000) | |
| Pro forma acquired in place lease value and deferred leasing costs, net | 140,989,000 | |
| | 157,412,000 | |
| Percentage attributable to common stockholders | 37.78% | |
| | | 59,470,000 |
| Pro forma net tangible book value allocable to common stockholders | | 106,925,000 |
| Divided by shares of common stock | | 20,000,000 |
| | | $ 5.35 |

(5) Dilution is determined by subtracting pro forma net tangible book value per share of our common stock after giving effect to the formation transactions and this offering from the initial public offering price paid by a new investor for a share of our common stock.

The following table sets forth, on a pro forma basis giving effect to this offering and the formation transactions: (i) the number of units issued to GI Partners and the third parties that are contributing investments in real estate in exchange for units in connection with the formation

transactions, the number of long-term incentive units to be issued to our directors, officers and other employees in connection with the formation transactions and the number of shares of our common stock to be sold by us in this offering; (ii) the net tangible book value as of June 30, 2004 of the assets contributed to our operating partnership in the formation transactions, which reflects the effects of the formation transactions, but not the effects of this offering and the cash from new investors before deducting underwriters discounts and commissions, financial advisory fees and other estimated expenses of this offering; and (iii) the net tangible book value of the average contribution per share/unit based on total contributions. See Risk Factors Risks Related to this Offering Differences between

Table of Contents

the book value of contributed properties and the price paid for our common stock will result in an immediate and material dilution of the book value of our common stock.

| | Shares/Units Issued[1] | | Cash/Net Tangible Book Value[2] of Contributions | | Purchase Price/ Net Tangible Book Value of Average Contribution Per Share/Unit |
|---|---|---|---|---|---|
| | Number | Percent | Amount | Percent | |
| | | | (In thousands) | | |
| Units issued in connection with the formation transactions | 31,452,170 | 59.4% | $ 68,819(3) | 22.3% | $ 2.19 |
| Vested long-term incentive units to be issued to directors, officers and other employees in connection with the formation transactions[4] | 1,490,561 | 2.8 | | | |
| New investors in the offering | 20,000,000 | 37.8 | 240,000 | 77.7 | 12.00(5) |
| Total | 52,942,731 | 100.0% | $ 308,819 | 100.0% | |

(1) Does not include 783,902 shares issuable upon the exercise of unvested stock options.
(2) Based on the June 30, 2004 pro forma net tangible book value (consisting of owner s equity minus intangible assets, which are comprised of deferred financing costs, acquired above market leases net of acquired below market leases, acquired in place lease value and deferred leasing costs) of the assets to be contributed to our operating partnership in connection with the formation transactions.
(3) Represents pro forma net tangible book value as of June 30, 2004 of the assets contributed to our operating partnership in the formation transactions, giving effect to the formation transactions, but not to the effects of this offering (in thousands):

| | |
|---|---|
| Pro forma stockholders equity | $ 166,395 |
| Plus pro forma minority interest in operating partnership | 274,036 |
| Minus net proceeds in this offering | (214,200) |
| Minus pro forma intangible assets: | |
| Deferred financing costs | (8,556) |
| Acquired above market leases of $46,155 net of acquired below market leases of $38,288 | (7,867) |
| Acquired in place lease value and deferred leasing costs | (140,989) |
| | $ 68,819 |

(4) The long-term incentive units will not be transferable for a period of three years from the date of grant and will receive the same quarterly per unit distributions as common units in our operating partnership, which equal per share distributions on our common stock. Initially, long-term incentive units will 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 our operating partnership for all purposes, and therefore accrete to an economic value equivalent to our common stock on a one-for-one basis. If such parity is reached, long-term incentive units may be converted into an equal number of common units of our operating partnership at any time, and thereafter enjoy all the rights of common units of our operating partnership. However, there are circumstances under which the long-term incentive units will not achieve full parity with common units of our operating partnership.
(5) Before deducting underwriters discounts and commissions, financial advisory fees and other estimated expenses of this offering and the formation transactions.

Table of Contents

## SELECTED FINANCIAL DATA

The following table sets forth selected financial and operating data on a combined historical basis for the Digital Realty Predecessor. The Digital Realty 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 Digital Realty Trust, Inc. because we have not had any corporate activity since our formation 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 Digital Realty Trust, Inc. would not be meaningful. The Digital Realty Predecessor combined historical financial information includes:

- the wholly owned real estate subsidiaries and majority-owned real estate joint ventures that GI Partners intends to contribute to our operating partnership in connection with this 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 are unpaid as of the date of the financial statements and an allocation of GI Partners general and administrative expenses.

You should read the following selected financial data in conjunction with our combined historical consolidated financial statements and the related notes and with Management s Discussion and Analysis of Financial Condition and Results of Operations, which are included elsewhere in this prospectus.

The historical combined balance sheet information as of December 31, 2003 and 2002 of the Digital Realty Predecessor and the combined statements of operations information for the years then ended and for the period from February 28, 2001 (inception) through December 31, 2001 of the Digital Realty Predecessor have been derived from the historical combined financial statements audited by KPMG LLP, independent registered public accounting firm, whose report with respect thereto is included elsewhere in this prospectus. The historical combined balance sheet information as of June 30, 2004 and December 31, 2001 and the combined statements of operations information for the six months ended June 30, 2004 and 2003 have been derived from the unaudited combined financial statements of the Digital Realty Predecessor. In the opinion of the management of our company, the historical combined balance sheet information as of June 30, 2004 and the historical combined statements of operations for the six months ended June 30, 2004 and 2003 include all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the information set forth therein. Our results of operations for the interim period ended June 30, 2004 are not necessarily indicative of the result to be obtained for the full fiscal year.

Our unaudited selected pro forma consolidated financial statements and operating information as of and for the six months ended June 30, 2004 and for the year ended December 31, 2003 assumes completion of this offering and consummation of the formation transactions as of the beginning of the period presented for the operating data and as of the stated date for the balance sheet data. Our pro forma consolidated financial statements include the effects of the acquisition by us of all of the ownership interests owned by third parties in the properties acquired or expected to be acquired subsequent to June 30, 2004 along with the related financing transactions, as if those acquisitions and financing transactions had occurred as of the beginning of the period presented for the operating data and as of the stated date for the balance sheet data. Our pro forma financial information is not necessarily indicative of what our actual financial position and results of operations would have been as of the date and for the periods indicated, nor does it purport to represent our future financial position or results of operations.

Table of Contents

**The Company and the Digital Realty Predecessor**

**(Amounts in thousands, except per share data)**

| | Six Months Ended June 30, | | | Year ended December 31, | | | Period from February 28, 2001 (inception) through December 31, |
|---|---|---|---|---|---|---|---|
| | Pro Forma Consolidated | Historical Combined | | Pro Forma Consolidated | Historical Combined | | Historical Combined |
| | 2004 | 2004 | 2003 | 2003 | 2003 | 2002 | 2001 |
| | (Unaudited) | (Unaudited) | | (Unaudited) | | | |
| **Statement of Operations Data:** | | | | | | | |
| Rental revenues | $ 60,548 | $ 34,461 | $ 22,298 | $ 118,881 | $ 50,099 | $ 21,203 | $ |
| Tenant reimbursements | 11,180 | 5,397 | 4,317 | 22,288 | 8,661 | 3,894 | |
| Other revenues | 2,320 | 1,712 | 4,222 | 6,016 | 4,328 | 458 | 12 |
| Total revenues | 74,048 | 41,570 | 30,837 | 147,185 | 63,088 | 25,555 | 12 |
| Rental property operating and maintenance expenses | 12,427 | 6,289 | 3,638 | 22,954 | 8,624 | 4,997 | |
| Property taxes | 5,835 | 3,833 | 2,416 | 11,013 | 4,688 | 2,755 | |
| Insurance | 1,230 | 562 | 208 | 2,278 | 626 | 83 | |
| Interest expense | 14,899 | 7,878 | 4,099 | 29,789 | 10,091 | 5,249 | |
| Asset management fees to related party | | 1,592 | 1,592 | | 3,185 | 3,185 | 2,663 |
| Depreciation and amortization expense | 22,065 | 12,218 | 7,187 | 43,473 | 16,295 | 7,659 | |
| General and administrative expenses | 20,189 | 157 | 43 | 22,448 | 329 | 249 | |
| Other expenses | 2,588 | 2,540 | 2,480 | 2,698 | 2,459 | 1,249 | 107 |
| Total expenses | 79,233 | 35,069 | 21,663 | 134,653 | 46,297 | 25,426 | 2,770 |
| Income (loss) before minority interests (deficit) | (5,185) | 6,501 | 9,174 | 12,532 | 16,791 | 129 | (2,758) |
| Minority interests (deficits) | (3,231) | (56) | 73 | 7,797 | 149 | 190 | |
| Net income (loss) | $ (1,954) | $ 6,557 | $ 9,101 | $ 4,735 | $ 16,642 | $ (61) | $ (2,758) |
| **Balance Sheet Data (at period end)[(1)]** | | | | | | | |
| Investments in real estate, after accumulated depreciation and amortization | $ 780,211 | $ 582,737 | $ | $ | $ 391,737 | $ 212,009 | $ |
| Total assets | 1,000,471 | 731,237 | | | 479,698 | 269,836 | 1,893 |
| Notes payable under line of credit | 31,440 | 75,317 | | | 44,436 | 53,000 | |
| Notes payable under bridge loan | 7,950 | 99,500 | | | | | |
| Mortgages and other secured loans | 470,628 | 299,079 | | | 253,429 | 103,560 | |
| Total liabilities | 559,871 | 509,684 | | | 328,303 | 183,524 | 903 |
| Minority interests | 274,205 | 3,250 | | | 3,444 | 3,135 | |
| Stockholders /owner s equity | 166,395 | 218,303 | | | 147,951 | 83,177 | 990 |
| Total liabilities and stockholders /owner s equity | 1,000,471 | 731,237 | | | 479,698 | 269,836 | 1,893 |
| **Per Share Data:** | | | | | | | |
| Pro forma earnings (loss) per share basic and diluted | $ (0.10) | | | $ 0.24 | | | |
| Pro forma weighted average common shares outstanding basic and diluted | 20,000 | | | 20,000 | | | |

| **Other Data:** | | | | | | | |
|---|---|---|---|---|---|---|---|
| Funds from operations[2] | $ 16,894 | | | $ 56,005 | | | |
| Cash flows from: | | | | | | | |
| Operating activities | | $ 15,008 | $ 13,343 | | $ 28,986 | $ 9,645 | $ (1,867) |
| Investing activities | | (227,747) | (107,120) | | (215,263) | (164,755) | (1,881) |
| Financing activities | | 211,833 | 92,225 | | 187,873 | 158,688 | 3,748 |

(1) Balance sheet data as of December 31, 2001 is unaudited.

