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

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

Registration No. 333-122644

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 5
to

Form S-11

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

Columbia Equity Trust, Inc.

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

1750 H Street, N.W.

Suite 500
Washington, D.C. 20006
(202) 303-3080

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Oliver T. Carr, III
Chairman, President and Chief Executive Officer
Columbia Equity Trust, Inc.
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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

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

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

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

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

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

SUBJECT TO COMPLETION, DATED JUNE 28, 2005

PROSPECTUS

10,666,666 Shares

Common Stock

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

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

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

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

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

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

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

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

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

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

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

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

The date of this prospectus is , 2005.

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

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

PROSPECTUS SUMMARY

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

Overview

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

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

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

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

Our Primary Market

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

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

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

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

Our Strategy

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

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

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

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

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

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

Competitive Strengths

We believe we enjoy significant competitive strengths, including:

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

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

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

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

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

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

Summary Risk Factors

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

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

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

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

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

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

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

if we are unable to complete the acquisitions of the Loudoun Gateway IV and Barlow Building properties that we have under contract in a timely fashion or at all, we will have no designated use for a portion of the net proceeds of this offering and may experience delays in locating and securing attractive alternative investments which would result in a reduction of the amount of cash available for distribution to our stockholders;

if the private REIT which owns the Barlow Building fails to qualify as a REIT, we may fail to qualify as a REIT;

the private REIT that will own the Barlow Building could incur substantial corporate tax on built-in gain in connection with a sale of the Barlow Building before December 31, 2010;

we could recognize a substantial amount of taxable income in connection with a sale of the Barlow Building, rather than a sale of stock in the private REIT that will own the Barlow Building;

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

our revenue and cash available for distribution to stockholders could be materially adversely affected if any of our significant tenants were to become bankrupt or insolvent, or suffer a downturn in their business;

our management has no prior experience operating a REIT or a public company, which could have an adverse effect on our operations;

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

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

our performance and stockholder value are subject to risks associated with real estate assets and with the real estate industry; and if we fail to qualify or remain qualified as a REIT for federal income tax purposes, we will not be able to deduct our dividends, and our income will be subject to taxation.

Our Initial Properties

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our Investment Criteria

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

$10 to $60 million in initial cost;

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

well-located within sub-market;

purchase price typically equal to or below replacement cost; and

high-quality design and construction.

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

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

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

Formation Transactions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our Structure

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

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

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

Our Principal Office

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

Conflicts of Interest

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

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

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

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

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

Distribution Policy

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

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

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

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

Our Tax Status

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

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

The Offering

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

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

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

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

Summary Financial and Other Data

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

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

- the management services business of Carr Capital.

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

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

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

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

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

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

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

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

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

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

RISK FACTORS

Risk Related to Our Business and Properties

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Development and construction risks could adversely affect our profitability.

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

- we may be unable to obtain, or may suffer delays in obtaining, necessary zoning, land-use, building, occupancy and other required governmental permits and authorizations, which could result in increased costs or our abandonment of these projects;
- we may incur construction costs for property which exceed our original estimates due to increased costs for materials or labor or other costs that we did not anticipate;
- we may not be able to obtain financing on favorable terms, which may render us unable to proceed with our development activities; and
- we may be unable to complete construction and lease-up of a property on schedule, which could result in increased debt service expense or construction costs.

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

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

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

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

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

Our debt service obligations may have a negative impact on our ability to make distributions to our stockholders, pursue our business plan and maintain our REIT status and our management and

board of directors have discretion to increase the amount of our outstanding debt at any time without approval of our stockholders.

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

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

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

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

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

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

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

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

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

Variable rate debt subjects us to interest rate risk.

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

Risks Related to Our Organization and Structure

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

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

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

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

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

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

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

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

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

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

In order to maintain our qualification as a REIT, we are required under the Internal Revenue Code to distribute annually to our stockholders at least 90% of our net taxable income, determined without regard to the dividends paid deduction and excluding any net capital gain. In addition, we will be subject to income tax at regular corporate rates to the extent that we distribute less than 100% of our net taxable income, including any net capital gains. Because of these distribution requirements, we may not be able to fund future capital needs, including acquisitions, from operating cash flow. Consequently, we rely on third-party sources to fund our capital needs and may not be able to obtain financing on favorable terms or at all. Any additional debt we incur will increase our leverage. Our access to third-party sources of capital depends, in part, on general market conditions, the market s perception of our growth potential, our current debt levels, our current and expected future earnings, our cash flow and cash distributions and the market price per share of our common stock.

If we cannot obtain capital from third-party sources, we may not be able to acquire or develop properties when strategic opportunities exist, satisfy our debt service obligations or make the cash distributions to our stockholders necessary to maintain our qualification as a REIT. We may be required to borrow money or sell assets in order to fund distributions sufficient to satisfy our REIT distribution requirements.

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

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

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

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

Our ownership limitations may restrict business combination opportunities.

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

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

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

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

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

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

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

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

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

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

- business combination provisions that, subject to limitations, prohibit certain business combinations between us and an interested stockholder (defined generally as any person who beneficially owns 10% or more of the voting power of our shares or an affiliate thereof) for five years after the most recent date on which the stockholder becomes an interested stockholder, and thereafter impose special stockholder voting requirements on these combinations; and

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

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

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

Risks Related to the Real Estate Industry

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Tax Risks of our Business and Structure

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

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

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

Our business plan contemplates growth through acquisitions. To qualify and maintain our status as a REIT for federal income tax purposes, we generally are required to distribute annually to our stockholders at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction and excluding net capital gains. We are also required to pay tax at regular corporate rates to the extent that we distribute less than 100% of our taxable income (including net capital gains) each year. In addition, we are required to pay a 4% nondeductible excise tax on the amount, if any, by which certain distributions we pay with respect to any calendar year are less than the sum of 85% of our ordinary income for that calendar year, 95% of our capital gain net income for the calendar year and any amount of our income that was not distributed in prior years.

We intend to distribute to our stockholders all or substantially all of our REIT taxable income each year in order to comply with the distribution requirements of the Internal Revenue Code and to avoid federal income tax and the 4% nondeductible excise tax. Our distribution requirements limit our ability to fund acquisitions and capital expenditures through retained earnings. Thus, our ability to grow through acquisitions will be limited if we are unable to obtain debt or equity financing. In addition, differences in timing between the receipt of income and the payment of expenses in arriving at REIT taxable income and the effect of required debt amortization payments could require us to borrow funds to meet the distribution requirements that are necessary to achieve the tax benefits associated with qualifying as a REIT, even if the then prevailing market conditions are not favorable for these borrowings.

Moreover, even if we qualify and maintain our status as a REIT, the net income of our taxable REIT subsidiary will be subject to federal and state income taxes at regular corporate rates.

Our disposal of properties may have negative implications, including unfavorable tax consequences.

If we make a sale of a property directly or through an entity that is treated as a partnership or disregarded entity for federal income tax purposes, and it is deemed to be a sale of dealer property or inventory, the sale may be deemed to be a prohibited transaction under federal tax laws applicable to REITs, in which case our gain, or our share of the gain, from the sale would be subject to a 100% penalty tax. If we believe that a sale of a property might be treated as a prohibited transaction, we may dispose of that property through a taxable REIT subsidiary, in which case the gain from the sale would be subject to corporate income tax but not the 100% prohibited transaction tax. We cannot assure you, however, that the IRS will not assert successfully that sales of properties that we make directly or through an entity that is treated as a partnership or disregarded entity for federal income tax purposes, rather than through a taxable REIT subsidiary, are sales of dealer property or inventory, in which case the 100% penalty tax would apply.

Risks Related to This Offering

There is currently no public market for our common stock, and an active trading market for our common stock may not develop following this offering.

Prior to this offering, there has been no public market for our common stock. We have applied to list our common stock on the New York Stock Exchange in connection with this offering, but even if our common stock is approved for listing, an active trading market for our common stock may never develop or be sustained. Our common stock may have limited trading volume, and many investors may not be interested in owning our common stock because of the inability to acquire or sell a substantial block of our common stock at one time. This illiquidity could have an adverse effect on the market price of our common stock. In addition, a stockholder may not be able to borrow funds using our common stock as collateral because lenders may be unwilling to accept the pledge of securities having such a limited market.

A substantial sale of our common stock, or the perception that a substantial sale might occur, could cause the market price of our common stock to decline.

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 after this offering, the market price of our common stock may fluctuate widely. 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 common stock 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, including a decline below the public offering price, in the future.

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

- actual or anticipated declines in our quarterly operating results or distributions;
- reductions in our funds from operations;
- increases in market interest rates that lead purchasers of shares of our common stock to demand a higher dividend yield;
- changes in market valuations of similar companies;
- adverse market reaction to any increased indebtedness we incur in the future;
- additions or departures of key management personnel;
- actions by institutional stockholders;
- speculation in the press or investment community; and

general market and economic conditions.

The public offering price does not necessarily bear any relationship to our book value or the fair market value of our assets.

An increase in market interest rates may have an adverse effect on the market price of our common stock.

One of the factors that investors may consider in deciding whether to buy or sell shares of our common stock is our distribution rate as a percentage of our stock price, relative to market interest rates. If market interest rates increase, prospective investors may desire a higher distribution rate on shares of our common stock or seek securities paying higher dividends or interest. The market price of our common stock likely will be based primarily on the earnings that we derive from rental income with respect to our properties and our distributions to stockholders, and not from the underlying appraised value of the properties themselves. As a result, interest rate fluctuations and capital market conditions can affect the market price of our common stock. For instance, if interest rates rise without an increase in our distribution rate, the market price of our common stock could decrease because potential investors may require a higher yield on shares of our common stock as market rates on interest-bearing securities, such as bonds, rise. In addition, rising interest rates would result in increased interest expense on our variable rate debt, thereby adversely affecting cash flow and our ability to service our indebtedness and make distributions to our stockholders.