(2) We calculate funds from operations, or FFO, in accordance with the standards established by the National Association of Real Estate Investment Trusts, or NAREIT. FFO represents net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from sales of property, real estate related depreciation and amortization (excluding amortization of deferred financing costs) and after

Table of Contents

adjustments for unconsolidated partnerships and joint ventures. Management uses FFO as a supplemental performance measure because, in excluding real estate related depreciation and amortization and gains and losses from property dispositions, it provides a performance measure that, when compared year over year, captures trends in occupancy rates, rental rates and operating costs. We also believe that, as a widely recognized measure of the performance of REITs, FFO will be used by investors as a basis to compare our operating performance with that of other REITs. However, because FFO excludes depreciation and amortization and captures neither the changes in the value of our properties that result from use or market conditions nor the level of capital expenditures and leasing commissions necessary to maintain the operating performance of our properties, all of which have real economic effect and could materially impact our results from operations, the utility of FFO as a measure of our performance is limited. Other equity REITs may not calculate FFO in accordance with the NAREIT definition and, accordingly, our FFO may not be comparable to such other REITs FFO. Accordingly, FFO should be considered only as a supplement to net income as a measure of our performance. FFO should not be used as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to pay dividends or make distributions. FFO also should not be used as a supplement to or substitute for cash flow from operating activities computed in accordance with GAAP. The following table sets forth a reconciliation of our pro forma funds from operations for the periods presented (in thousands):

| | Pro Forma | |
|---|---|---|
| | Six Months Ended June 30, 2004 | Year Ended December 31, 2003 |
| Pro forma income (loss) before minority interest in operating partnership but after minority interest in consolidated joint ventures | $ (5,171) | $ 12,532 |
| Plus: pro forma real estate depreciation and amortization | 22,065 | 43,473 |
| Pro forma funds from operations[(a)] | $ 16,894 | $ 56,005 |

(a) Pro forma funds from operations as set forth above includes approximately $17.9 million of compensation expense related to fully-vested long-term incentive units granted in connection with this offering and the formation transactions for the periods presented.

Table of Contents

## MANAGEMENT S DISCUSSION AND ANALYSIS OF

## FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion should be read in conjunction with Selected Financial Data, the audited combined financial statements of the Digital Realty Predecessor as of December 31, 2003 and 2002 and for the years then ended and for the period from February 28, 2001 (inception) through December 31, 2001 and the unaudited combined financial statements of the Digital Realty Predecessor as of and for the six months ended June 30, 2004 and for the six months ended June 30, 2003 appearing elsewhere in this prospectus. Where appropriate, the following discussion includes analysis of the effects of the formation transactions, certain other transactions and this offering. These effects are reflected in the pro forma combined financial statements located elsewhere in this prospectus.*

### Overview

*Our company*. We own, acquire, reposition and manage technology-related real estate. We expect to qualify as a REIT for federal income tax purposes beginning with our initial taxable year ending December 31, 2004. Our company was formed on March 9, 2004. Since our formation, we have not had 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 Digital Realty Trust, Inc. would not be meaningful, we have set forth below a discussion of the historical operations of the Digital Realty Predecessor, and as such, any reference to our, we and us includes the Digital Realty Predecessor. The Digital Realty Predecessor is comprised of the real estate activities and holdings of GI Partners related to the properties in our portfolio. The Digital Realty Predecessor is engaged in the business of acquiring, owning, operating, repositioning and eventually selling real estate in the United States and internationally. The consolidated pro forma financial information includes financial information related to (1) the Digital Realty Predecessor, (2) our option property, Carrier Center, as we currently anticipate exercising this option simultaneously with the completion of this offering, or shortly thereafter and (3) properties in our portfolio acquired by us after June 30, 2004 or to be acquired by us upon completion of this offering and consummation of the formation transactions.

*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 technology industry tenants. The Digital Realty Predecessor in the past has, and we intend in the future to, focus on regional, national and international tenants within the technology industry 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 the technology industry will be superior to that of the overall economy.

Since the acquisition of our first property in 2002, we have acquired or will acquire upon completion of this offering and consummation of the formation transactions an aggregate of 23 technology-related real estate properties with 5.6 million 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 often acquire properties with substantial in-place cash flow and some vacancy, which enables us to create upside through lease-up. See Business and Properties.

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. We intend to

limit our indebtedness to 60% of our total market capitalization and expect that our ratio of debt to total market capitalization upon completion of this offering will be approximately 44.5%.

*Revenue base*. Upon completion of this offering and consummation of the formation transactions, we will own 22 properties located throughout the U.S. and one property located in London, England, containing a total of approximately 5.6 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 ten properties that we have acquired or plan to acquire during the current fiscal year, assuming exercise of the Carrier Center option. As of June 30, 2004, the properties that will comprise our initial portfolio were approximately 87.1% leased at an average annualized rent per leased square foot of $20.01. Since our tenants generally fund capital improvements, our lease terms are generally longer than standard commercial leases. Our average lease term is 12.6 years, with an average of 7.9 years remaining, and lease expirations through 2007 are only 7.9% of net rentable square feet or 7.8% of aggregate annualized rent as of June 30, 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 the Digital Realty Predecessor, a significant portion of the general and administrative type expenses have been reflected in the asset management fees that we pay to GI Partners related-party asset manager. The asset management fees have been based on a fixed percentage of capital commitments made by the investors in GI Partners, a portion of which have been allocated to the Digital Realty Predecessor. In the months following completion of this offering and consummation of the formation transactions, our asset management function will be internalized and we will incur 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. See Certain Relationships and Related Transactions Transition Services Agreement with CB Richard Ellis Investors. In addition, as a public company, we will incur 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 of 2002.

*Formation transactions*. Pursuant to contribution agreements, our operating partnership will receive contributions of direct and indirect interests in the properties in our initial portfolio in exchange for consideration that includes cash, assumption of debt and an aggregate of 38,262,206 units in our operating partnership (with an aggregate value of $1,097.7 million based on the initial public offering price). The initial public offering price of our common stock was determined in consultation with the underwriters. Among the factors that were considered were our record of operations, our management, our estimated net income, our estimated funds from operations, our estimated cash available for distribution, our anticipated dividend yield, our growth prospects, the current market valuations, financial performance and dividend yields of publicly traded companies considered by us and the underwriters to be comparable to us and the current state of the commercial real estate industry and the economy as a whole. The initial public offering price does not necessarily bear any relationship to the historical book value or fair market value of our assets. We have not obtained appraisals of the properties and other assets to be contributed to our operating partnership or purchased by our operating partnership for cash. As a result, the consideration to be given in exchange by us for our properties and other assets may exceed their fair market value.

We will account 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 will be accounted for by the operating partnership at GI Partners historical cost. See Structure and Formation of Our Company Formation Transactions. We will account for the ownership interests in 200 Paul Avenue and 1100 Space Park Drive contributed to us by third parties and the 10% minority ownership interest in Univision Tower contributed to us by our joint venture partner under the purchase method of accounting. Accordingly, the purchase price for

Table of Contents

these interests, which are equal to the value of the operating partnership units that we will issue in exchange, will be 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 June 30, 2004, the occupancy rate in the properties that will comprise our initial portfolio was approximately 87.1% of our 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 181,000 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 collocation 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.

*Scheduled lease expirations*. Our ability to re-lease expiring space will impact our results of operations. In addition to approximately 720,000 square feet of currently available space in our portfolio as of June 30, 2004, leases representing approximately 1.3% and 0.7% of the square footage of our portfolio are scheduled to expire during the 12-month periods ending June 30, 2005 and 2006, respectively. The leases scheduled to expire in the 12-month periods ending June 30, 2005 and 2006 represent approximately 1.2% and 0.7%, respectively, of our total annualized base rent.

*Conditions in significant markets*. Our portfolio is geographically concentrated in the Boston, Dallas, Los Angeles, New York, San Francisco and Silicon Valley metropolitan markets. These markets comprised 9.9%, 19.5%, 8.9%, 6.4%, 11.0% and 28.9%, respectively, of annualized rent as of June 30, 2004 of the properties comprising our initial portfolio. 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. Of the 2.0% of the net rentable square feet of our portfolio subject to expiration in the 24 months ending June 30, 2006, the majority of the space 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 also will incur 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 new company, we may experience a substantial short term increase in 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 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 combined financial statements included elsewhere in this prospectus. 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 prospectus.

*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 calculation methodology is summarized in Note 2 to our combined financial statements. These allocation assessments have a direct impact on our results of operations because if we were to allocate more value to land there would be no depreciation with respect to such amount or 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, since 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.

**Table of Contents**

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 combined 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.

**Table of Contents**

**Results of Operations**

The discussion below relates to our financial condition and results of operations for the six months ending June 30, 2004 and 2003, for the years ending December 31, 2003 and 2002 and for the period from the formation of the Digital Realty Predecessor on February 28, 2001 through December 31, 2001.

The following table identifies each of the properties in our portfolio acquired through June 30, 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 the Digital Realty Predecessor s financial performance focuses primarily on the impact on our revenues and expenses resulting from the new property additions to our portfolio. On an existing property basis, our revenues and expenses have remained substantially stable as a result of the generally consistent occupancy rates at our properties.

| | | | Occupancy Rate | | |
|---|---|---|---|---|---|
| **Acquired Properties** | **Acquisition Date** | **Net Rentable Square Feet** | **June 30, 2004** | **December 31, 2003** | **December 31, 2002** |
| ***Year Ended December 31, 2002*** | | | | | |
| 36 Northeast Second Street | Jan. 2002 | 162,140 | 81.1% | 95.7% | 95.7% |
| Univision Tower | Jan. 2002 | 477,107 | 79.7 | 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 | 240,151 | 98.0 | 98.9 | |
| Maxtor Manufacturing Facility | Sept. 2003 | 183,050 | 100.0 | 100.0 | |
| Stanford Place II | Oct. 2003 | 348,573 | 78.4 | 79.8 | |
| Subtotal | | 1,647,084 | | | |
| ***Six Months Ended June 30, 2004*** | | | | | |
| 100 Technology Center Drive | Feb. 2004 | 197,000 | 100.0 | | |
| Siemens Building | April 2004 | 125,538 | 100.0 | | |
| Carrier Center | May 2004 | 449,254 | 80.5 | | |
| Savvis Data Center | May 2004 | 300,000 | 100.0 | | |
| Comverse Technologies Building | June 2004 | 388,000 | 99.7 | | |
| Subtotal | | 1,459,792 | | | |
| Total | | 4,252,058 | | | |

*Comparison of Six Months ended June 30, 2004 to Six Months ended June 30, 2003*

As of June 30, 2004, our portfolio was comprised of 18 properties with an aggregate of approximately 4.3 million net rentable square feet compared to a portfolio comprised of nine properties with an aggregate of approximately 2.0 million net rentable square feet as of June 30, 2003. The increase in our portfolio reflects the acquisition of nine properties with an aggregate of approximately 2.3 million net rentable square feet.

Total revenues increased $10,733,000, or 34.8%, to $41,570,000 for the six months ended June 30, 2004 compared to $30,837,000 for the six months ended June 30, 2003. Rental revenue increased $12,163,000, or 54.5%, to $34,461,000 for the six months ended June 30, 2004 compared to $22,298,000 for the six months

ended June 30, 2003. Revenues from tenant reimbursements increased $1,080,000, or 25.0%, to $5,397,000 for the six months ended June 30, 2004 compared to $4,317,000 for the six months ended June 30, 2003. The increase in rental and tenant reimbursement revenues was primarily due to the properties added to our portfolio since June 30, 2003. The decrease in other revenue of $2,510,000, or 59.5%, to $1,712,000 for the six months ended June 30, 2004 compared to $4,222,000 for the six months ended June 30, 2003 was primarily due to a decrease in early lease termination fees.

Total expenses increased $13,406,000, or 61.9%, to $35,069,000 for the six months ended June 30, 2004 compared to $21,663,000 for the six months ended June 30, 2003. The increase in total expenses was primarily due to the properties added to our portfolio since June 30, 2003. The increase in total expenses includes an increase in interest expense of $3,779,000 to $7,878,000 for the six months ended June 30, 2004 compared to $4,099,000 for the six months ended June 30, 2003 associated with new mortgage and other secured debt incurred in connection with the properties added to our portfolio. The increase in total expenses also includes an increase in other expenses of $60,000, or 2.4%, to $2,540,000 for the six months ended June 30, 2004 compared to $2,480,000 for the six months ended June 30, 2003. 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 six months ended June 30, 2004 is comparable to the total for the six months ended June 30, 2003 despite the decrease in lease termination revenue primarily due to the termination of a lease during the six months ended June 30, 2004 for which there were no termination fees. During the six months ended June 30, 2004 and 2003, 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.

*Comparison of Year ended December 31, 2003 to Year ended December 31, 2002*

As of December 31, 2003, our portfolio was comprised of 13 properties with an aggregate of approximately 2.8 million net rentable square feet compared to a portfolio comprised 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 1.6 million net rentable square feet.

Total revenue increased $37,533,000, or 146.9%, to $63,088,000 for the year ended December 31, 2003 compared to $25,555,000 for the year ended December 31, 2002. Rental revenue increased $28,896,000, or 136.3%, to $50,099,000 for the year ended December 31, 2003 compared to $21,203,000 for the year ended December 31, 2002. Revenues from tenant reimbursements increased $4,767,000, or 122.4%, to $8,661,000 for the year ended December 31, 2003 compared to $3,894,000 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 $3,870,000 to $4,328,000 for the year ended December 31, 2003 compared to $458,000 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 $20,871,000, or 82.1%, to $46,297,000 for the year ended December 31, 2003 compared to $25,426,000 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 $4,842,000 to $10,091,000 for the year ended December 31, 2003 compared to $5,249,000 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 $2,459,000 and $1,249,000 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 year 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.

*Comparison of Year Ended December 31, 2002 to the Period from February 28, 2001 (inception) through December 31, 2001*

Our predecessor acquired the first property in our portfolio in January 2002. As of December 31, 2002, our portfolio was comprised of five properties generating total revenues of $25,555,000 for the year then ended. Our revenues of $12,000 for the year ended December 31, 2001 consisted of interest income.

Total expenses increased $22,656,000 to $25,426,000 for the year ended December 31, 2002 primarily due to the expenses incurred in connection with the new properties added to our portfolio. Total expenses of $2,770,000 for the period from February 28, 2001 (inception) through December 31, 2001 primarily consisted of the asset management fee to a related party that were based on a fixed percentage of capital commitments of the investors in GI Partners, a portion of which have been allocated to the Digital Realty Predecessor.

**Pro Forma Operating Results**

Our pro forma condensed consolidated statements of operations reflect the real estate, other assets and liabilities contributed to us by GI Partners in exchange for limited partnership units in our operating partnership, which will be accounted for as a reorganization of entities under common control. Accordingly, the assets and liabilities assumed will be recorded at the Digital Realty Predecessor s historical cost. Expenses such as depreciation and amortization included in our pro forma operating results are based on the Digital Realty Predecessor s historical costs of the related contributed assets. In addition, the ownership interests in 200 Paul Avenue and 1100 Space Park Drive to be contributed to us by third parties and the 10% minority interest in Univision Tower to be contributed to us by our joint venture partner will be accounted for under the purchase method of accounting based on the fair value of the assets acquired and liabilities assumed.

The pro forma adjustments reflect a reclassification of asset management fees to general and administrative expenses and removal of the asset manager s estimated profit included in these fees. This adjustment reflects that asset management fees will not be payable subsequent to the completion of this offering and the asset management fees incurred historically will be replaced with direct payments of compensation expense, rent and other general and administrative expenses.

*Comparison of Pro Forma Six Months Ended June 30, 2004 to Historical Six Months Ended June 30, 2004*

The pro forma condensed consolidated statement of operations for the six months ended June 30, 2004 is presented as if this offering, the formation transactions, the exercise of our option to acquire Carrier Center, the acquisitions of 100 Technology Center Drive, Siemens Building, Savvis Data Center, Comverse Technology Building, AboveNet Data Center, Webb at LBJ, 200 Paul Avenue, 1100 Space Park Drive and the acquisition of a 75% interest in the eBay Data Center, which along with Carrier Center are collectively referred to below as the 2004 properties, and the purchase of the remaining 25% interest in the eBay Data Center from a third party, all had occurred on January 1, 2004. In addition, the pro forma statement reflects the effects of acquisition of the all of the minority interests in Univision Tower held by a joint venture partner in exchange for units in our operating partnership upon completion of this offering.

The consolidation of the operating results of the 2004 properties in our pro forma income statement for the six months ended June 30, 2004 resulted in significant increases in various components of our statement of operations. In addition, our pro forma adjustments also reflect significant increases in general and administrative expenses largely as a result of compensation expense related to awards of fully-vested long-term incentive units to be granted in connection with this offering and the formation transactions to certain employees and our Executive Chairman. See Management 2004 Incentive Award Plan and Employment Agreements. This

increase is partially offset by a significant increase in net income related to acquisitions of the 2004 properties. The net effect of all of our pro forma adjustments is a reduction in our net income to a net loss on a pro forma basis.

The components of the significant changes that would have been reflected in our financial statements on a pro forma basis for the six months ended June 30, 2004 compared to the historical results are as follows:

On a pro forma basis, total revenues would have increased $32,478,000, or 78.1%, to $74,048,000 for the six months ended June 30, 2004 compared to $41,570,000 reported historically for the same period. This increase is primarily the result of increases in rental revenue and tenant reimbursements resulting from the consolidation of the 2004 properties.

On a pro forma basis, total expenses would have increased $44,164,000, or 125.9%, to $79,233,000 for the six months ended June 30, 2004 compared to $35,069,000 reported historically for the same period. The increase in pro forma total expenses reflects significant increases resulting from acquiring the 2004 properties. Pro forma interest expense reflects a net increase of $7,021,000, or 89.1%, resulting from increases in indebtedness resulting from acquisition of the 2004 properties and borrowings under our new unsecured credit facility and new secured debt partially offset by decreases resulting from repayment of mortgage, mezzanine and bridge loans and advances allocated to us under GI Partners line of credit. Pro forma total expenses also reflect $17,975,000 of additional general and administrative expenses that is comprised of increases in compensation expense resulting from awards of stock options which vest over a four-year period and fully-vested long-term incentive units, to be granted in connection with this offering and the formation transactions to certain employees and our Executive Chairman.

On a pro forma basis, minority interests for the six months ended June 30, 2004 decreased to a minority deficit of $(3,231,000) compared to a deficit of $(56,000) of minority interests reported historically for the same period. The pro forma minority interests primarily consist of an allocation of the pro forma loss before minority interests of our operating partnership as a result of issuing limited partnership units in our operating partnership to GI Partners and the third parties, and the historical minority interests related to our joint venture partners share of our historical net income.

*Comparison of Pro Forma Year Ended December 31, 2003 to Historical Year Ended December 31, 2003*

The pro forma condensed consolidated statement of operations for the year ended December 31, 2003 is presented as if this offering, the formation transactions, the acquisitions of the 2004 properties, the purchase of the remaining 25% interest in the eBay Data Center property from a third party and the acquisitions of Ardenwood Corporate Park, VarTec Building, ASM Lithography Facility, AT&T Web Hosting Facility, Brea Data Center, Granite Tower, Maxtor Manufacturing Facility and Stanford Place II, which are collectively referred to as the 2003 properties, all had occurred on January 1, 2003. In addition, the pro forma statement reflects the effects of acquisition of the all of the minority interests in Univision Tower held by a joint venture partner in exchange for units in our operating partnership upon completion of this offering.

The consolidation of the operating results of the 2003 properties and the 2004 properties in our pro forma income statement for the year ended December 31, 2003 resulted in significant increases in various components of our statement of operations. In addition, our pro forma adjustments also reflect significant increases in general and administrative expenses largely as a result of increased compensation expense related to awards of fully-vested long-term incentive units to be granted in connection with this offering and the formation transactions to certain employees and our Executive Chairman. See Management 2004 Incentive Award Plan and Employment Agreements. The net effect of all of our pro forma adjustments is a reduction in our net income, primarily as a result of additional pro forma general and administrative expenses, which is partially offset by a significant increase in net income related to acquisitions of the 2003 properties and the 2004 properties.

**Table of Contents**

The components of the significant changes that would have been reflected in our financial statements on a pro forma basis for the year ended December 31, 2003 compared to the historical results are as follows:

On a pro forma basis, total revenues would have increased $84,097,000, or 133.3%, to $147,185,000 for the year ended December 31, 2003 compared to $63,088,000 reported historically for the same period. This increase is primarily the result of increases in rental revenue and tenant reimbursements resulting from the consolidation of the 2003 properties and the 2004 properties.

On a pro forma basis, total expenses would have increased $88,356,000, or 190.8%, to $134,653,000 for the year ended December 31, 2003 compared to $46,297,000 reported historically for the same period. The increase in pro forma total expenses reflects significant increases resulting from the consolidation of the 2003 properties and the 2004 properties. Pro forma interest expense reflects a net increase of $19,698,000, or 195.2%, resulting from increases in indebtedness resulting from the acquisition of the 2004 properties and borrowings under our new unsecured credit facility and new secured debt and a full year of interest related to indebtedness for the 2003 properties partially offset by decreases in indebtedness resulting from repayment of mortgage and mezzanine loans and advances allocated to us under GI Partners line of credit. Pro forma total expenses also reflect $18,064,000 of additional general and administrative expenses that is comprised of increases in compensation expense resulting from awards of stock options which vest over a four-year period, and fully-vested long-term incentive units, to be granted in connection with this offering and the formation transactions to certain employees and our Executive Chairman.

On a pro forma basis, minority interests for the year ended December 31, 2003 increased to $7,797,000 compared to $149,000 of minority interests reported historically for the same period. The pro forma minority interests consist of an allocation of the pro forma loss before minority interests of our operating partnership as a result of issuing limited partnership units in our operating partnership to GI Partners and the third parties, and the historical minority interests related to our joint venture partners share of our historical net income.

**Liquidity and Capital Resources**

*Analysis of Liquidity and Capital Resources*

We believe that this offering and the formation transactions will improve our financial performance through changes in our capital structure, including a reduction in our leverage. After completion of this offering and consummation of the formation transactions, we expect our ratio of debt to total market capitalization to be approximately 44.5%. We intend to use available borrowings under the unsecured credit facility to, among other things, finance the acquisition of other properties (including the right of first offer properties, although we do not presently anticipate exercising these rights in the near future based on current market and property conditions), to provide funds for tenant improvements and capital expenditures, and to provide for working capital and other corporate purposes.

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, reserves established from existing cash, the proceeds of this offering and, if necessary, by drawing upon our unsecured credit facility.

Our properties require periodic investments of capital for tenant-related capital expenditures and for general capital improvements. For the years ended December 31, 2002 and December 31, 2003 and for the six months ended June 30, 2004, our weighted average annual tenant

improvement and leasing commission costs were $17.13 per square foot of leased space. As of June 30, 2004, we have commitments under leases in effect for $2.7 million of tenant improvement costs and leasing commissions, including $2.2 million during the remainder of 2004, $250,000 in 2005 and $250,000 in 2006. We expect the cost of recurring capital improvements for our properties to be approximately $890,000 annually, based in part upon the weighted average annual capital expenditure of $0.16 per square foot for the years ended December 31, 2002 and December 31, 2003 and the six

months ended June 30, 2004. Our nonrecurring capital expenditures are discretionary and vary substantially from period to period. Although we currently have no contractual commitments for the remainder of 2004, we expect nonrecurring capital expenditures at our properties will be approximately $1.0 million. We currently own approximately 181,000 net rentable square feet of data center space with extensive installed tenant improvements that we may convert to multi-tenant collocation 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 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 collocation 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.

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, long-term secured and unsecured indebtedness and the issuance of equity and debt securities. We also may fund property acquisitions and non-recurring capital improvements using our unsecured credit facility pending permanent financing.

Although we do not presently intend to meet our long-term or short-term liquidity needs through the sale of properties, were we to dispose of the 200 Paul Avenue and 1100 Space Park Drive properties we would be required to indemnify the contributing parties against adverse tax consequences until the earlier of the ninth anniversary of the completion of this offering and the date on which these contributors hold less than 25% of the units issued to them in the formation transactions. See Certain Relationships and Related Transactions 200 Paul Avenue and 1100 Space Park Drive Contribution Agreement.