The exemption from the registration requirements of the Securities Act may not be available in connection with some of the formation transactions, which may give rise to rights of rescission.

The offering and issuance of the operating partnership units in the formation transactions has been structured as a private placement transaction that is exempt from the registration requirements of the Securities Act pursuant to the exemption afforded by Section 4(2) of the Securities Act.

Under federal securities laws as interpreted by the Securities and Exchange Commission, an exemption from the registration requirements of the Securities Act may not be available for an otherwise valid private placement if that private placement is determined to be integrated with a registered public offering. Generally, a valid private placement will not be integrated with a registered public offering if the investor in the private placement has completed its investment decision with regard to the private placement before the initial filing of the registration statement for the registered offering, and the definitive investment agreement executed prior to the initial filing of the registration statement is complete, not subject to conditions within the control of the investor and encompasses all material terms.

Prior to filing the registration statement in connection with this offering, we executed all of the contribution agreements providing for the issuance of operating partnership units. We amended certain contribution agreements with respect to interests in the Greenbriar, Sherwood and Fair Oaks properties to extend the termination dates of these contribution agreements. We also amended several contribution agreements relating to the contribution of: (i) interests in properties acquired after the date of the initial registration statement of which this prospectus is a part, but before completion of this offering, (ii) asset management agreements and (iii) asset management agreements executed after the date of the initial registration statement but before completion of this offering. These agreements were amended to permit the contributors to receive either shares of our common stock or operating partnership units. None of the contribution agreements for interests in the Meadows IV, 1575 Eye Street, Independence Center, King Street, Madison Place and Atrium properties have been amended.

Because the contribution agreements described above were amended after the filing of the initial registration statement, of which this prospectus is a part, a question may arise under federal securities laws as to whether the contribution agreements that were amended after the initial filing of the registration statement resulted in new investment decisions, which could make the private placement exemption unavailable for these private placements.

Federal securities laws provide a one-year rescission right for investors who purchase securities in an unregistered offering for which the private offering or another exemption was not available. An investor successfully asserting a rescission right during the one-year time period has the right to require the issuer to repurchase the securities issued to the investor at the price paid by the investor for the securities. The aggregate value, based on the mid-point of the range of the initial public offering price for our common stock, of all of the operating partnership units issued under the contribution agreements is approximately $15.8 million. Oliver T. Carr, III, our chairman and chief executive officer, Clinton D. Fisch, our senior vice president and director of asset management, and Oliver T. Carr, Jr., the father of Oliver T. Carr, III, will beneficially own approximately 99.1% of the operating partnership units issued in the formation transactions.

We expect to limit any possible rescission liability or repurchase obligation arising out of the private placement of the operating partnership units to these contributors, because we expect Mr. Carr, Mr. Fisch and Mr. Carr to enter into an agreement and waiver with us and our operating partnership providing that such contributor (i) will not, under any circumstances, exercise any rescission rights arising out of the formation transactions, (ii) has irrevocably waived any right to rescission that may arise with respect to the formation transactions and (iii) has irrevocably agreed to contribute to our operating partnership any proceeds received by such contributor as a result of any rescission action arising out of the formation transactions if it is ultimately determined that such agreements and waivers are not enforceable.

Shares of our common stock eligible for future sale may have adverse effects on our share price.

We cannot predict the effect, if any, of future sales of shares of our common stock, or the availability of shares for future sales, on the market price of our common stock. Sales of substantial amounts of shares of our common stock, including up to approximately 1,344,149 shares of common stock issuable upon (i) the conversion of operating partnership units issuable in our formation transactions, and (ii) conversion of LTIP unit grants, or the perception that these sales could occur, may adversely affect prevailing market prices for shares of our common stock and impede our ability to raise capital. We will agree to register the resale of shares of common stock issuable upon redemption of operating partnership units issued in the formation transactions beginning approximately one year following completion of the offering.

We also may issue from time to time additional shares of common stock or operating partnership units in connection with the acquisition of properties, and we may grant demand or piggyback registration rights in connection with these issuances. Sales of substantial amounts of shares of common stock or the perception that these sales could occur may cause the prevailing market price for shares of our common stock to decline. In addition, the sale of these shares could impair our ability to raise capital through a sale of additional equity securities.

If you purchase shares in this offering, you will experience immediate dilution.

We expect the public offering price of our common stock to be higher than the book value per share of our common stock immediately following the offering and completion of our formation transactions. Accordingly, if you purchase our common stock in this offering, you will experience immediate dilution of approximately $4.42 in book value per share. This means that investors who purchase shares will likely pay a price per share that exceeds the book value of our assets after subtracting our liabilities.

Moreover, to the extent that outstanding operating partnership units are converted into shares of common stock or options to purchase our shares of common stock are exercised, or options reserved for issuance are issued and exercised, each person purchasing shares of common stock in this offering may experience further dilution.

A WARNING ABOUT FORWARD-LOOKING STATEMENTS

We make forward-looking statements in this prospectus that are subject to risks and uncertainties. These forward-looking statements include information about possible or assumed future results of our business, financial condition, liquidity, results of operations, plans and objectives. When we use the words believe, expect, anticipate, estimate, intend, should, may or similar expressions, we intend to ident forward-looking statements. Statements regarding the following subjects are forward-looking by their nature:

our business and investment strategy;

our projected operating results;

our ability to complete investments;

our ability to obtain future financing arrangements;

estimates relating to our ability to make distributions to our stockholders in the future;

our understanding of our competition;

market trends;

projected capital expenditures; and

use of the proceeds of this offering.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. You should not place undue reliance on these forward-looking statements. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us. Some of these factors are described in this prospectus under the headings Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. We are not obligated to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise except to the extent otherwise required by law.

USE OF PROCEEDS

We expect to receive net proceeds from this offering of approximately $144.9 million after deducting the underwriting discount, financial advisory fees and estimated offering fees and expenses payable by us, estimated to be approximately $3.9 million, including reimbursement to Carr Capital for organization and offering expenses incurred on our behalf. If the underwriters over-allotment option is exercised in full, we expect to receive net proceeds of approximately $167.2 million. We will contribute the net proceeds to our operating partnership. Our operating partnership intends to subsequently use the net proceeds from this offering as follows:

- approximately $39.5 million to purchase a 100% ownership interest in five of the initial properties, consisting of (i) approximately $4.2 million for the Greenbriar property, (ii) approximately $6.8 million for the Sherwood Plaza property, (iii) approximately $2.1 million for the Fair Oaks property, (iv) approximately $21.9 million for the Loudoun Gateway IV property (including transaction costs and a $213,500 cash fee payable to Carr Capital for sourcing the transaction) and (v) approximately $4.5 million for the Meadows IV property, including $3.3 million to acquire interests held by Clark/Carr Investments, LLC, a subsidiary of Clark Enterprises, Inc. Rebecca L. Owen, who will become a director of our company upon completion of this offering, owns a 5% interest in Clark/Carr Investments, LLC;

- approximately $28.2 million to acquire from unaffiliated third parties joint venture ownership interests in six of the initial properties, consisting of (i) approximately $1.9 million for a 6.1% ownership interest in the Independence Center property, (ii) approximately $5.4 million for a 31.0% ownership interest in the King Street property, (iii) approximately $5.8 million for a 50% ownership interest in the Madison Place property, including approximately $427,000 to acquire interests held by Clark/Carr Investments, (iv) approximately $9.6 million for a 35.0% ownership interest in the Suffolk Building property, (v) approximately $4.7 million for a 34.0% ownership interest in the Atrium property and (vi) approximately $834,000 to acquire a 9% interest in the Victory Point property held by Clark/Carr Investments;

- approximately $40.8 million to repay outstanding indebtedness, interest and prepayment penalties on four of our initial properties that we will wholly own as follows (as of March 31, 2005):

  - a loan secured by a first mortgage on the Fair Oaks property with a principal amount outstanding of approximately $10.2 million, a variable interest rate floating at LIBOR plus 2.1% and a maturity date of December 1, 2006;

  - a mezzanine loan for the Fair Oaks property secured by partnership interests in the entity that owns the property with a principal amount outstanding of approximately $6.4 million, a variable interest rate floating at LIBOR plus 4.5% and a maturity date of August 24, 2005. The lender is Wells Fargo Bank, N.A., an affiliate of Wells Fargo Securities, LLC, one of our underwriters;

  - a loan secured by a first mortgage on the Greenbriar property with a principal amount outstanding of approximately $10.6 million, a variable interest rate floating at LIBOR plus 2.5% and a maturity date of July 1, 2008;

  - a loan secured by a first mortgage on the Sherwood Plaza property with a principal amount outstanding of approximately $9.0 million, a variable interest rate floating at LIBOR plus 2.5% and a maturity date of July 1, 2008;

  - a mezzanine loan for the Meadows IV property secured by partnership interests in the entity that owns the property with a principal amount outstanding of approximately $4.4 million, a variable interest rate floating at LIBOR plus 4.5% and a maturity date of May 1, 2006. The lender is Wachovia Capital Investments, Inc., an affiliate of Wachovia Capital Markets, LLC, our lead underwriter; and

  - prepayment penalties for the prepayment of the Fair Oaks and Greenbriar first mortgages aggregating approximately $157,000;

approximately $13.3 million to fund an equity contribution for a 40% interest in a newly formed limited liability company that will own more than 99% of the outstanding stock of a private REIT that will own the Barlow Building property from unaffiliated third parties;

up to $1.0 million to fund an equity contribution to a new joint venture, in which we will own up to an approximately 14.7% interest, that we expect to develop an approximately 115,000 square foot office building on a parcel adjacent to the Independence Center property;

approximately $25,000 to acquire Carr Capital s furniture, fixture and equipment; and

the balance for general corporate and working capital purposes, including possible future acquisitions and development activities.