*Commitments and Contingencies*

Upon completion of this offering and consummation of the formation transactions, we will have long-term indebtedness totaling $510.0 million. The following table summarizes our contractual obligations as of June 30, 2004, including the maturities and scheduled principal repayments of our pro forma secured debt and unsecured credit facility debt, and provides information about the commitments due in connection with our ground lease, tenant improvement and leasing commission obligations during the remainder of 2004 and for each of the five years thereafter (in thousands):

The following table outlines the timing of required payments related to our commitments as of June 30, 2004 (in thousands):

| Obligation | Through Remainder of 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | Thereafter | Total |
|---|---|---|---|---|---|---|---|---|
| Long-term debt[1] | $ 1,722 | $ 15,857 | $ 142,106 | $ 61,322 | $ 5,835 | $ 138,032 | $ 145,144 | $ 510,018 |
| Ground lease[2] | 121 | 241 | 241 | 241 | 241 | 241 | 9,581 | 10,907 |
| Tenant improvements and leasing commissions | 2,214 | 250 | 250 | | | | | 2,714 |
| **Total** | **$ 4,057** | **$ 16,348** | **$ 142,597** | **$ 61,563** | **$ 6,076** | **$ 138,273** | **$ 154,725** | **$ 523,639** |

(1) Includes $31.4 million of borrowings under our unsecured credit facility that will be incurred in connection with this offering and the formation transactions.

(2) After February 2036, rent for the remaining term of the ASM Lithography 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.

Table of Contents

*Consolidated Indebtedness to be Outstanding After this Offering*

Upon completion of this offering and consummation of the formation transactions, we expect to have approximately $510.0 million of outstanding consolidated long-term debt as set forth in the table below. A total of $1.4 million of scheduled loan principal payments will be due on this indebtedness from the estimated completion date of this offering through December 31, 2004. We expect our ratio of debt to total market capitalization to be approximately 44.5%. Upon completion of this offering, we expect that approximately $246.0 million of our outstanding long-term debt will be variable rate debt, however, we expect to enter into interest rate swap agreements for $140.3 million of our variable rate debt. As a result, we expect that approximately 79.3% of our total indebtedness, upon completion of the offering, will be subject to fixed interest rates.

The following table sets forth information with respect to the indebtedness that we expect will be outstanding after this offering and the formation transactions on a pro forma basis as of June 30, 2004, but does not give effect to interest rate swap agreements that we expect to enter into in connection with this offering (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 | $ 772 | Apr. 1, 2009 | $ 20,000 |
| 200 Paul Avenue Mortgage | LIBOR + 3.18%[(3)] | 46,908 | 4,266 | Jul. 1, 2006[(4)] | 43,794 |
| Ardenwood Corporate Park, NTT/Verio Premier Data Center, VarTec Building Mortgage Note | LIBOR + 1.59% | 43,000 | 1,539 | Aug. 9, 2006[(5)] | 43,000 |
| Ardenwood Corporate Park, NTT/Verio Premier Data Center, VarTec Building Mezzanine | LIBOR + 5.75% | 22,000 | 1,703 | Aug. 9, 2006[(5)] | 22,000 |
| AT&T Web Hosting Facility Mortgage | LIBOR + 1.85% | 8,775 | 352 | Dec. 1, 2006[(4)] | 8,775 |
| Camperdown House Mortgage | 6.85% | 23,079[(6)] | 3,194 | Oct. 31, 2009 | 14,040 |
| Carrier Center Mortgage[(7)] | LIBOR + 4.25%[(8)] | 26,221 | 2,449 | Oct. 4, 2007 | 24,057 |
| Granite Tower Mortgage | LIBOR + 1.20% | 21,645 | 951 | Jan. 1, 2009 | 19,530 |
| Maxtor Manufacturing Facility Mortgage | LIBOR + 2.25% | 18,000 | 1,029 | Dec. 31, 2006[(4)] | 17,186 |
| Stanford Place II Mortgage | 5.14% | 26,000 | 1,336 | Jan. 10, 2009 | 26,000 |
| Univision Tower Mortgage[(9)] | 6.03% | 60,000 | 3,970 | Nov. 4, 2009 | 55,933 |
| eBay Bridge Loan | LIBOR + 2.00% | 7,950 | 317 | Aug. 11, 2005 | 7,950 |
| New Mortgage Debt[(10)] | 5.55% | 155,000 | 10,643 | Nov. 3, 2014 | 132,857 |
| New Unsecured Credit Facility[(11)] | LIBOR + 1.75% | 31,440 | 1,176 | Nov. 3, 2007 | 31,440 |
| **Total** | | **$ 510,018** | **$ 33,697** | | **$ 466,562** |

(1) Annual debt service for floating rate loans is calculated based on the 1-month, 3-month and 6-month LIBOR rates at October 27, 2004, which were 1.99%, 2.16% and 2.30%, respectively.
(2) Assuming no payment has been made on the principal in advance of its due date.
(3) Reflects the weighted average interest rate as of the expected assumption date.
(4) Two one-year extensions are available.
(5) A 13-month extension and a one-year extension are available.
(6) Based on our hedged exchange rate of $1.6083 to £1.00.
(7) Assuming the refinancing of the outstanding balances of a mortgage loan and a mezzanine loan pursuant to a letter of commitment from the lender under these loans. The letter of commitment provides for a 3-year term and an interest rate based on LIBOR (subject to a 2.5% floor) plus 4.25% per annum, and a one-year extension.
(8) Subject to a 2.5% LIBOR floor.
(9) Assuming the refinancing of the outstanding balances of a mortgage loan and a mezzanine loan pursuant to a letter of commitment from a lender.
(10)

This amount represents new mortgage debt that we intend to incur in connection with this offering. We will use our fee simple interests in 36 Northeast Second Street, Brea Data Center, Comverse Technology Building, Hudson Corporate Center, Siemens Building, and Webb at LBJ to secure new mortgage loans.

(11) The interest rate under our new unsecured credit facility will equal LIBOR plus a margin of between 1.375% to 1.750% based on our leverage ratio.

*Material Provisions of Consolidated Indebtedness to be Outstanding After this Offering*

*100 Technology Center Drive Mortgage Indebtedness.* The subsidiary that directly holds the fee interests in 100 Technology Center Drive is the borrower under a $20.0 million mortgage loan with Transamerica Occidental Life Insurance Company, as lender. The loan is required to be secured by:

- a mortgage, security agreement and fixture filing conveying 100 Technology Center and granting a security interest in certain fixtures and personal property; and

- an absolute assignment of leases and rents, assigning any interest in all present and future leases of all or any portion of the property encumbered by the mortgage and all of its right and title to, and interest in, the leases, including all rights under the leases, all benefits to be derived from them and all rents.

The maturity date for this mortgage loan is April 1, 2009. The mortgage loan bears interest at a rate of 3-month LIBOR plus 1.70% per annum and requires monthly interest-only payments until the maturity date. During the first 24 full months of the loan, which will expire on March 31, 2006, the borrower may not prepay the loan. Thereafter the borrower may prepay the loan upon not less than sixty days prior written notice. Any such voluntary prepayments must be for at least $500,000. The term loan contains affirmative covenants such as financial reporting, and negative covenants, including, among others, certain restrictions or prohibitions on the borrower s ability to merge into or consolidate with any other person, dissolve, terminate, liquidate in whole or in part, transfer or otherwise dispose of all or substantially all of its assets, change its legal structure or organizational documents, own any subsidiary, sell or transfer any interest in the borrower or the property, modify or terminate any leases, commingle its assets, or create or incur additional liens or indebtedness. A one-time transfer or sale of the property is allowed upon the lender s review and approval of customary information regarding the transaction and the transferee, assumption of the loan by the transferee, and payment of the lender s expenses and an assumption fee of 1% of the outstanding balance of the loan. The loan is nonrecourse to the borrower, subject to certain customary recourse carveouts. Upon completion of this offering, our operating partnership will provide an unsecured environmental indemnity and guarantee the recourse carveouts under this loan.

*200 Paul Avenue Mortgage Indebtedness.* The subsidiary that directly holds the fee interests in 200 Paul Avenue is the borrower under a $46.9 million mortgage loan comprised of two notes with Greenwich Capital Financial Products, Inc., as lender. The mortgage loan is required to be secured by:

- a first priority deed of trust, assignment of rents and security agreement on 200 Paul Avenue, all buildings and improvements, water, water rights, all fixtures, machinery, equipment and other assets, rights to insurance proceeds, together with all interest in any leases and all rents and profits arising from the property, reserve, deposit or escrow accounts, and contracts and agreements, intellectual property, and any and all proceeds from any of the foregoing; and

- an absolute assignment of leases and rents, assigning any interest in all present and future leases of all or any portion of the property encumbered by the mortgage and all of its right and title to, and interest in, the leases, including all rights under the leases, all benefits to be derived from them and all rents.

The maturity date for this mortgage loan is July 1, 2006, which date may be extended for up to two additional 12 month periods upon the request of the borrower and satisfaction of certain requirements. The first note, with a balance of $45.0 million, bears interest at a rate of 1-month LIBOR plus 3% during the current term and the second note, with an estimated $1.9 million balance upon completion of this offering, bears interest at a rate of 1-month LIBOR plus 7% during the current term. The first note requires monthly payments of principal and interest commencing in November 2005. The second note requires monthly payments of principal and interest until the maturity date. The loan may be repaid in whole or in part at any time upon 30 to 60 days prior written notice. Prepayment of the $45.0 million note is subject to a prepayment

penalty of 1% of the outstanding principal balance (unless prepaid or repaid in full with loan proceeds from a loan made by the lender during the final 90 days of the initial term, plus the actual costs and expenses of the lender incurred in liquidating or reducing any Eurodollar or LIBOR based investment or obligation entered into by the lender to fund all or any

**Table of Contents**

portion of the loan or to provide for or protect the interest rate of the loan. Prepayment of the second note is subject to a prepayment penalty equaling the actual costs and expenses of the lender incurred in liquidating or reducing any Eurodollar or LIBOR based investment or obligation entered into by the lender to fund any or all portion of the loan or to provide for or protect the interest rate of the loan. If the loan is repaid or prepaid in full during the final 30 days of the initial term (with other than lender-loaned funds provided to refinance the loan), the prepayment penalty on the first note is reduced to 0.375% of the outstanding principal balance plus the aforementioned lender costs. The mortgage loan contains affirmative covenants such as financial reporting and maintenance of reserve accounts, and negative covenants, including, among others, limitations on changes to legal structure or organizational documents, ownership of subsidiaries, or creation or incurrence of additional liens or indebtedness. The loan is nonrecourse to the borrower, subject to certain customary recourse carveouts. Upon completion of this offering, our operating partnership will provide an unsecured environmental indemnity and guarantee the recourse carveouts under this loan. The borrower was required to enter into an interest rate cap agreement pursuant to the loan that limits the interest rate to 7.25% per annum during the term of this loan.

*Ardenwood Corporate Park, NTT/Verio Premier Data Center and VarTec Building Mortgage Indebtedness.* The subsidiary that directly holds the fee interests in Ardenwood Corporate Park, the NTT/Verio Premier Data Center and the VarTec Building is the borrower under a $43.0 million mortgage loan with German American Capital Corporation as lender. The mortgage loan is required to be secured by:

- a first mortgage lien on Ardenwood Corporate Park, the NTT/Verio Premier Data Center and the VarTec Building and related improvements, fixtures and real property rights;
- a general first lien on all related personal property;
- a general first lien on all related accounts and intangibles;
- an assignment of leases, rents, security deposits and management agreements for such properties; and
- all proceeds, products and profits from the foregoing.