Pending these uses, we intend to invest the net offering proceeds in interest-bearing, short-term, marketable investment grade securities or money market accounts which are consistent with our intention to qualify as a REIT. These investments may include, for example, government and government agency securities, certificates of deposit, interest-bearing bank deposits and mortgage loan participations.

The closings of the acquisitions of the Suffolk Building and Barlow Building properties are scheduled to occur after the completion of this offering. There can be no assurance that we will acquire either of these properties. See Risk Factors.

The price to be paid to Clark/Carr Investments for our acquisition of interests in the Fair Oaks, Meadows IV, Madison Place and Victory Point properties was determined by negotiation among Carr Capital, Clark/Carr Investments and other third party investors in these properties. Because one of our directors, Ms. Owen, holds a 5% ownership interest in Clark/Carr Investments, the terms may not have been negotiated on an arms length basis.

CAPITALIZATION

The following table sets forth as of March 31, 2005 (i) the capitalization of the Columbia Equity Trust Predecessor on a historical basis, and (ii) the pro forma capitalization of Columbia Equity Trust, Inc., as adjusted for the offering and the application of the net proceeds as described in Use of Proceeds.

This table should be read in conjunction with the section captioned Management s Discussion and Analysis of Financial Condition and Results of Operations and our historical and unaudited pro forma financial information and related notes included elsewhere in this prospectus.

	March 31, 2005	
	Columbia Equity Trust Predecessor	Pro Forma As Adjusted
	(in thousands)	
Notes payable	$ 90	$ 19,000
Minority interest in our operating partnership		13,872
Owners equity:		
Preferred stock, $0.001 par value per share, 100,000,000 authorized, no shares issued and outstanding		
Common stock, $0.001 par value per share, 500,000,000 shares authorized, and 10,730,000 shares issued and outstanding on a pro forma basis(1)		11
Additional paid in capital		132,631
Accumulated equity	5,874	3,213
Total owners equity	5,874	149,727
Total capitalization	$5,964	$168,727

(1) Excludes 1,054,149 shares issuable upon redemption of operating partnership units, 290,000 shares of common stock issuable upon conversion of LTIP units to be issued to our directors and executive officers and certain employees and consultants concurrent with the close of this offering and 1,600,000 shares that may be issued by us upon exercise of the underwriters over-allotment option. Columbia Equity Trust Predecessor historical information does not reflect 63,334 shares of common stock of Columbia Equity Trust, Inc. that will be outstanding immediately prior to completion of this offering.

DILUTION

If you invest in shares of our common stock in this offering, your investment will be diluted to the extent of the difference between the initial public offering price per share in this offering and the pro forma net tangible book value per share of our common stock immediately after this offering, but assuming no exercise of the underwriters over-allotment option. After giving effect to:

- the sale of the shares of our common stock offered by this prospectus and our receipt of approximately $144.9 million in net proceeds from this offering, after deducting the underwriters discount and estimated offering expenses payable by us;

- completion of our formation transactions; and

- the issuance of 290,000 LTIP units (convertible into common stock) to our directors and executive officers and certain of our employees and consultants upon completion of this offering,

our pro forma net tangible book value as of March 31, 2005, would have been approximately $127.7 million, or $10.58 per share. This amount represents an immediate dilution in pro forma net tangible book value of $4.42 per share to new investors. The following table illustrates this per share dilution:

Initial public offering price		$15.00
Pro forma net tangible book value per share before this offering(1)	.02	
Increase in pro forma net tangible book value attributable to the offering and the formation transactions	10.56	
Pro forma net tangible book value per share after the formation transactions and this offering(2)		10.58
Dilution in pro forma net tangible book value per share to new investors(3)		$ 4.42

(1) Net tangible book value per share of common stock before this offering is determined by dividing our net tangible book value (total tangible assets less total liabilities) by 63,334 shares of common stock outstanding.

(2) Based on pro forma net tangible negative book value of approximately $(18.3) million divided by 63,334 shares of common stock and 1,054,149 operating partnership units outstanding, excluding 290,000 LTIP units to be issued upon completion of this offering.

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

DISTRIBUTION POLICY

In order to qualify as a REIT, we must annually distribute to our stockholders an amount at least equal to:

(i) 90% of our REIT taxable income, determined without regard to the dividends paid deduction and excluding any net capital gains; plus

(ii) 90% of the excess of our net income from foreclosure property over the tax imposed on such income by the Internal Revenue Code; less

(iii) any excess non-cash income, as determined under Sections 856 through 860 of the Internal Revenue Code.

See Federal Income Tax Considerations.

The timing and frequency of distributions will be authorized by our board of directors and declared by us based upon a number of factors, including:

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

The debt agreements for certain of the indebtedness we will assume in the formation transactions restrict our ability to make distributions if we are in default under any such debt agreement. We are negotiating to obtain a commitment for a revolving credit facility which we intend to enter into shortly after completion of this offering. We expect our credit facility will contain financial covenants that will restrict the ability of our operating partnership to make distributions to us which in turn will restrict our ability to make distributions to our stockholders, including covenants that will limit our liabilities to assets ratio, provide for minimum cash flow coverages of interest expense and fixed charges, minimum tangible net worth requirements and specific limitations on distributions as a percentage of our taxable income and funds from operations.

Our ability to make distributions to our stockholders will depend, in part, upon our receipt of distributions from our operating partnership. Distributions to our stockholders will generally be taxable to our stockholders as ordinary income. A significant portion of our investments will be equity ownership interests in commercial office properties, which will result in depreciation and non-cash charges against our taxable income. Our distributions in excess of our current and accumulated earnings will constitute a tax-free return of capital rather than taxable dividend, which will reduce your basis in your stock but will not be subject to tax. To the extent the amount we distribute to you exceeds both your allocable share of our current and accumulated earnings and profits and your adjusted basis, this excess amount will be treated as a gain from the sale or exchange of a capital asset. To the extent not inconsistent with maintaining our REIT status, our taxable REIT subsidiary may retain any after-tax earnings. Our cash available for distribution may be less than the amount required to meet the distribution requirements for REITs under the Internal Revenue Code, and we may be required to borrow money or sell assets to pay out enough money to satisfy the distribution requirements. See Federal Income Tax Considerations Taxation of Our Company for more information.

SELECTED FINANCIAL AND OTHER DATA

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

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

the management services business of Carr Capital.

The Columbia Equity Trust Predecessor s historical combined balance sheet data as of December 31, 2004 and 2003, and combined statement of operations data for the years ended December 31, 2004, 2003 and 2002, have been derived from the historical combined financial statements audited by Deloitte & Touche LLP, an independent registered public accounting firm whose report with respect thereto is included elsewhere in this prospectus.

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

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

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

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

	Three months ended March 31,			Year ended December 31,					
	Columbia Equity Trust, Inc.	Columbia Equity Trust Predecessor		Columbia Equity Trust, Inc.	Columbia Equity Trust Predecessor				
		Historical			Historical				
	Pro forma 2005	2005	2004	Pro forma 2004	2004	2003	2002	2001	2000
	(Dollars in thousands, except per share and square feet data)								
Statement of Operations Data:									
Revenues:									
Rental	$ 2,593	$	$	$ 7,607	$	$	$	$	$
Fee income, primarily from related parties	518	622	118	957	1,897	1,923	2,098	1,142	1,636
Total revenues	3,111	622	118	8,564	1,897	1,923	2,098	1,142	1,636
Expenses:									
Operating and other expenses	1,142			2,986					
General and administrative	606	379	359	4,120	1,727	1,673	1,900	1,280	1,201
Depreciation and amortization	1,495	3	2	7,400	12	10	8	7	5
Total operating expenses	3,243	382	361	14,506	1,739	1,683	1,908	1,287	1,206
Income (loss) from operations	(132)	240	(243)	(5,942)	158	240	190	(145)	430
Other income and expense									
Interest income	5	5	3	16	16	15	20	43	33
Interest expense	(237)	(2)	(2)	(950)	(9)	(9)	(9)	(9)	(7)
Equity in net income (loss) of real estate entities	90	103	132	644	411	2,931	245	138	(24)
Minority interest	26			602					
Income (loss) before income taxes	(248)	346	(110)	(5,630)	576	3,177	446	27	432
Provision for income taxes	34	34	3	7	7	55			110
Net income (loss)	$ (282)	$ 312	$ (113)	$ (5,637)	$ 569	$ 3,122	$ 446	$ 27	$ 322
Pro forma basic earnings per share	$ (0.02)			$ (0.48)					
Pro forma diluted earnings per share	$ (0.02)			$ (0.48)					
Pro forma weighted average common shares outstanding basic	11,870,149			11,819,289					
Pro forma weighted average common shares outstanding diluted	11,870,149			11,819,289					

Balance Sheet Data (as of end of period):									
Real estate	$ 80,380	$			$	$	$	$	$
Investments in real estate entities	44,445	4,324			4,190	3,105	3,285	789	310
Other assets, net	47,051	4,175			2,824	1,988	1,223	975	1,007
Total assets	$ 171,876	$ 8,499			$ 7,014	$ 5,093	$ 4,508	$ 1,764	$ 1,317
Mortgage loans	$ 19,000	$			$	$	$	$	$
Other liabilities	3,149	2,625			1,392	340	303	195	166
Total liabilities	22,149	2,625			1,392	340	303	195	166
Minority interest	13,872								
Owners equity	135,855	5,874			5,622	4,753	4,205	1,569	1,151
Total liabilities and owners equity	$ 171,876	$ 8,499			$ 7,014	$ 5,093	$ 4,508	$ 1,764	$ 1,317
Other Data:									
Income (loss) from operations	$ (132)	$ 240	$ (243)	$ (5,942)	$ 158	$ 240	$ 190	$ (145)	430
Funds from operations(1)	2,135			4,631					
Number of properties owned by real estate entities									
Wholly Owned	5			5					
Joint Venture	8	9	7	8	9	7	6	4	2
Total	13	9	7	13	9	7	6	4	2
Net rentable square feet (end of period)									
Wholly Owned	582,777			582,777					
Joint Venture	1,556,569	1,360,711	1,074,044	1,556,569	1,360,711	1,074,044	966,084	480,710	242,040
Total	2,139,346	1,360,711	1,074,044	2,139,346	1,360,711	1,074,044	966,084	480,710	242,040