The maturity date of the mortgage loan is August 9, 2006 with one 13 month and one one-year extension option. The mortgage loan bears interest at a rate of 1-month LIBOR plus approximately 1.59% per annum. The mortgage loan requires monthly interest-only payments until the maturity date. The borrower may not prepay the loan during a lockout period that ends on October 8, 2005. The borrower may prepay the loan without penalty on any monthly payment date after this lockout period with notice to lender of not less than 30 days and not more than 60 days. The loan contains affirmative covenants such as financial reporting and standard lease requirements and negative covenants, including, among others, certain restrictions on the borrower s ability to create or incur additional liens or indebtedness or transfer the property or an interest in the property. In connection with the mortgage loan, the borrower is subject to a lockbox agreement and cash management provisions of the loan pursuant to which all income generated by the Ardenwood Corporate Park, NTT/Verio Premier Data Center and VarTec Building properties is deposited directly into lockbox accounts and then swept into a cash management account for the benefit of the lender from which cash is distributed to us only after funding of tax, insurance, debt service, tenant improvement and leasing, and structural improvement reserve accounts and any payments then due under the Ardenwood Corporate Park, NTT/Verio Premier Data Center and VarTec Building mezzanine loan. The loan is nonrecourse to the borrower, subject to certain recourse carveouts. During the first twelve months following completion of this offering, GI Partners will not be permitted to reduce its percentage ownership in our operating partnership (which will be 47.4% upon completion of this offering) below 30% without the consent of the lender. Upon completion of this offering, we anticipate that our operating partnership will provide an unsecured environmental indemnity and guarantee the recourse carveouts under the loan. The borrower was required to enter into an interest rate cap agreement pursuant to the loan that limits the interest rate to 7.5% per annum in the term of this loan.

*Ardenwood Corporate Park, NTT/Verio Premier Data Center and VarTec Building Mezzanine Indebtedness*. The subsidiaries that directly hold the fee interests in Ardenwood Corporate Park, the NTT/Verio Premier Data Center and the VarTec Building are the borrowers under a $22.0 million mezzanine loan with German American Capital Corporation (c/o Deutsche Bank Securities, Inc.) as lender. The mezzanine loan is required to be secured by a first priority pledge of the direct and indirect beneficial interests in our subsidiary that

is the mortgage borrower. The maturity date of the mezzanine loan is August 9, 2006 with one 13 month and one one-year extension option. The mezzanine loan bears interest at a rate of 1-month LIBOR plus 5.75% per annum. The mezzanine loan requires monthly interest-only payments until the maturity date. The borrower may not prepay the mezzanine loan during a lockout period that ends on October 8, 2005. The borrower may prepay the mezzanine loan without penalty on any monthly payment date after this lockout period with notice to lender of no less than 30 days and no more than 60 days. The mezzanine loan contains affirmative covenants such as financial reporting and standard lease requirements and negative covenants, including, among others, certain restrictions on the borrowers ability to create or incur additional liens or indebtedness or transfer the property or an interest in the property. In connection with the mezzanine loan, we are subject to a lockbox agreement and cash management provisions which operate in connection with the lockbox and cash management provisions under the Ardenwood Corporate Park, NTT/Verio Premier Data Center and VarTec Building mortgage loan. During the first twelve months following completion of this offering, GI Partners will not be permitted to reduce its percentage ownership in our operating partnership (which will be 47.4% upon completion of this offering) below 30% without the consent of the lender. Upon completion of this offering, we anticipate that our operating partnership will provide an unsecured environmental indemnity and guarantee the recourse carveouts under the loan. The borrower was required to enter into an interest rate cap agreement pursuant to the mezzanine loan that limits the interest rate to 7.5% per annum in the term of the mezzanine loan.

*AT&T Web Hosting Facility Mortgage Indebtedness.* The subsidiary that directly holds the fee interests in the AT&T Web Hosting Facility is the borrower under an $8.8 million loan agreement with Jackson National Life Insurance Company, as lender. The loan is required to be secured by:

- a first mortgage deed to secure debt on the AT&T Web Hosting Facility;
- a first priority assignment of all present and future leases, all guaranties thereof and all rents and other sums payable thereunder; and
- a security interest in all related personal property, tangible and intangible, including bank accounts, accounts receivable, all escrow, impound or reserve accounts, and other intangible property.

The maturity date for this loan is December 1, 2006. The loan bears interest at a rate of 3-month LIBOR plus 1.85% per annum and requires monthly interest-only payments until the maturity date. The loan has two one-year extensions at our option, subject to meeting certain conditions and accepting a new floating interest rate based upon a spread to be determined at the time of the extension. During the first 12 months of the term, which will expire in November 2004, the borrower may not prepay the loan. During the second 12 months of the term, the borrower may prepay the loan, in full but not in part, upon 30 days written notice, with payment of a yield maintenance premium equal to 1% of the outstanding principal balance. During the third 12 months of the term and any extension periods, the borrower may prepay the loan, in full but not in part, without premium or penalty upon 30 days written notice. The loan contains affirmative covenants such as financial reporting and maintenance of certain escrow accounts, and negative covenants, including, among others, certain restrictions or prohibitions on the borrower s ability to make cash distributions, sell or transfer an interest in the borrower, create or incur additional liens or indebtedness, and assign the loan. The loan is nonrecourse to the borrower, subject to certain recourse carveouts.

*Camperdown House Mortgage Indebtedness.* The subsidiary that holds the fee interests in Camperdown House is the borrower under a £14.4 million (pound) mortgage loan with the Bank of Scotland as lender.

The mortgage loan is required to be secured by:

- a first mortgage debenture on Camperdown House and related improvements, fixtures (including trade and tenant s fixtures), plant and machinery and real property rights;

a general first lien on all belonging to the borrower;

a general first lien on all related accounts and intangibles; and

an assignment of all rental income for the property.

Table of Contents

The maturity date of the mortgage loan is October 31, 2009. The mortgage loan bears interest at a rate of 6.845% per annum. The borrower bases quarterly principal and interest payments on a 10-year amortization schedule. The borrower may prepay the loan upon 10 days notice to the lender, subject to a prepayment penalty of one month s interest until July 31, 2005 and without penalty thereafter. The loan contains affirmative covenants such as financial reporting and maintenance of certain coverage ratios, and negative covenants, including, among others, certain restrictions on the borrower s ability to create or incur additional liens or indebtedness or transfer the property or an interest in the property. The borrower provides an environmental indemnity.

*Carrier Center Letter of Commitment Mortgage Indebtedness*. Upon the exercise of the option to acquire the Carrier Center property, we will own the subsidiary that directly holds the fee interest in Carrier Center. We expect that upon the exercise of the option and pursuant to the terms of a letter of commitment with iStar Financial Inc., through which we intend to refinance the existing Carrier Center senior and mezzanine indebtedness, our wholly owned subsidiary will be the borrower under a new single mortgage loan in an original principal amount of approximately $26.2 million. The new mortgage loan will be required to be secured by a first mortgage deed of trust on Carrier Center and a first priority security interest in all of the ownership interest in the borrower and in all assets of the borrower. The letter of commitment provides for a three-year term and an interest rate based on LIBOR (subject to a 2.5% LIBOR floor) plus 4.25% per annum. The borrower will have the option of extending the term of the loan by one year subject to a fee equal to 0.50% of the then outstanding principal balance. The mortgage loan will not be prepayable until after the first anniversary of its closing and thereafter will be prepayable in whole or in part with not less that 30 days notice. The loan will require monthly interest and principal payments until the maturity date with a balloon payment due at maturity. The loan will be subject to affirmative covenants such as financial reporting and negative covenants, including, among others, certain restrictions on the borrower s ability to create or incur additional liens or indebtedness or transfer the property or any interest in the property. In connection with the mortgage loan, the borrower will be subject to a lockbox arrangement and cash management provisions of the loan pursuant to which income generated by the Carrier Center property will be swept into a cash management account for the benefit of the lender from which cash will be distributed to us only after satisfying debt, operating and other reserve cash requirements. The loan will be subject to an unsecured environmental indemnity and a guaranty of certain of the obligations of the borrower. The borrower will be required to enter into an interest rate cap agreement if the LIBOR rate is at any time equal to or greater than 4.5%.

*Granite Tower Mortgage Indebtedness.* The subsidiary that directly holds the fee interests in the Granite Tower is the borrower under a $21.6 million mortgage note issued to Allstate Life Insurance Company, as lender. The mortgage loan is required to be secured by:

- a first mortgage lien on Granite Tower and related improvements, fixtures and real property rights;
- a general first lien on all related personal property;
- a general first lien on all related accounts, books and records and intangibles;
- an assignment of leases, rents, security deposits and contracts for such properties; and
- all proceeds, products and profits from the foregoing.

The maturity date of the mortgage note is January 1, 2009. The mortgage note bears interest at a rate of 3-month LIBOR plus 1.20% per annum. Beginning on January 1, 2006 with 60 days prior notice to the lender, the borrower has the option of converting the variable rate into a fixed rate determined by the lender subject to a conversion fee of 1% of the outstanding principal balance. The mortgage note requires monthly interest-only payments until February 1, 2005 when principal and interest will be due monthly until the maturity date. The borrower may not prepay the loan during a lockout period that ends on January 1, 2006. The borrower may prepay the loan in full on any quarterly payment date after this lockout period with notice to lender of not less than 30 days subject to a prepayment penalty of 1% of the outstanding principal balance, or if the loan has been

converted to a fixed rate, the greater of 1% of the outstanding principal balance or a yield maintenance payment. The loan contains affirmative covenants such as financial reporting requirements and negative covenants, including, among others, certain prohibitions or restrictions on the borrower s ability to create or incur additional liens or indebtedness or transfer the property or an interest in the property. The loan is nonrecourse to the borrower, subject to certain recourse carveouts. Upon completion of this offering, the borrower and one of our subsidiaries that indirectly owns an interest in the property entity will continue to provide an unsecured environmental indemnity and the subsidiary will guarantee recourse carveouts under the loan.

*Maxtor Manufacturing Facility Mortgage Indebtedness.* Our subsidiary that will own the fee interest in the Maxtor Manufacturing Facility is the borrower under an $18.0 million mortgage loan agreement with Fleet National Bank, as agent and lender. The mortgage loan is required to be secured by:

- a first priority deed of trust, security agreement and fixture filing on the Maxtor Manufacturing Facility, all land, improvements, furniture, fixtures, goods, equipment and other assets, all insurance proceeds and other proceeds therefrom and all other assets of the borrower;
- a first priority assignment of leases and rents, and all income and profits to be derived from the operation and leasing of the property;
- a first priority security interest in all tax, collateral and reserve accounts and all tenant letters of credit; and
- a first priority assignment of any interest rate protection agreements entered into by the borrower.

The maturity date for this mortgage loan is December 31, 2006. The mortgage loan bears interest at a rate of 6-month LIBOR plus 2.25% per annum and requires monthly interest-only payments through December 31, 2004, and thereafter also requires monthly payments of principal. In the event that LIBOR rate loans are not available, interest will be calculated at the lender s prime rate. The mortgage loan has two one-year extensions at our option, subject to meeting certain conditions and the payment of an extension fee in the amount of 0.35% of the then outstanding loan balance. The borrower may prepay the mortgage loan upon three business days notice, provided that we will be required to pay a yield maintenance fee to reimburse the lender for any losses or expenses. The mortgage loan contains affirmative covenants such as financial reporting and maintenance of certain coverage ratios, and negative covenants, including, among others, certain restrictions or prohibitions on the borrower s ability to create or incur additional liens or indebtedness, transfer the property or an interest in the property and merge or consolidate with or into, convey, transfer or dispose of all or substantially all of its assets to or in favor of any other person. In the event that the debt service coverage ratio falls below certain thresholds, the borrower may be required to either pay down the loan or fund a cash reserve account.

*Stanford Place II Mortgage Indebtedness.* The subsidiary holding a fee interest in Stanford Place II is the borrower under a $23.4 million mortgage note issued to Principal Life Insurance Company, as lender, and a $2.6 million mortgage note issued to PFG CTL Mortgage, LLC, as lender. The mortgage loans are required to be secured by:

- a first priority deed of trust and security agreement on Stanford Place II and any right, title and interest therein and to the land, real property rights, buildings and improvements including their names and the right to manage and operate them, fixtures, personal property of the borrower used in the operation of the premises, insurance proceeds, settlement awards and damage claims, and any rights to strips of land adjacent to and used in connection with the premises and adjoining ways, streets, sidewalks and alleys;
- an assignment of leases and rents; and

a $450,000 letter of credit issued pursuant to a property reserves agreement.

The maturity date for these mortgage notes is January 10, 2009. These notes bear interest at a rate of 5.14% per annum and require monthly interest-only payments. The borrower has the right upon 30 days written notice

**Table of Contents**

to each lender to pay both loans in full with a prepayment fee equal to the greater of 1% of the principal amount or an amount resulting from a reinvestment yield analysis. The note may be prepaid without such prepayment fee during the last 90 days prior to the maturity date. The security agreement contains negative covenants, including, among others, certain restrictions or prohibitions on the borrower s ability to create or incur additional liens or indebtedness, transfer the property or an interest in the property and merge or consolidate with or into, convey, transfer or dispose of all or substantially all of its assets to or in favor of any other person. The loan is nonrecourse to the borrower, subject to certain recourse carveouts. The subsidiary borrower provides an unsecured environmental indemnity. Upon completion of this offering, we anticipate that our operating partnership will guarantee the subsidiary borrower s obligations under the environmental indemnity and the recourse carveouts under the loan.

*Univision Tower Letter of Commitment Mortgage Indebtedness.* The subsidiary that directly holds the fee interests in Univision Tower has entered into a letter of commitment with Countrywide Commercial Real Estate Finance, Inc., pursuant to which we intend to refinance the existing mortgage indebtedness securing the Univision Tower, with a new single mortgage in an original principal amount of approximately $60.0 million. The new mortgage loan will be required to be secured by a first priority mortgage/deed of trust on Univision Tower, a first priority assignment of leases and rents with respect to Univision Tower and a first priority security interest in all other property and assets of the borrower. The letter of commitment provides for a five-year term and a fixed interest rate equal to 265 basis points over the most comparable U.S. Treasury rate. The mortgage loan will not be prepayable in whole or in part until any time during the final three months of the term of the loan. The loan will require monthly payments calculated using the interest rate and a 30-year amortization schedule. The loan will be subject to affirmative covenants such as financial reporting and negative covenants, including, among others, certain restrictions on the borrower s ability to create or incur additional liens or indebtedness or transfer the property or any interest in the property. In the event of a default or a decline in the debt service ratio below a specified level, income generated by the Univision Tower property will be swept into a cash management account for the benefit of the lender from which cash will be distributed to us only after satisfying debt, operating and other reserve cash requirements. The loan will be nonrecourse to the borrower, subject to certain recourse carveouts. The subsidiary borrower under this loan will be subject to an unsecured environmental indemnity. We anticipate that our operating partnership will guarantee the subsidiary borrower s obligations under the environmental indemnity and the recourse obligations under the loan.

*Comverse Technology Building, Hudson Corporate Center, Webb at LBJ, 36 Northeast Second Street, Siemens Building and Brea Data Center Mortgage Indebtedness.* The subsidiaries that directly hold the fee interests in Comverse Technology Building, Hudson Corporate Center, Webb at LBJ, 36 Northeast Second Street, Siemens Building and Brea Data Center will be borrowers under six separate loans in an aggregate principal amount up to $155 million with Citigroup Global Markets Realty Corp. as lender. The loans will be cross-defaulted and cross-collateralized. The mortgage loans will be required to be secured by:

- a first mortgage lien on Comverse Technology Building, Hudson Corporate Center, Webb at LBJ, 36 Northeast Second Street, Siemens Building and Brea Data Center and related improvements, fixtures and real property rights;
- a general first lien on all related personal property;
- a general first lien on all related accounts and intangibles;
- an assignment of leases, rents, security deposits and contracts; and
- all proceeds, products and profits from the foregoing.

Each of the mortgage loans will be for a ten-year term with an expected to maturity in November 2014. The mortgage loans are expected to bear an interest rate at a fixed rate based on the 10-year Treasury plus 1.05% per annum. The borrower may not prepay the mortgage loans until 60 days prior to the maturity date of such loan. Each mortgage loan will contain affirmative covenants, such as financial reporting and maintenance

of the

property, and negative covenants, including, among others, certain restrictions on the borrower s ability to create or incur additional liens or indebtedness or transfer the property or interest in the property. In connection with the mortgage loans, the borrower will be subject to a lockbox arrangement and cash management provisions pursuant to which all income generated by the Comverse Technology Building, Hudson Corporate Center, Webb at LBJ, 36 Northeast Second Street, Siemens Building and Brea Data Center properties will be deposited directly into lockbox accounts and then swept into a cash management account for the benefit of the lender for which cash is distributed to us only after funding of debt service, taxes, insurance, tenant improvement and leasing, capital improvement, and maintenance reserve accounts. The loans are nonrecourse to the borrowers, subject to recourse carveouts. Upon completion of this offering, we anticipate that we and our operating partnership will provide on a joint and several basis unsecured environmental indemnity and guaranty of recourse carveouts under the loans. In addition, each borrower shall guaranty the obligations of our other borrowing subsidiaries under the mortgage loans. The mortgage loans may be securitized by the lender at its option.

*eBay Data Center Bridge Loan.* The eBay Data Center will be subject to an $8.0 million secured bridge loan with Citigroup Global Markets Realty Corp. as lender and agent to certain other lenders. The bridge loan is required to be secured by:

- a first mortgage lien on eBay Data Center and related improvements, fixtures and real property rights;
- a general first lien on all related personal property;
- a general first lien on all related accounts and intangibles;
- an assignment of leases, rents and contracts; and
- all proceeds, products and profits from the foregoing.

Assuming the expected closing of our initial public offering in 2004, the maturity date of the loan will be August 11, 2005. The loan will bear interest at the one-month LIBOR plus 2.00% per annum.

*Unsecured Credit Facility.* We will enter into a three-year, $200 million unsecured revolving credit facility with affiliates of Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated, our joint bookrunning managers for this offering, as joint lead arrangers and joint bookrunning managers, prior to or contemporaneously with this offering. We expect several of the underwriters to be lenders under this facility. Upon completion of this offering, we expect to draw up to $31.4 million under this facility concurrently or soon after the consummation of this offering in connection with the repayment of existing indebtedness and that a portion of this credit facility will remain available to us pursuant to the terms of this facility. We expect that this credit facility may be guaranteed by certain of our subsidiaries whose governance agreements and loan documents do not otherwise prohibit such guarantees. We expect that the unsecured credit facility will have a one-year extension option. We intend to use the credit facility, among other things, to finance the acquisition of properties (potentially including the right of first offer properties, although the acquisition of the right of first offer properties is not currently probable), provide funds for tenant improvements and capital expenditures, and provide for working capital and other corporate purposes. We anticipate that the credit facility will contain 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 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 and a currency fluctuation hedge arrangement in connection with our ownership of the Camperdown House property in London, England. We currently have no other off-balance sheet arrangements. See Liquidity and Capital Resources Material Provisions of Consolidated Indebtedness to be Outstanding After this Offering.

Upon completion of this offering, we expect to enter into interest rate swap agreements for $140.3 million of our variable rate debt. As a result, we expect that 79.3% of our total indebtedness, upon completion of this offering, will be subject to fixed interest rates. See Quantitative and Qualitative Disclosure about Market Risk.

**Cash Flows**

*Comparison of Six Months Ended June 30, 2004 to Six Months Ended June 30, 2003*

Cash and cash equivalents were $4,268,000 and $2,026,000, respectively, at June 30, 2004 and 2003.

Net cash provided by operating activities increased $1,665,000 to $15,008,000 for the six months ended June 30, 2004 compared to $13,343,000 for the six months ended June 30, 2003. The increase was primarily due to the properties added to our portfolio since June 30, 2003 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 $120,627,000 to $227,747,000 for the six months ended June 30, 2004 compared to $107,120,000 for the six months ended June 30, 2003. The increase was primarily the result of the acquisition of five properties during the six months ended June 30, 2004, which required a larger investment than the acquisitions of four properties during the six months ended June 30, 2003.

Net cash provided by financing activities increased $119,608,000 to $211,833,000 for the six months ended June 30, 2004 compared to $92,225,000 for the six months ended June 30, 2003. The increase was primarily due to increased capital contributions, net of distributions, and borrowings made in connection with the acquisition of the five properties during the six months ended June 30, 2004 than the capital contributions and debt required for the acquisitions of four properties during six months ended June 30, 2003.

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

Cash and cash equivalents were $5,174,000 and $3,578,000, respectively, at December 31, 2003 and 2002.

Net cash provided by operating activities increased $19,341,000 to $28,986,000 for the year ended December 31, 2003 compared to $9,645,000 for the year ended December 31, 2002. The increase was primarily due to the properties added to our portfolio during the year ended December 31, 2003 and the receipt of a $4,200,000 early lease termination fee in April 2003 related to a lease termination that occurred in March 2003. This increase 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 $50,508,000 to $215,263,000 for the year ended December 31, 2003 compared to $164,755,000 for the year ended December 31, 2002. The increase was primarily the result of the amount of cash used to acquire the portfolio properties

acquired during the year ended December 31, 2003 compared to the amount of cash used to acquire the properties acquired during the year ended December 31, 2002. Approximately $78,648,000 of the acquisition costs of the properties acquired during the year ended December 31, 2002 is attributable to the assumption of existing mortgage loans on the property and to seller financing of a portion of the property purchase price. There were no such debt assumptions or seller financings for the properties acquired in the year ended December 31, 2003.

Net cash provided by financing activities increased $29,185,000 to $187,873,000 for the year ended December 31, 2003 compared to $158,688,000 for the year ended December 31, 2002. The increase was partially the result of the higher level of debt financing obtained from non-seller lenders for the properties acquired during the year ended December 31, 2003 compared to the properties acquired during the year ended December 31, 2002. Approximately $78,648,000 of the acquisition costs of the properties acquired during the year ended December 31, 2002 is attributable to the assumption of existing mortgage loans on the property and to seller

Table of Contents

financing of a portion of the property purchase price. The increase in cash flows from debt obtained was partially offset by the decrease in net capital contributions received from owner during the year ended December 31, 2003. The amount of capital versus debt used to acquire our properties is discretionary.

*Comparison of Year Ended December 31, 2002 to the Period from February 28, 2001 (inception) through December 31, 2001*

Cash and cash equivalents were $3,578,000 and $0, respectively, at December 31, 2002 and 2001.

The net cash provided by (used in) operating activities, used in investing activities and provided by financing activities for the year ended December 31, 2002 increased compared to the period from February 28, 2001 (inception) through December 31, 2001 as a result of the acquisition of properties in our portfolio during the year ended December 31, 2002. We acquired our first portfolio property in January 2002 and had limited activity during the period from February 28, 2001 (inception) through December 31, 2001.

**Funds From Operations**

We calculate FFO in accordance with the standards established by NAREIT. FFO represents net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from sales of property, real estate related depreciation and amortization (excluding amortization of deferred financing costs) and after adjustments for unconsolidated partnerships and joint ventures.

Management uses FFO as a supplemental performance measure because, in excluding real estate related depreciation and amortization and gains and losses from property dispositions, it provides a performance measure that, when compared year over year, captures trends in occupancy rates, rental rates and operating costs. We also believe that, as a widely recognized measure of the performance of REITs, FFO will be used by investors as a basis to compare our operating performance with that of other REITs.