	Three months ended March 31,			Year ended December 31,					
	Columbia Equity Trust, Inc.	Columbia Equity Trust Predecessor		Columbia Equity Trust, Inc.	Columbia Equity Trust Predecessor				
		Historical			Historical				
	Pro forma 2005	2005	2004	Pro forma 2004	2004	2003	2002	2001	2000
	(Dollars in thousands, except per share and square feet data)								
Cash Flow Data:									
Net cash flow provided by (used in):									
Operating activities		$(302)	$(139)		$(110)	$ 765	$ 414	$ 15	$ 236
Investing activities		(51)	178		(754)	2,578	(2,458)	(428)	(112)
Financing activities		(60)	(158)		301	(2,577)	2,190	391	(10)
Reconciliation of Net Income to FFO:									
Net loss	$ (282)			$(5,637)					
Plus:									
Depreciation and amortization on wholly owned properties	1,495			7,400					
Depreciation and amortization attributable to uncombined real estate entities	948			3,470					
Minority interest	(26)			(602)					
FFO	$2,135			$ 4,631					

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

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Selected Financial Data and the Columbia Equity Trust Predecessor audited combined financial statements as of December 31, 2004 and 2003 and for the years ended December 31, 2004, 2003 and 2002 and the unaudited combined financial statements as of March 31, 2005 and 2004 and for the quarters ended March 31, 2005 and 2004 appearing elsewhere in this prospectus. Columbia Equity Trust Predecessor is not a legal entity but rather a combination of real estate entities and property management assets under common ownership and management as described further below. Where appropriate, the following discussion includes analysis of the effects of this offering and the completion of our other formation transactions. These effects are reflected in the pro forma combined financial statements located elsewhere in this prospectus. References to we, us and our refer to Columbia Equity Trust, Inc. or Columbia Equity Trust Predecessor, as applicable.

Overview

Columbia Equity Trust, Inc. was formed in September 2004 to succeed to the commercial office property business of Carr Capital and its affiliated entities. We intend to continue the commercial office property strategy of Carr Capital by focusing on the acquisition, development, renovation, repositioning, ownership, management and operation of commercial office properties in the Greater Washington, D.C. area. Columbia Equity Trust will be self-administered and self-managed.

Our operating partnership, Columbia Equity, LP, was also formed in September 2004. We will own our properties and conduct our business through our operating partnership and its subsidiaries. Pursuant to contribution agreements among the owners of Columbia Equity Trust Predecessor, the operating partnership will receive a contribution of interests in the initial properties as well as the asset management operations of Carr Capital, in exchange for units in the operating partnership issued to the contributors and the assumption of debt and other specified liabilities. Certain assets and liabilities of Carr Capital not related to commercial office properties will not be contributed to us.

Columbia Equity Trust has no operating history. We have therefore set forth below a discussion of the combined historical operations of Columbia Equity Trust Predecessor. The combined historical financial statements of Columbia Equity Trust Predecessor include the operating results reflecting Carr Capital s interests in our initial properties as well as the asset management services business of Carr Capital. As of March 31, 2005, Carr Capital owned interests in ten properties. In March 2005, Carr Capital entered into agreements to acquire interests in three additional properties. Subsequent to March 31, 2005, Carr Capital acquired interests in one of the three properties under contract. Each of the ten properties held by Columbia Equity Trust Predecessor at March 31, 2005 was owned through a joint venture. As such, all of these properties were accounted for under the equity method of accounting for the periods presented. Our pro forma financial statements presented elsewhere in this prospectus reflect our acquisition in the formation transactions of all of the equity interests in four initial properties, increased interests in six other initial properties and new interests in three other initial properties using proceeds from the offering, including one in which our investment will likely take the form of a 40% equity investment in a private REIT that will own the property. Accordingly, our pro forma financial information reflects increased ownership interests in a larger number of properties than is reflected in the historical financial statements of Columbia Equity Trust Predecessor. Therefore, we do not believe that Columbia Equity Trust Predecessor s year-to-year and quarter-to-quarter historical financial information is directly comparable to our pro forma data.

We expect our revenues will consist principally of rental payments we receive as a result of our ownership of commercial office properties. Historically, Columbia Equity Trust Predecessor also earned income by performing asset management services and receiving acquisition or financing fees from its joint venture partners and from third-party owners.

Asset management fees are paid by joint venture partners and third-party owners for oversight of the property management staff and leasing agents as well as working with these parties to: (i) prepare property level financial budgets and operating reports; (ii) oversee the leasing and marketing activities of a property; (iii) recommend appropriate maintenance and physical renovations and upgrades for a property; and (iv) make strategic recommendations regarding the sale, recapitalization or financing for the particular property. Transaction fees are paid for services performed for a specific acquisition or disposition of a property and may include fees for identifying and negotiating the purchase of a property, arranging the financing for a property acquisition or overseeing the sale of a property.

We expect to continue to receive asset management fees for those initial properties in which we own a joint venture interest and from certain third-party owners. We may receive transaction fees in the future in connection with identifying future acquisition properties that we will own with joint venture partners.

Following the formation transactions and consummation of the offering, our property ownership interests will be as summarized in the table below:

Property	Net Rentable Square Feet	Columbia Equity Trust Predecessor Percentage Ownership(1)	Columbia Equity Trust, Inc. Percentage Ownership Post-Offering(1)
Fair Oaks	126,949	29%	100%
Greenbriar	111,721	9%	100%
Meadows IV	148,160	13%	100%
Sherwood Plaza	92,960	1%	100%
King Street	149,080	14%	50%
Madison Place	107,960	3%	50%
Atrium	138,507	3%	37%
Independence Center	275,002	5%	15%
Victory Point	147,743	1%	10%
1575 Eye Street	210,372	9%	9%
Loudoun Gateway IV	102,987	N/A	100%
Suffolk Building	257,425	N/A(2)	37%
Barlow Building	270,480	N/A	40%

(1) Reflects the economic ownership interest in each property.

(2) Suffolk Building was acquired in May 2005; Columbia Equity Trust Predecessor maintains a 1.5% percentage ownership.

Upon completion of the offering and the formation transactions, we will maintain ownership interests in 13 office properties, including one property in which our investment will take the form of a 40% equity investment in a private REIT that will own the property. As of March 31, 2005, our initial properties contained approximately 2.1 million net rentable square feet, and these properties, excluding Victory Point, which was acquired vacant by Carr Capital and its joint venture partners in March 2005 and is in the initial stages of leasing, had a weighted average occupancy of approximately 92% and a weighted average annualized rent per leased square foot of $25.87. The initial properties are all located within the Greater Washington, D.C. area.

We intend to finance our future acquisitions with a combination of equity capital, long-term fixed or floating-rate debt, as well as floating-rate credit facilities. We are currently in discussions with a number of lenders to provide us with a credit facility and intend to use the facility to finance acquisitions and deposits on a short-term basis.

Upon completion of the formation transactions, we will have a debt-to-total market capitalization of 35% (inclusive of our pro rata share of joint venture debt). While our charter does not limit the amount of indebtedness we can incur, we intend to limit our debt to 55 to 60% of our total market capitalization (inclusive of our pro rata share of joint venture debt), and upon completion of the formation transactions believe we will have significant borrowing capacity to fund future acquisitions. We believe that our financing plan will enable us to execute on our acquisition strategy as detailed in Our Business and Properties.

The following items associated with the formation transactions will affect future results of operations:

- repayment of existing debt will reduce interest expense;

- acquisition of rental properties will increase rental revenues and depreciation and amortization and, depending on the structure of our leases, tenant recoveries and rental operations expense may also increase;

- additional debt we incur to finance future acquisitions will increase interest expense; and

- additional personnel needed to expand our acquisition efforts and operate a public company and the increased legal, accounting, administrative and other costs associated with operating a public company will increase general and administrative expenses.

Office Market Trends and Outlook

We believe that the national office market is showing signs of a gradual recovery from the effects of the 2001 economic recession. Vacancy levels are declining, absorption of unoccupied space is increasing and rental rates have stabilized. Development, as measured by deliveries of new office space, is modest compared to historical averages. Despite growing signs of a recovery, however, leasing markets remain competitive with landlords willing to offer concessions in the form of increased allocations for tenant improvements or the waiver of rent payments, also known as free rent, for some limited portion of the lease term. While these concessionary practices exist within our market, the levels of such inducements have been subsiding in recent months.

Factors that impact the demand for office space include:

- employment growth;

- economic conditions;

- technological advances that improve operating efficiencies; and

- workspace density trends as defined by the average square footage of office space occupied by an employee.

During the most recent recession, national employment growth fell sharply. This combined with increases in productivity, technological improvements and reductions in employee workspaces tempered demand for office space.

Employment growth, a key demand generator for office space, has also been impacted by the trend of corporations to relocate, or outsource, certain work functions to foreign employment bases. While the outsourcing trend is real, the magnitude of its impact on employment is difficult to measure. The Greater Washington, D.C. area maintains a significant proportion of jobs related to government and government related services which we believe are difficult to outsource to internationally located employment bases.

We are also encouraged by the consistently strong employment growth experienced by the Washington D.C. area since 2002 and believe that demand for office space should grow as the level of productivity gains moderate and corporate decision makers become more confident regarding the strength of the economy. In recent months, we have seen an increase in the number of tenants who have sought to expand the amount of space they currently occupy or have requested the option to increase their contractual space in the future. We expect this improving climate will allow us to increase the rents and occupancy levels of properties within our portfolio.

You should be aware that when you read the Columbia Equity Trust Predecessor financial statements and the information included below, office markets in general and our operations, in particular, are significantly affected by both macro and micro economic factors, including actual and perceived trends in various national and economic conditions that affect investment markets for commercial real estate. Periods of economic slowdown or recession, rising interest rates, declining demand for real estate, or the public perception that any of these events may occur can adversely affect our business. Such conditions could lead to a decline in property values.

Summary of Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our combined financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP. Our significant accounting policies are described in the notes to our combined financial statements. The preparation of these combined financial statements in conformity with GAAP requires us to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. We base these estimates, judgments and assumptions on historical experience and on various other factors that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions, as described below.

The critical accounting policies and estimates most significant to Columbia Equity Trust Predecessor are the subjective assessments management makes as to whether declines in the fair values of its investments in the real estate entities below their carrying amounts represent other-than-temporary impairments. When making these assessments, we consider our intent and ability to hold the investment until forecasted recovery in value, the severity of the impairment and its duration. These assessments have a direct impact on Columbia Equity Trust Predecessor s net income because recording an impairment loss results in an immediate negative adjustment to income.

The following are certain critical accounting polices and estimates which impact Columbia Equity Trust Predecessor indirectly through the financial statements of the entities owning real estate properties, of which Columbia Equity Trust Predecessor owns various percentage interests, and presented on Columbia Equity Trust Predecessor combined balance sheets as investment in real estate entities, and on Columbia Equity Trust Predecessor combined statements of operations as equity in earnings of real estate entities. Subsequent to this offering and the completion of our other formation transactions, these same critical accounting policies and estimates will also impact the accounting for the properties that will be included in our consolidated financial statements.

Revenue Recognition and Allowance for Doubtful Accounts Receivable

Rental income with scheduled rent increases is recognized using the straight-line method over the term 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.

We must make estimates related to the collectibility of our accounts receivable generated by minimum rent, deferred rent, tenant 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 doubtful accounts receivable. These estimates have a direct impact on our net income, because a higher bad debt allowance would result in lower net income.

Investments in Real Estate

When accounting for investments in real estate, we first determine the consideration to be paid, whether cash, our common stock, operating partnership units or a combination of the three, and whether the investment is being acquired from a third party or related party.

For purchases of real estate from third parties, the purchase is recorded at original cost. Pre-acquisition costs, including legal and professional fees and other third party costs related directly to the acquisition of the property, are accounted for as part of the purchase price. Improvements and replacements are capitalized when they extend the useful life, increase capacity or improve the efficiency of the property. Repairs and maintenance are charged to expense as incurred. If the purchase is made using our common stock or operating partnership units, then the fair value of the stock or units issued is used to determine the purchase price. We allocate the purchase price to the net tangible and identified intangible assets acquired based on their fair values in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations. In making estimates of fair values for purposes of allocating purchase price, we utilize a number of sources, including independent appraisals that may be obtained in connection with the acquisition or financing of the property and other market data. We also consider information obtained about each property as a result of our due diligence, marketing and leasing activities.

We allocate a portion of the purchase price to above-market and below-market in-place lease values based on the present value, using an interest rate which reflects the risks associated with the leases acquired, of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) our estimate of the fair market lease rates for the corresponding in-place leases, measured over the remaining non-cancelable term of the lease. The above-market lease values are recorded as intangible assets and are amortized as a reduction of rental income over the remaining non-cancelable terms of the respective leases. The below-market lease values are recorded as deferred credits and are amortized as an increase to rental income over the remaining non-cancelable terms of the respective leases. If a tenant terminates a lease early, then any remaining unamortized lease value is charged or credited to rental revenue.

We also allocate a portion of the purchase price to the value of leases acquired based on the difference between (i) the property valued with existing in-place leases adjusted to market rental rates and (ii) the property valued as if vacant. We use our own estimates, or independent appraisals, if available, to determine the respective in-place lease values. Factors we consider in our analysis include an estimate of carrying costs during the expected lease-up period considering current market conditions and costs to execute similar leases. In estimating carrying costs, we include real estate taxes, insurance and other operating expenses. We also estimate costs to execute similar leases which primarily include leasing commissions and costs of providing tenant improvements.

The values of in-place leases and customer relationships are recorded as intangible assets and amortized to expense over the remaining weighted average non-cancelable terms of the respective leases. Should a tenant terminate its lease early, the remaining unamortized portion of the related intangible asset is recorded as expense.

For purchases of real estate from entities under common control, the net assets are recorded at the purchase price if paid in cash. If the purchase is made using our common stock or operating partnership units, the net assets will be recorded at the accounting basis of the related party, and no step-up to fair value will be recorded. We allocate the purchase price using the same methodology discussed above for purchases from third parties.

Assets Held for Sale

Should a decision be made to sell a property, the property would be accounted for as a disposal of a long lived asset under SFAS No. 144, Accounting for Impairment or Disposal of Long-Lived Assets. In determining whether to classify an asset as held for sale, we consider, whether (i) management has committed to a plan to sell the property; (ii) the property is available for immediate sale, in its present condition; (iii) we have initiated a program to locate a buyer; (iv) we believe that the sale of the property is probable; (v) we are actively marketing the property for sale at a price that is reasonable in relation to its current value; and (vi) actions required for us to complete the plan indicate that it is unlikely that any significant changes will be made to the plan.

If all of the above criteria are met, we classify the property as held for sale and adjust its carrying value to the lower of its current carrying amount or fair value less costs to sell. On the day that these criteria are met, we suspend depreciation on the property held for sale, including depreciation for tenant improvements and additions, as well as on the amortization of acquired in-place leases and customer relationship values. The assets and liabilities associated with a property held for sale are classified separately on the consolidated balance sheet for the most recent reporting period. Additionally, the operations for the periods presented are classified on the consolidated statements of operations as discontinued operations for all periods presented.

Once a property is held for sale, we are committed to selling the property. If the current offers that exist on properties held for sale do not result in the sale of these properties, we generally will continue to actively market them for sale.

Joint Ventures

For investments in real estate entities that we will not wholly own, we determine whether our investment is a variable interest entity as defined in FASB Interpretation (FIN) No. 46(R) Consolidation of Variable Interest Entities. If the underlying entity is a variable interest entity, or VIE, as defined under FIN 46, the venture partner that absorbs a majority of the expected losses of the VIE is deemed to be the primary beneficiary and must consolidate the VIE. If the entity is not a VIE, the entity is evaluated for consolidation based on controlling voting interests. If we have the majority voting interest with the ability to control operations and where no approval, veto or other important rights have been granted to other holders, the entity would be consolidated. We are not the primary beneficiary of any VIE s nor do we have controlling voting interests in any joint ventures. Therefore, we account for joint ventures under the equity method of accounting. Under the equity method, the investments are recorded initially at our cost and subsequently adjusted for our net equity in income and cash contributions and distributions.

Depreciation, Amortization and Impairment of Long-Lived Assets

We depreciate the values allocated to buildings and building improvements on a straight-line basis using an estimated life of 40 years and tenant improvements on a straight-line basis using the same life as the minimum lease term of the related tenant. The values of above-and below-market leases are amortized over the remaining life of the related lease and recorded as either an increase (for below-market leases) or a decrease (for above-market leases) to rental revenue. We amortize the values of other intangible assets over their estimated useful lives. Changes in these estimates would directly impact our results of operations.

We are required to make subjective assessments as to whether there are impairments of our properties. We periodically evaluate each property for impairment and to determine if it is probable that the sum of expected future undiscounted cash flows is less than the carrying amount. If we determine that an impairment has occurred, we record a write-down to reduce the carrying amount of the property to its estimated fair value, if lower, which would have a direct impact on our results of operations because the recording of an impairment loss would result in an immediate negative adjustment to net income.

Results of Operations

The following discussion of results of operations of Columbia Equity Trust Predecessor should be read in conjunction with the Columbia Equity Trust Predecessor combined financial statements and the accompanying notes thereto. Historical results set forth in the Columbia Equity Trust Predecessor combined statements of operations should not be taken as indicative of our future operations.

The following is a comparison, for the three months ended March 31, 2005 and 2004, for the years ended December 31, 2004 and 2003 and for the years ended December 31, 2003 and 2002, of the combined operating results of Columbia Equity Trust Predecessor.

Comparison of Three Months Ended March 31, 2005 to Three Months Ended March 31, 2004

Fee Income. The following chart details the level of fee income earned by Columbia Equity Trust Predecessor for the three months ended March 31, 2005 and 2004:

	Three Months Ended March 31,	
	2005	**2004**
Transaction fees	$269,628	$
Asset management fees	352,731	118,494
Total fee income	$622,359	$118,494

Total fee income increased by $0.5 million, or 425.2%, to $0.6 million for the three months ended March 31, 2005. We expect to receive less income in the future from transaction fees as we place a greater emphasis on income generated by our ownership interest in commercial office properties. The increase was due to increased transaction fees due primarily to the financing of the Victory Point property and increased asset management fees associated with: (i) a residential condominium conversion project in which Columbia Equity Trust Predecessor acquired an ownership interest in August 2004 and receives asset management fees; (ii) the acquisition of Atrium in May 2004; (iii) the acquisition of Meadows IV in October of 2004; and (iv) commencement of asset management fee payments from the Fair Oaks property.

General and Administrative Expenses. General and administrative expenses increased by 5.6% to $0.4 million for the three months ended March 31, 2005 due primarily to higher compensation expense.

Equity in Net Income of Real Estate Entities. Equity in net income of real estate entities decreased $29,000 to $102,900 for the three months ended March 31, 2005. The decline resulted primarily from a $115,000 decrease of cash distributions recognized as income from King Street offset partially by $93,000 in income recognized by a residential condominium conversion project in which Columbia Equity Trust Predecessor maintains an ownership interest.