However, because FFO excludes depreciation and amortization and captures neither the changes in the value of our properties that result from use or market conditions nor the level of capital expenditures and leasing commissions necessary to maintain the operating performance of our properties, all of which have real economic effect and could materially impact our results from operations, the utility of FFO as a measure of our performance is limited. Other equity REITs may not calculate FFO in accordance with the NAREIT definition and, accordingly, our FFO may not be comparable to such other REITs FFO. Accordingly, FFO should be considered only as a supplement to net income as a measure of our performance. FFO should not be used as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to pay dividends or make distributions. FFO also should not be used as a supplement to or substitute for cash flow from operating activities computed in accordance with GAAP.

The following table sets forth a reconciliation of our pro forma funds from operations for the periods presented (in thousands):

| | Pro Forma |
|---|---|

| | Six Months Ended June 30, 2004 | Year Ended December 31, 2003 |
|---|---|---|
| Pro forma income (loss) before minority interest in operating partnership but after minority interest in consolidated joint ventures | $ (5,171) | $ 12,532 |
| Plus: pro forma real estate depreciation and amortization | 22,065 | 43,473 |
| Pro forma funds from operations[(1)] | $ 16,894 | $ 56,005 |

(1) Pro forma funds from operations as set forth above includes $17.9 million of compensation expense related to fully-vested long-term incentive units granted in connection with this offering and the formation transactions for the periods presented.

Table of Contents

**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**

On April 30, 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. SFAS No. 149 amends and clarifies the accounting guidance on (1) derivative instruments (including certain derivative instruments embedded in other contracts) and (2) hedging activities that fall within the scope of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 149 also amends certain other existing pronouncements, which will result in more consistent reporting of contracts that are derivatives in their entirety or that contain embedded derivatives that warrant separate accounting. SFAS No. 149 is effective (1) for contracts entered into or modified after June 30, 2003, with certain exceptions, and (2) for hedging relationships designated after June 30, 2003. The guidance is to be applied prospectively. The adoption of SFAS No. 149 did not have a material impact on our financial position or results of operations or cash flows.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS No. 150 establishes standards for how an issuer classifies and measures in its balance sheet certain financial instruments with characteristics of both liabilities and equity. In accordance with the standard, financial instruments that embody obligations for the issuer require classification as liabilities. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise shall be effective at the beginning of the first interim period beginning after September 15, 2003. On November 7, 2003, the FASB deferred the effective date of paragraphs 9 and 10 of SFAS No. 150 as they apply to mandatorily redeemable non-controlling interests in order to address a number of interpretation and implementation issues. The adoption of SFAS No. 150 did not have any impact on our financial position or results of operations or cash flows.

In November 2002, the FASB issued FASB Interpretation No. 45 (FIN 45), Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. This interpretation expands the disclosures to be made by a guarantor in its financial statements about its obligations under certain guaranties and requires the guarantor to recognize a liability for the fair value of an obligation assumed under a guaranty. FIN 45 clarifies the requirements of SFAS No. 5, Accounting for Contingencies, relating to guaranties. In general, FIN 45 applies to contracts or indemnification agreements that contingently require the guarantor to make payments to the guaranteed party based on changes in an underlying that is related to an asset, liability, or equity security of the guaranteed party. The adoption of FIN 45 did not have any impact on our financial position or results of operations or cash flows.

In January 2003, the FASB issued FASB Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities. FIN 46 clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements and provides guidance on the identification of entities for which control is achieved through means other than through voting rights and how to determine when and which business enterprise should consolidate such an entity. This new model for consolidation applies to an entity which either (1) the equity investors (if any) do not have a controlling financial interest or (2) the equity investment at risk is insufficient to finance that entity s activities without receiving additional subordinated financial support from other parties. Certain provisions of this interpretation are effective for 2003. The adoption of the provisions of this statement did not have any impact on our financial position or results of operations or cash flows.

Table of Contents

**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 use some derivative financial instruments to manage, or hedge, interest rate risks related to our borrowings. 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.

Upon completion of this offering, we expect to enter into interest rate swap agreements for approximately $140.3 million of our variable rate debt. As a result, we expect that approximately 79.3% of our total indebtedness, upon completion of this offering, will be subject to fixed interest rates.

If, after consideration of the interest rate swaps described above, LIBOR were to increase by 10%, or approximately 19.9 basis points, the increase in interest expense on the unhedged variable rate debt would decrease future earnings and cash flows by approximately $229,000 annually. If LIBOR were to increase by 10%, the fair value of our $264.1 million principal amount of outstanding fixed rate debt would decrease by approximately $3.1 million. If LIBOR were to decrease by 10%, or approximately 19.9 basis points, the decrease in interest expense on the unhedged variable rate debt would be approximately $229,000 annually. If LIBOR were to decrease by 10%, the fair value of our $264.1 million principal amount of outstanding fixed rate debt would increase by approximately $3.1 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 June 30, 2004, our total outstanding debt was approximately $473.9 million, which was comprised of $247.2 million of mortgage loans, $99.5 million of notes payable under a bridge loan, $51.9 million of other secured loans and an allocation to us of $75.3 million of amounts outstanding under the GI Partners line of credit. Approximately $366.3 million, or 77.3%, of our total outstanding debt was variable rate debt. As of June 30, 2004, the fair value of our outstanding fixed-rate debt approximated $108.3 million compared to the carrying value of $106.5 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 $(1,796,042) as of June 30, 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 $1,411,901 to $(3,207,943). 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 $1,411,901 to $(384,141).

**Table of Contents**

## INDUSTRY BACKGROUND/MARKET OPPORTUNITY

The technology industry has played a prominent role in the development of the global economy. Technological innovations, such as the Internet, have led to dramatic improvements in the ability to communicate and transact business worldwide, expanded the reach of products and services and created electronic bonds that enhance the ability of businesses to interact with customers. As a result, the technology industry has achieved extraordinary growth. According to Forrester Research, Inc., a leading technology research firm, between 1996 and 2000, technology expenditures in the U.S. grew from $397.3 billion to $709.8 billion, representing a 15.6% annualized growth rate, which was more than double the growth rate of the overall economy over the same period, as measured by GDP.[1]

This rapid growth in technology expenditures was followed by an overall reduction in sector spending from 2001 through 2003. Despite this reduction in spending, however, technology usage continued to expand during the same period, as evidenced by the increase in electronic commerce which grew from $598.0 billion in 2001 to $1.6 trillion in 2003 (or 64.6% compounded annual growth), and the increase in worldwide Internet users which grew from 506.6 million in 2001 to 702.4 million in 2003 (or 17.7% compounded annual growth), both according to IDC Research Inc., a leading IT and telecommunications market intelligence firm.[2] U.S. technology spending has now stabilized and, according to Forrester Research, Inc., is expected to increase by 6.9% annually from $763.1 billion in 2004 to $995.5 billion in 2008.[1]

As technology has become a more significant component of the overall economy, the importance of high quality, strategically located, technology-related real estate has grown. During the growth of the 1990 s, the investment opportunity in technology-related real estate was fueled by heavy tenant demand. From 2001 through 2003, investment in technology-related real estate became more opportunistic as a result of the disequilibrium in the overall technology industry. Now, in light of improving trends in the technology industry, we believe demand for technology-related real estate is increasing, as technology companies require more space and complex infrastructure to support their growth.

Within technology-related real estate, we focus on technology industry facilities that are difficult to replicate and critical to the operations of tenants, which we believe represent the best long-term real estate investment opportunities. Many of these facilities have fully redundant electrical supply systems, multiple power feeds, above-standard electrical HVAC systems, raised-floor areas that accommodate computer cables and below-floor cooling systems, extensive in-building communications cabling, and high level security systems. Since inception, our predecessor has made selective acquisitions of these types of facilities at prices which are at or below the replacement cost. Our ability to do so has been driven by our capacity to fully assess the strategic value of specific properties, the creditworthiness and business potential of technology tenants and local market conditions. Going forward, our in depth knowledge of the technology industry, acquisition experience and specialist focus position us to benefit from continued growth in the technology industry. The property types within our focus include:

- telecommunications infrastructure properties, which provide the infrastructure required by companies in the data, voice, and wireless communication industries;
- information technology, or IT, infrastructure properties, which provide the physical environment required for disaster recovery, IT outsourcing and collocation;
- 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.

---

(1) IT Spending Outlook: 2004-2008 and Beyond, Forrester Research, Inc., July 2004
(2) Worldwide Internet Usage & Commerce 2004-2007 Forecast (#30949), IDC Research, Inc., March 2004

Table of Contents

*Telecommunications Infrastructure*

Our telecommunications infrastructure buildings serve as access and interconnection points for the voice and data networks of telecommunications companies. From our buildings, our telecommunications tenants provide services which include transporting wireline and wireless voice communications, transmitting data in multiple protocols (including the Internet protocol), and providing services that optimize communications applications to meet specific business and technical requirements. Many of these services are considered critical to our tenants and their customers operations.

As participants in the global economy have become increasingly dependent on networks such as the Internet in order to reliably and efficiently transfer data over long distances, the need for an organized approach to network interconnection that can support the rapid growth of data traffic has grown. As a result, the industry has constructed telecommunications network facilities that accommodate increased rates of data flow over networks, or bandwidth. These facilities are typically characterized by the physical presence of Internet service providers, regional incumbent phone companies and media providers, all of whom interconnect within our buildings by placing private connections between each other. In our target metropolitan markets, we believe that there are typically only a few buildings that have the sufficient critical mass of multiple high-speed optical connections to major network carriers to be characterized as network access points. These network access points are critical to telecommunications infrastructure tenants because they provide secure, direct access to the point at which traffic is exchanged. This reduces their costs by eliminating local access charges, reduces their points of failure and increases their efficiency. According to PriMetrica, Inc., an independent research firm which tracks Internet service providers and facilities, there are 340 Internet gateway and collocation facilities comprising 38 million square feet located in ten major U.S. cities.(3)

Upon completion of this offering, we will own approximately 2.0 million square feet of net rentable space in seven facilities that principally provide the real estate infrastructure for tenants in the telecommunications infrastructure services sector. Our telecommunications tenants include AT&T, Cingular, Level 3, Qwest, SBC, Sprint, T-Mobile, Verizon, XO Communications and 360 Networks.

Since telecommunications infrastructure tenants provide services critical to the day-to-day operations of their customers on a continuous basis, these tenants require buildings which have 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. According to research published in 2002 by Gartner Inc., construction costs to build these high quality, specialized properties ranged from $300 to $1,000 per square foot of raised floor area.(4) Our tenants have generally funded capital improvements themselves. As such, leases for our telecommunications infrastructure properties are typically longer in duration than standard commercial leases, with an average term of 13.7 years. Tenant-installed improvements generally remain at our property after termination of the lease. As many such tenant improvements are readily adaptable to similar types of uses, we expect to benefit from these improvements by reducing our re-tenanting costs. We have historically had success in re-tenanting vacant telecommunications space with minimal additional tenant improvement expenditures by us.