Columbia Equity Trust Predecessor uses the equity method to account for its investments in real estate entities since it has significant influence, but not control, over the investors operating and financial decisions. Under the equity method of accounting, investments in partnerships and limited liability companies are recorded at cost and the investment accounts are increased for Columbia Equity Trust Predecessor s contributions and its share of the entities income and decreased for Columbia Equity Trust Predecessor s share of the entities losses and distributions. For entities in which Columbia Equity Trust Predecessor is not a general partner and therefore has no risk other than its investment, once the investment account reaches zero, losses are no longer recognized, cash distributions received are recognized as income, and earnings from the entities are not recognized until such earnings exceed all cumulative unrecognized losses.

Set forth below is a summary of the condensed combined financial information for the real estate entities and Columbia Equity Trust Predecessor s share of net income for the three months ended March 31, 2005 and 2004. For the three months ended March 31, 2005, the equity in net income represented the equity investment in entities that own Fair Oaks, Greenbriar, Sherwood Plaza, 1575 Eye Street, Independence Center, King Street Station, Madison Place, Atrium, Meadows IV and Victory Point. For the three months ended March 31, 2004, the equity in net income represented the equity investment in the entities that own Fair Oaks, Greenbriar, Sherwood Plaza, 1575 Eye Street, Independence Center, King Street, and Madison Place.

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
Revenues	$9,003,755	$6,512,701
Operating and other expenses	3,421,414	2,519,627
Interest expense	3,052,529	1,778,293
Depreciation and amortization	2,652,443	1,760,835
Net income (loss)	$ (122,631)	$ 453,946
Columbia Predecessor s share of net income (loss) above in real estate entities (Note 1)	$ (13,917)	$ (3,280)
Cash distributions recorded as equity in net income of real estate entities (Note 1)	20,591	135,215
Equity in net income of other entities (Note 2)	96,243	
Equity in net income of real estate entities	$ 102,917	$ 131,935

(1) Columbia Equity Trust Predecessor s investment account in certain entities has been reduced to zero, therefore: for the three months ended March 31, 2005 and 2004, cash distributions from these entities were recorded as an increase in equity in net income of real estate entities.

(2) Carr Capital held partnership interests in several entities that are individually and in total insignificant to Columbia Equity Trust Predecessor. Amounts above represent the equity in net income of investments in real estate entities for these entities for the respective periods.

The following discussion explains variations in revenues and expenses of the real estate entities as shown in the condensed combined financial information above.

Combined revenues for the real estate entities increased $2.5 million, or 38.2%, to $9.0 million for the three months ended March 31, 2005. The increase was due primarily to the acquisition of Atrium in May 2004 resulting in an additional $1.2 million of revenues; the acquisition of Meadows IV in October 2004 resulting in an additional $0.9 million of revenues; and increased revenues of $0.4 million at Independence Center due to higher average occupancy levels.

Combined operating and other expenses for the real estate entities increased $0.9 million, or 35.8%, to $3.4 million for the three months ended March 31, 2005. The increase was due primarily to the acquisition of Atrium in May 2004 resulting in an additional $0.4 million of expenses and the acquisition of Meadows IV in October 2004 resulting in an additional $0.4 million of expenses.

Combined interest expense for the real estate entities increased $1.3 million, or 71.7%, for the three months ended March 31, 2005 due primarily to additional expenses resulting from: (i) higher loan balances for Independence Center; (ii) the acquisition financing of Atrium in May 2004; and (iii) the acquisition financing of Meadows IV in October 2004.

Combined depreciation and amortization expense for the real estate entities increased $0.9 million, or 50.6%, to $2.7 million for the three months ended March 31, 2005 due primarily to $0.4 million of additional expense attributable to Atrium and $0.5 million of additional expense attributable to Meadows IV.

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

Fee Income. The following chart details the level of fee income earned by Columbia Equity Trust Predecessor for the year ended December 31, 2004 and 2003:

	Year Ended December 31,	
	2004	**2003**
Transaction fees	$ 975,907	$1,345,076
Asset management fees	918,714	578,193
Other income	2,252	
Total fee income	$1,896,873	$1,923,269

Total fee income remained flat at $1.9 million for the year ended December 31, 2004. Transactions fees declined in 2004 due to a significant one-time fee received in 2003 in connection with the recapitalization of the King Street joint venture. The decline in transaction fees was partially offset by an increase in asset management fees associated with: (i) the acquisition of Madison Place in July 2003; (ii) the acquisition of Atrium in May 2004; and (iii) a residential condominium conversion project in which Columbia Equity Trust Predecessor acquired an ownership interest in August 2004 and receives asset management fees.

General and Administrative Expenses. General and administrative expenses increased 3.2% to $1.7 million for the year ended December 31, 2004 due primarily to higher compensation expense associated with increased staffing levels.

Equity in Net Income of Real Estate Entities. Equity in net income of real estate entities decreased $2.5 million to $0.4 million for the year ended December 31, 2004. The decline resulted primarily from cash distributions of $2.4 million that were received from King Street in 2003 and recognized as income. The distributions received from the King Street property in 2003 contributed to an unusually high level of net income from real estate entities for that year and resulted in unfavorable comparisons between 2003 and 2004. We do not expect such distributions to be a trend that would have a continuing effect on operations.

Columbia Equity Trust Predecessor uses the equity method to account for its investments in real estate entities since it has significant influence, but not control, over the investees operating and financial decisions. Under the equity method of accounting, investments in partnerships and limited liability companies are recorded at cost and the investment accounts are increased for Columbia Equity Trust Predecessor s contributions and its share of the entities income and decreased for Columbia Equity Trust Predecessor s share of the entities losses and distributions. For entities in which Columbia Equity Trust Predecessor is not a general partner and therefore has no risk other than its investment, once the investment account reaches zero, losses are no longer recognized, cash distributions received are recognized as income, and earnings from the entities are not recognized until such earnings exceed all cumulative unrecognized losses.

Set forth below is a summary of the condensed combined financial information for the real estate entities and Columbia Equity Trust Predecessor s share of net income for the years ended December 31, 2004 and 2003. For the year ended December 31, 2004, the equity in net income represented the equity investment in entities that own Fair Oaks, Greenbriar, Sherwood Plaza, 1575 Eye Street, Independence Center, King Street, Madison Place Atrium, and Meadows IV. For the year ended December 31, 2003, the equity in net loss represented the equity investment in the entities that own Fair Oaks, Greenbriar, Sherwood Plaza, 1575 Eye Street, Independence Center, King Street, and Madison Place.

	Year Ended December 31,	
	2004	**2003**
Revenues	$31,015,121	$20,567,374
Operating and other expenses	11,693,625	7,369,559
Interest expense	9,552,723	8,383,178
Depreciation and amortization	8,111,299	4,950,661
Net income (loss)	$ 1,657,474	$ (136,024)
Columbia Equity Trust Predecessor s share of net income (loss) above in real estate entities(1)	$ 31,582	$ 28,179
Cash distributions recorded as equity in net income of real estate entities(1)	331,810	2,447,855
Equity in net income of other entities(2)	47,201	455,084
Equity in net income of real estate entities	$ 410,593	$ 2,931,118

(1) Columbia Equity Trust Predecessor s investment account in certain entities has been reduced to zero, therefore: (i) for the years ended December 31, 2004 and 2003, losses not recognized were $0 and $0.8 million in each period, and (ii) cash distributions from these entities were recorded as an increase in equity in net income of real estate entities.

(2) Carr Capital held partnership interests in several entities that are individually and in total insignificant to Columbia Equity Trust Predecessor. Amounts above represent the equity in net income of investments in real estate entities for these entities for the respective period.

The following discussion explains variations in revenues and expenses of the real estate entities as shown in the condensed combined financial information above.

Combined revenues for the real estate entities increased $10.4 million or 50.8%, to $31.0 million for the year ended December 31, 2004. The increase was due primarily to a full year of revenues from Madison Place in 2004 which was acquired in July 2003 resulting in an additional $1.3 million of revenues; the acquisition of Atrium in May 2004 resulting in an additional $3.0 million of revenues; the acquisition of Meadows IV in 2004 resulting in an additional $0.6 million of revenues; and the inclusion of the first full year of operations at Independence Center during 2004 resulting in increased revenues of approximately $4.9 million. These increases were partially offset by a decline in rental revenues of approximately $0.4 million at Fair Oaks and Greenbriar due to lower average occupancy levels.

Combined operating and other expenses for the real estate entities increased by $4.3 million or 58.7%, to $11.7 million for the year ended December 31, 2004. The increase was due primarily to a full year of expenses from Madison Place in 2004 which was acquired in July 2003 resulting in an additional $0.6 million of expenses; the acquisition of Atrium in May 2004 resulting in an additional $0.8 million of expenses; the acquisition of Meadows IV in 2004 resulting in an additional $0.1 million of expenses; and the inclusion of the first full year of operations at Independence Center during 2004 resulting in an increase of approximately $2.5 million.

Combined interest expense for the real estate entities increased by 14.0% to $9.6 million for the year ended December 31, 2004 due primarily to additional expenses resulting from: (i) higher loan balances for Independence Center; (ii) the acquisition financing of Atrium in May 2004; and (iii) a

full year of expense for Madison Place which was acquired in July 2003 and a quarter s expense for Meadows IV which was acquired in October 2004. This was offset partially by a $1.7 million prepayment fee incurred in 2003 in connection with the refinancing of King Street s mortgage loan as well as lower average interest rates on King Street, Sherwood and Greenbriar s mortgage loans.

Combined depreciation and amortization expense for the real estate entities increased $3.2 million or 63.8%, to $8.1 million for the year ended December 31, 2004 due primarily to: (i) $1.6 million of additional expense attributable to Independence Center due to increased tenant improvements associated with the build out of tenant spaces; (ii) a full year of expense in the amount of $0.8 million for Madison Place which was acquired in July 2003; and (iii) $1.0 million of additional expense attributable to Atrium and $0.3 million of additional expense attributable to Meadows IV.