*Information Technology Infrastructure*

Tenants in our IT infrastructure buildings provide IT outsourcing, data storage and management, business continuance, disaster recovery, web hosting, and collocation. Trends that are fueling the growth of the IT services sector include recent regulatory requirements for financial services companies to maintain dual data production environments (where two geographically separated systems process simultaneously the same data to provide complete redundancy), increased demand for business continuance and disaster recovery solutions which enable

(3) Colocation 2004, Telegeography, a division of PriMetrica, Inc.
(4) Data Center Opportunities Abound in Real Estate Market, Decision Framework (DP 18-7980) by M. Bell, L. Leong Research Note December 11, 2002

companies to recover from unplanned service interruptions, and the sustained trend of businesses outsourcing their business processes and IT operations. Fueled by these positive trends, U.S. IT services spending reached $369.4 billion in 2003 and is expected to increase 4.3% in 2004 to approximately $385.3 billion, according to Forrester Research, Inc.[5] Forrester Research, Inc. also expects U.S. IT services spending to grow 4.6% annually through 2008.[6]

Upon completion of this offering, we will own approximately 1.7 million square feet of net rentable space in eight facilities which principally provide the real estate infrastructure for tenants in the IT services sector. Several of our IT infrastructure buildings are occupied by tenants that provide web hosting and other collocation services to numerous customers whose computer equipment is installed in the buildings. Our web hosting tenants include AT&T, Equinix, Layer One, Level 3, NTT/Verio, Savvis and SBC Services. Our web hosting tenants facilitate the delivery of content and services via the Internet by providing customers with physical space for their technical equipment, network connectivity and onsite systems management. Our webhosting tenants customers span a wide variety of industries and include AOL, IBM, Major League Baseball, Microsoft, NASA and Southwest Airlines.

In addition, we are pursuing the opportunity to lease collocation space in four of our buildings. Collocation facilities provide customers with the opportunity to lease a small footprint of space in secure and reliable operating environments that allows our customers Internet and telecommunications equipment to run 24 hours a day, seven days a week. This is a cost-effective solution for the tenants, and allows for the leasing of small spaces at significant premiums to prevailing market rents. According to Tier1 Research, an independent research firm which regularly tracks statistics on multi-tenant data centers, there are 511 multi-tenant data centers in the United States, which comprise a total of 23 million gross square feet. Tier1 Research estimates that the average annual rent charged to customers within these data centers is approximately $300 per square foot, or more depending on the quality of the data center. At our Univision Tower property collocation space, we have achieved rental rates as high as $200 per net rentable square foot for smaller spaces of 50 to 200 square feet and rents of approximately $50 to $100 per net rentable square foot for 500 to 1,000 square feet spaces. At our 36 Northeast Second Street collocation space, we have achieved rents of over $40 per net rentable square foot for large spaces of over 5,000 square feet.

IT infrastructure tenants seek to operate in secure, operationally resilient, continuous service data centers. These data centers must offer 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, high-level security systems and redundant ingress and egress Internet and data access across multiple providers. Similar to telecommunications infrastructure properties, we believe construction costs to build a combination of these physical requirements can range from $300 to $1,000 per square foot of raised floor area. As such, leases of our IT infrastructure properties are typically longer than standard commercial leases, with an average term of 12.9 years. Our tenants have generally funded capital improvements themselves. Tenant-installed improvements generally remain at our property after termination of the lease. As many such improvements are readily adaptable for similar types of uses, we expect to benefit from these improvements by reducing our re-tenanting costs. We have historically had success in re-tenanting vacant data center space with minimal additional tenant improvement expenditures by us.

***Technology Manufacturing Infrastructure***

Technology manufacturing properties are broadly characterized as those having tenants that require domestic, on-shore operations due to the highly technical nature of their activities. New products and advanced engineering techniques often require the close proximity of engineering and research to the manufacturing processes. As a result, companies seek to couple manufacturing programs directly with R&D/engineering

---

(5) Projected 2004 US IT Growth Edges Up To 6%, Forrester Research, Inc., June 2004
(6) IT Spending Outlook: 2004-2008, and Beyond, Forrester Research, Inc., July 2004

76

activities that reside domestically, often in the same facility. Technology manufacturing tenants include manufacturers of specialized equipment and materials for such industries as computer hardware, semiconductors, life sciences, electronics and telecommunications.

Upon completion of this offering, we will own approximately 604,000 square feet of net rentable space in three facilities that provide the real estate infrastructure primarily for tenants in technology manufacturing sectors. Our technology manufacturing tenants include Abgenix, ASM Lithography and Maxtor Corporation.

Technology manufacturing infrastructure tenants typically require facilities that contain both general office space and specialized space such as clean room assembly and electronic labs, biotechnology/life sciences labs and associated clean room facilities and technical equipment manufacturing facilities. Specialized spaces are extensively improved by tenants to include the addition of robust and redundant electrical distribution, above standard HVAC systems, clean room facilities, electronics assembly facilities, super-cold storage for biotechnology products and wet-lab research and testing areas. Specialized building improvements are made at costs which are many times greater than standard improvements to office space. As such, leases of our technology manufacturing properties are typically longer than standard commercial leases, with an average lease term of 10.3 years. Our tenants have generally funded capital improvements themselves. Tenant-installed improvements generally remain our property after termination of the lease. As many such improvements are readily adaptable for similar types of uses, we expect to benefit from these improvements by reducing our re-tenanting costs. We have historically had success in re-tenanting vacant manufacturing space with minimal additional tenant improvement expenditures by us.

***Technology Office/Corporate Headquarters***

Technology office/corporate headquarters buildings typically consist of general-purpose office and R&D/flex spaces in tech-centric markets. These properties often include facilities with extensive installed tenant improvements that are critical for the technology tenant s business such as data centers, telecommunications, and electronics assembly and testing spaces. Properties are typically located in markets that are home to a variety of technology industry sectors and companies. The most attractive markets are characterized by an ample, well-educated technology workforce, proximity to major universities and a critical mass of technology industry firms active in the area. Metropolitan markets currently represented in our portfolio for headquarter assets include the San Francisco Bay area, Dallas, Denver and Boston.

Upon completion of this offering, we will own approximately 1.3 million square feet of net rentable space in five properties that serve as regional or national headquarters facilities for technology industry tenants. Our corporate headquarters tenants include Comverse Technology, Carreker Software, Siemens Subscriber Networks and Stone & Webster.

**Table of Contents**

## BUSINESS AND PROPERTIES

### Overview

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 expect to qualify as a REIT for federal income tax purposes beginning with our initial taxable year ending December 31, 2004.

Upon completion of this offering and consummation of the formation transactions, we will own 22 properties located throughout the U.S. and one property located in London, England, containing a total of approximately 5.6 million net rentable square feet. To facilitate research and development, technology transfer and recruitment of technology professionals, companies in the technology industry often cluster near major scientific research institutions, universities and government agencies, all of which drive demand for properties combining office, communications infrastructure and data center space. Our operations and acquisition activities are focused on 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. As of June 30, 2004, our properties were approximately 87.1% leased at an average annualized rent per leased square foot of $20.01.

Our senior management team and Executive Chairman have an average of over 22 years of experience in the technology or real estate industries, including experience as investors in, advisors to and founders of technology companies. Under our senior management team s direction, we focus on technology industry facilities that are difficult to replicate and critical to the operations of tenants, which we believe to be the best long-term real estate investment opportunities. 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 collocation;
- 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/R&D 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. Based on our experience, properties leased to tenants in the communications and information technology industries typically offer 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, while properties leased to technology manufacturing companies typically offer fully redundant electrical supply systems, multiple power feeds, above-standard electrical HVAC systems, high-level security systems and clean room space. The tenant-installed improvements in our facilities are readily adaptable for use by similar tenants.

Our predecessor, 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 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. Upon completion of this offering and consummation of the formation transactions, GI Partners will contribute substantially all of its technology-related real estate investments to our operating partnership. Thereafter, pursuant to our non-competition agreement with GI Partners, GI Partners will continue to manage its investments in other existing businesses, but will not, subject to limited exceptions, pursue new investments in technology-related real estate. After completion of this offering and the formation transactions, CalPERS and CB Richard Ellis Investors, through their ownership of GI Partners, will together have an approximate 47.4% interest in our operating partnership, which would equal an approximate 46.8% beneficial interest in us, on a fully diluted basis, and will remain valuable partners. See Our Competitive Strengths.

We were formed in March 2004 by Digital Properties Holdings LLC. The sole members of Digital Properties Holdings are Richard A. Magnuson, the Executive Chairman of our board of directors, and Michael F. Foust, our Chief Executive Officer. In April 2004, Digital Properties Holdings sold its interest in us to GI Partners for $2,000. Upon completion of this offering and consummation of the formation transactions, we expect to have 20 employees. In addition, we engage CBRE and other experienced property management companies to provide on-site property management services. We intend to pay regular quarterly dividends to our stockholders, beginning with a dividend for the period commencing on the completion of this offering and ending on December 31, 2004. See Dividend Policy. Upon completion of this offering and consummation of the formation transactions, substantially all of our business will be conducted through Digital Realty Trust, L.P., our operating partnership.

**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.** Our portfolio is primarily located in 11 major metropolitan areas, including the Boston, Dallas, Los Angeles, New York, San Francisco and Silicon Valley metropolitan areas, and is diversified so that no one market represents more than 28.9% of the aggregate annualized rent of our portfolio as of June 30, 2004. We believe these markets are among the areas of major technology-related activities in the U.S. The following chart illustrates the geographic distribution of our tenants by annualized rent:

**Long-Term Leases.** We have long-term leases with stable cash flows. As of June 30, 2004, our average lease term was in excess of 12.6 years, with an average of 7.9 years remaining. Through 2007, leases representing only 7.9% of our net rentable square feet, or 7.8% of our aggregate annualized rent is scheduled to expire. Moreover, through 2005, only 1.6% of our net rentable square feet is scheduled to expire.

**Specialized Focus in Dynamic and Growing Industry.** We focus solely on technology-related real estate because we believe that the growth in 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 technology industry 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.** Since 2002, we have acquired or will acquire upon completion of this offering and consummation of the formation transactions an aggregate of 23 technology-related real estate properties with 5.6 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, collectively have an average of over 22 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. Upon completion of this offering, our senior management team is expected to collectively own an approximate 3.2% equity interest in our company on a fully diluted basis, which aligns management s interests with those of our stockholders.

**Unique Sourcing Relationships.** Upon completion of this offering, the members of our contributors will hold a substantial indirect investment in our company, and accordingly, we anticipate that they will continue to play an active role. We expect that CBRE 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. In addition, 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.

**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 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 87.1% leased as of June 30, 2004, leaving approximately 720,000 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 June 30, 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 Collocation Use.** We own approximately 181,000 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 and intend to continue to convert these spaces to multi-tenant collocation use, with each tenant averaging between 100 and 1,000 square feet of net rentable space. Multi-tenant collocation is a cost-effective solution for smaller tenants who cannot afford their own extensive infrastructure and security. Because we can provide such features, we are able to lease space to these smaller tenants at a significant premium to other uses.

**Leverage Strong Industry Relationships.** We use our strong industry relationships with national and regional technology intensive companies to comprehensively identify and 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 technology tenants.

**Use Capital Efficiently.** We have and will continue to opportunistically sell assets. 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 construction of a new facility. We will seek such opportunities to realize profits and re-invest our capital.

**Table of Contents**

**Our Initial Portfolio**

The following table presents an overview of the initial portfolio of properties that we will own upon completion of this offering and consummation of the formation transactions, referred to herein as our portfolio, based on information as of June 30, 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] | Annualized Net Effective Rent Per Leased Square Foot[5] |
|---|---|---|---|---|---|---|---|---|
| **Telecommunications Infrastructure** | | | | | | | | |
| 200 Paul Avenue | San Francisco | 100.0% | 1955/1999&2001 | 532,238 | 82.9% | $ 10,617,600 | $ 24.05 | $ 28.02 |
| Univision Tower | Dallas | 100.0 | 1983 | 477,107 | 79.7 | 7,949,798 | 20.90 | 19.99 |
| Carrier Center[6] | Los Angeles | 100.0 | 1922/1999 | 449,254 | 80.5 | 7,484,586 | 20.70 | 24.53 |
| Camperdown House[7] | London, UK | 100.0 | 1983/1999 | 63,233 | 100.0 | | | |