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

Fee Income. The following chart details the level of fee income earned by Columbia Equity Trust Predecessor for the years ended December 31, 2003 and 2002:

	Year Ended December 31,	
	2003	**2002**
Transaction fees	$1,345,076	$1,400,507
Asset management fees	578,193	697,711
Total fee income	$1,923,269	$2,098,218

Total fee income declined $0.2 million, or 8.3%, to $1.9 million in 2003 compared to $2.1 million in 2002. The decreases in transaction and asset management fees were due to lower transaction volume and the sale of two properties for which Columbia Equity Trust Predecessor earned asset management fee income.

General and Administrative Expenses. General and administrative expenses decreased $0.2 million, or 11.9%, to $1.7 million for 2003 due primarily to lower levels of commission fees paid to third-party agents involved in transactions closed by Columbia Equity Trust Predecessor.

Equity in Net Income of Real Estate Entities. Equity in net income of real estate entities increased $2.7 million to $2.9 million for 2003 primarily from cash distributions received from King Street and income from an investment which was liquidated in 2003.

Columbia Equity Trust Predecessor uses the equity method to account for its investments in real estate entities since it has significant influence, but not control, over the investees operating and financial decisions. Under the equity method of accounting, investments in partnerships and limited liability companies are recorded at cost and the investment accounts are increased for Columbia Equity Trust Predecessor s contributions and its share of the entities income and decreased for Columbia Equity Trust Predecessor s share of the entities losses and distributions. For entities in which Columbia Equity Trust Predecessor is not a general partner and therefore has no risk other than its investment, once the investment account reaches zero, losses are no longer recognized, cash distributions received are recognized as income, and earnings from the entities are not recognized until such earnings exceed all cumulative unrecognized losses.

Set forth below is a summary of the condensed combined financial information for the real estate entities and Columbia Equity Trust Predecessor s share of net income for the years ended December 31, 2003 and 2002. For the year ended December 31, 2003, the equity in net income represented the equity investment in the entities that own Fair Oaks, Greenbriar, Sherwood Plaza, 1575 Eye Street, Independence Center, King Street, and Madison Place. For the year ended December 31, 2002, the equity in net income represented the equity investment in entities that own Fair Oaks, Greenbriar, Sherwood Plaza, 1575 Eye Street, Independence Center, and King Street.

	Year Ended December 31,	
	2003	2002
Revenues	$20,567,374	$20,505,320
Operating and other expenses	7,369,559	7,390,913
Interest expense	8,383,178	6,900,900
Depreciation and amortization	4,950,661	3,620,100
Net income (loss)	$ (136,024)	$ 2,593,407
Columbia Equity Trust Predecessor s share of net income above in real estate entities(1)	$ 28,179	$ 109,041
Cash distributions recorded as equity in earnings of real estate entities(1)	2,447,855	68,496
Equity in net income of other entities(2)	455,084	67,695
Equity in net income of real estate entities	$ 2,931,118	$ 245,232

(1) Columbia Equity Trust Predecessor s investment account in certain entities has been reduced to zero, therefore: (i) for the years ended December 31, 2003 and 2002, losses not recognized were $0.8 million and $3.0 million, respectively; and (ii) cash distributions from these entities were recorded as an increase in equity in net income of real estate entities.

(2) Carr Capital held partnership interests in several entities that are individually and in total insignificant to Columbia Equity Trust Predecessor. Amounts above represent the equity in net income of investments in real estate entities for these entities for the respective period.

The following discussion explains variations in revenues and expenses of the real estate entities as shown in the condensed combined financial information above.

Combined revenues for the real estate entities increased slightly to $20.6 million for 2003. The increase was due primarily to (i) the acquisition of Madison Place in July 2003 resulting in an additional $0.8 million of revenues; and (ii) contractual increases in base rents for existing tenants at 1575 Eye Street during 2003 resulting in increased revenues of approximately $0.2 million which was offset partially by: the combined impact of lower average occupancy levels at the Fair Oaks, Greenbriar, Sherwood Plaza and King Street properties during 2003 resulting in a decline in revenues of approximately $1.2 million.

Combined operating and other expenses in the real estate entities remained constant at $7.4 million for both 2003 and 2002. This reflects primarily a decrease of $0.4 million in expenses for 2003 at King Street due primarily to lower repairs and maintenance expenses offset by an additional $0.4 million of expenses resulting from the acquisition of Madison Place in July 2003.

Combined interest expense in the real estate entities increased $1.5 million, or 21.5%, to $8.4 million for 2003 primarily as a result of a $1.5 million increase at King Street due to higher debt balances resulting from the recapitalization of this property in 2003; an additional $0.3 million of expense related to the Madison Place acquisition financing; a decline of $0.2 million at Fair Oaks due to lower average interest rates; and a decline of $0.2 million at 1575 Eye Street due to lower average principal balances.

Combined depreciation and amortization expense in the real estate entities increased $1.3 million or 36.8%, to $5.0 million for 2003 due primarily to a $0.7 million increase attributable to King Street as a result of its recapitalization and a $0.4 million increase for Madison Place which was acquired in July 2003.

Liquidity and Capital Resources

This offering and the formation transactions will reduce overall debt encumbering our initial properties. Upon completion of this offering and the subsequent repayment of indebtedness from the proceeds therefrom and completion of the formation transactions, our total indebtedness will be approximately $96.8 million, including our pro rata share of joint venture indebtedness. Our operating partnership intends to enter into a secured credit facility shortly after the completion of this offering, which will be used primarily to finance future property development and acquisition activities. We intend to use borrowings under the credit facility to, among other things, finance future acquisitions of office properties.

Short-Term Liquidity Requirements

Our short-term liquidity requirements consist primarily of funds necessary to pay operating expenses including:

- recurring maintenance, repairs and other operating expenses necessary to properly maintain our properties;
- property taxes and insurance expenses;
- interest expense and scheduled principal payments on outstanding indebtedness;
- capital expenditures incurred to facilitate the leasing of space at our properties, including tenant improvements and leasing commissions;
- general and administrative expenses; and
- distributions to our stockholders.

We will have increased general and administrative expenses, including salaries, professional fees and other corporate level activity associated with operating a public company. We anticipate that our staffing levels will increase by 2 to 3 corporate staff during the next 12 months. Following completion of the offering, we also expect increases in legal and accounting costs, will begin to pay director fees, will incur costs related to communicating with stockholders, including ongoing communications and distribution of proxy statements in connection with stockholder meetings, and other costs incurred by public companies. As a result, we expect our general and administrative costs to increase during our first full year of operations as a public company to approximately $3.9 million, which excludes stock compensation expense associated with the grants of LTIP units in connection with the completion of this offering and the stock split in the form of a stock dividend to Mr. Schissel. The timing and level of these costs and our ability to pay these costs with cash flow from our operations depends on our execution of our business plan, the number of properties we acquire and our ability to attract qualified individuals to fill new positions.

Historically, Columbia Equity Trust Predecessor satisfied short-term liquidity requirements through existing working capital and proceeds from borrowings. Going forward, we expect to meet our short-term liquidity requirements generally through cash provided from operations, our working capital, any remaining proceeds of this offering and, if necessary, by drawing upon our credit facility.

There are a number of factors that could adversely affect our cash flow. An economic downturn in our markets may impede the ability of our tenants to make lease payments and may impact our ability to renew leases or re-lease space as leases expire. In addition, an economic downturn or recession could also lead to an increase in tenant bankruptcies or insolvencies, increases in our overall vacancy rates or declines in rental rates on new leases. We also may be required to make distributions in future periods in order to meet the requirements to be taxed as a REIT. In all of these cases, our cash flow would be adversely affected.

Long-Term Liquidity Requirements

Our long-term liquidity requirements consist primarily of funds necessary to pay for scheduled debt maturities, renovations, expansions and other capital expenditures that need to be made periodically to our properties, and the costs associated with acquisitions of properties that we pursue. Historically, Columbia Equity Trust Predecessor satisfied long-term liquidity requirements through various sources of capital, including existing working capital, cash provided from operations, equity contributions from investors and long-term property mortgage indebtedness. In the future, we expect to meet our long-term liquidity requirements for the funding of property acquisitions and other capital improvements through cash provided from operations, long-term secured and unsecured indebtedness, and the issuance of equity and debt securities. We also intend to fund property acquisitions and other capital improvements using borrowings, by potentially refinancing properties in connection with their acquisition, as well as by potentially raising equity capital through joint ventures. We may also issue operating partnership units to fund a portion of the purchase price for some of our future property acquisitions. We will use a portion of the net proceeds of this offering to fund the cash portion of the purchase of interests in the initial properties and to repay certain indebtedness and related prepayment penalties on certain of our initial properties and will also issue operating partnership units and common stock in exchange for interests in the initial properties.

Upon completion of the formation transactions, we will rent office space for our corporate headquarters. The rent paid for this space is allocated based on the amount of space we occupy under a sub-lease agreement and is adjusted to reflect our staffing levels. We anticipate future minimum rental payments for this space to be:

2005	$142,338
2006	$149,043
2007	$155,473
2008	$161,815
2009	$165,371

We believe that, upon completion of this offering, and as a publicly-traded REIT, we will have access to multiple sources of capital to fund our long-term liquidity requirements, including the incurrence of additional debt and the issuance of additional equity. However, as a new public company, we cannot assure you that this will be the case. Our ability to incur additional debt will be dependent upon a number of factors, including our degree of leverage, the value and cash flow of our properties and borrowing restrictions that may be imposed by lenders. Our ability to access the equity capital markets will be dependent on a number of factors as well, including general market conditions for REITs and market perceptions about our company.

Commitments

The following table summarizes our known contractual obligations as of March 31, 2005 and on a pro forma basis to reflect the obligations we expect to have following the completion of the offering and the formation transactions. All of the debt referenced below is first mortgage indebtedness except where noted.

	Interest Rate	Maturity Date	Annual Debt Service	Outstanding Principal Balance as of March 31, 2005	Pro Forma Outstanding Principal Balance
Fixed Rate Debt					
King Street	5.06%	3/1/2008	$1,584,958	$22,000,000	$22,000,000
Madison Place	4.49	8/1/2008	695,952(1)	15,500,000	15,500,000
1575 Eye Street	6.82	3/1/2009	3,713,100	42,249,355	42,249,355
Independence Center	5.04	9/10/2009	2,243,219	31,527,642	31,527,642
Meadows IV	4.95	11/1/2011	971,850	19,000,000	19,000,000
Atrium	8.43	9/1/2012	1,882,812	18,343,703	18,343,703
Atrium(2)	6.21	9/1/2012	473,184	5,922,982	5,922,982
Floating Rate Debt(3)					
Fair Oaks(2)	LIBOR + 4.50%	8/24/2005	$ 511,020	$ 6,440,000	$
Fair Oaks	LIBOR + 2.10	12/1/2006	485,331	10,200,000	
Sherwood Plaza	LIBOR + 2.50	7/1/2008	667,523	9,020,197	
Greenbriar	LIBOR + 2.50	7/1/2008	787,209	10,637,511	
Meadows IV(2)	LIBOR + 4.50	5/1/2006	325,048	4,375,000	
Victory Point	LIBOR + 2.95	3/31/2008	825,100	14,800,000	14,800,000

(1) Beginning in September 2005, annual debt service of principal and interest increases to $1,032,792.

(2) Mezzanine debt secured by partnership interests in the entity that owns the property.

(3) Annual debt service for floating rate debt estimated based on interest rates in effect at March 31, 2005.

The following table outlines the timing of required payments related to the indebtedness as of March 31, 2005 of the properties in which Columbia Equity Trust Predecessor holds interests and contractual investment obligations for the initial properties:

	Payments by Period				
	2005	2006-2007	2008-2009	Thereafter	Total
Secured Notes Payable	$	$10,200,000	$145,734,705	$43,266,685	$199,201,390
Mezzanine Loans Payable	6,440,000	4,375,000			10,815,000
Investments in initial properties(1)	80,988,744				80,988,744
Total	$87,428,744	$14,575,000	$145,734,705	$43,266,685	$291,005,134

(1) Represents cash portion of contractual obligations relating to our investments in the initial properties. See Use of Proceeds. In addition, we will issue operating partnership units in the formation transactions having a value of approximately $15.8 million in exchange for interests in the initial properties.

Our properties require periodic improvements for tenant-related capital expenditures and general capital improvements. The majority of capital required relates to tenant-related capital expenditures and is dependent upon our leasing activity. Our leasing activity is a function of the percentage of our in-place leases expiring in current and future periods as well as our exposure to tenant defaults and our ability to lease existing vacant space. Expenditures for repairs and maintenance are charged to acquisitions as incurred. Significant improvements are capitalized and depreciated over their estimated useful life.

We believe that the initial properties generally are well-maintained and do not require significant capital improvements, with the exception of Victory Point, where we expect to commence a renovation program that will include upgrades to the building s common areas and building systems. We expect the total cost of this renovation to be approximately $2.0 million, which will be funded through additional proceeds from a loan to the joint venture that owns the property secured by a first deed of trust mortgage on the property. We estimate that our share of recurring capital expenditures necessary to maintain our properties through the end of 2006 will be approximately $900,000, which we will fund through cash provided by operations, our working capital, any remaining proceeds of this offering and, if necessary, additional debt financing.

Cash Distribution Policy

We will elect to be taxed as a REIT under the Code commencing with our short taxable year beginning on the business day prior to the closing of this offering and ending on December 31, 2005. To qualify as a REIT, we must meet a number of organizational and operational requirements, including the requirement that we distribute currently at least 90% of our taxable income to our stockholders, determined without regard to the dividends paid deduction and excluding any net capital gains. It is our intention to comply with these requirements and maintain our REIT status. As a REIT, we generally will not be subject to corporate federal, state or local income taxes on taxable income we distribute currently (in accordance with the Code and applicable regulations) to our stockholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal, state and local income taxes at regular corporate rates and may not be able to qualify as a REIT for subsequent tax years. Even if we qualify for federal taxation as a REIT, we may be subject to certain state and local taxes on our income and to federal income and excise taxes on our undistributed taxable income, *i.e.*, taxable income not distributed in the amounts and in the time frames prescribed by the Code and applicable regulations thereunder. Our taxable REIT subsidiary, Columbia TRS, will be subject to federal, state and local taxes. Our cash available for distribution may be less than the amount required to meet the distribution requirements for REITs under the Internal Revenue Code and we may be required to borrow money or sell assets to pay out enough money to satisfy the distribution requirements.

Funds From Operations

As defined 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, plus real estate-related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. Adjustments for unconsolidated partnerships and joint ventures will be calculated to reflect funds from operations on the same basis. Our interpretation of the NAREIT definition is that minority interest in net income (loss) should be added back (deducted) from net income (loss) as part of reconciling net income (loss) to FFO. We present FFO because we believe it facilitates an understanding of the operating performance of our properties without giving effect to real estate depreciation and amortization, which assumes that the value of real estate diminishes ratably over time. Historically, however, real estate values have risen or fallen with market conditions. Because FFO excludes depreciation and amortization unique to real estate, gains and losses from property dispositions and extraordinary items, it provides a performance measure that, when compared year over year, reflects the impact to operations from trends in occupancy rates, rental rates, operating costs, development activities and interest costs, providing perspective not immediately apparent from net income. Our FFO computation may not be comparable to FFO reported by other REITs that do not compute FFO in accordance with the NAREIT definition or that interpret the NAREIT definition differently than we do. FFO does not represent cash generated from operating activities in accordance with GAAP and should not be considered to be an alternative to net income (loss) (determined in accordance with GAAP) as a measure of our liquidity, nor is it indicative of funds available for our cash needs, including cash distributions to stockholders.

New Accounting Standards

In January 2003, the Financial Accounting Standards Board, or FASB, issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51, Consolidated Financial Statements (FIN 46). This interpretation requires an existing unconsolidated variable interest entity to be consolidated by its primary beneficiary if the entity does not effectively disperse risk among all parties involved or if the entity does not have significant capital to finance its activities without subordinated financial support from other parties. The primary beneficiary is the party that absorbs a majority of the entity s expected losses, receives a majority of its expected residual returns, or both as a result of holding variable interests, which are the ownership, contractual, or other interests in an entity. FASB Interpretation No. 46 was revised in December 2003 (FIN 46(R)) and effectively replaces FIN 46. While retaining a majority of the provisions and concepts of FIN 46, FIN 46(R) provides additional scope exceptions and clarifies the description of variable interests. Public companies are required to apply FIN 46(R) no later than the end of the first reporting period that ends after March 15, 2004. The adoption of the statement did not impact Columbia Equity Trust Predecessor s combined financial statements.

In December 2004, FASB issued Statement of Financial Accounting Standard, or SFAS, No. 123 (revised 2004), Share Based Payment. SFAS No. 123(R) replaces SFAS No. 123, Accounting for Stock-Based Compensation, and supercedes Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. This cost will be recognized over the period during which an employee is required to provide service in exchange for the award. Columbia Equity Trust adopted SFAS No. 123 (revised 2004) upon its formation.

Inflation

Most of our leases contain provisions designed to mitigate the adverse impact of inflation by requiring the tenant to pay their share of increases in operating expenses, including common area maintenance, real estate taxes and insurance as defined in the individual lease agreements. This reduces our exposure to increases in costs and operating expenses resulting from inflation. To the extent tenants are not required to pay operating expenses, we may be adversely impacted by inflation.

Geographic Concentration

The initial properties are located in Washington, D.C., Virginia and Maryland.

Tax and Depreciation

The following table reflects certain real estate tax information for the initial properties:

Property	Federal Tax Basis	Property Tax Rate 2005 Estimate(1)	Real Estate Tax 2005 Estimate	Depreciation Method(2)	Depreciation Life (Years)(3)	Depreciation Percent
Fair Oaks	$15,549,102	$1.131	$182,819	SL	39	2.6%
Greenbriar	13,911,658	1.131	149,418	SL	39	2.6
Meadows IV	18,457,850	1.331	316,189	SL	39	2.6
Sherwood Plaza	10,181,980	0.900	115,392	SL	5-39	5.5
King Street	27,902,281	0.900	292,762	SL	5-39	3.0
Loudoun Gateway IV(4)	21,900,000	1.240	187,261	SL	39	2.6
Suffolk Building(4)	68,000,000	1.016	177,422	SL	39	2.6
Barlow Building(4)	16,194,000	1.198	671,256	SL	39	2.6

(1) Per $100 of assessed value.

(2) Straight line method of depreciation.

(3) Depreciation life in years.

(4) Amount of Federal tax basis is estimated.

FORMATION TRANSACTIONS

We, Carr Capital and its affiliates have undertaken the formation transactions for the purpose of aggregating interests in our initial properties in a tax-efficient manner into a single public REIT with improved access to capital and expanded capacity to execute Carr Capital s growth strategy. We were formed as a Maryland corporation in September 2004 to succeed to the commercial office property business of Carr Capital. Oliver T. Carr, III beneficially owns 41.4% of the equity interests in Carr Capital. Mr. Carr is our chairman, president and chief executive officer. On September 27, 2004, John A. Schissel, our executive vice president and chief financial officer, purchased 1,000 shares of our common stock in exchange for a nominal amount of cash consideration. Immediately prior to completion of this offering, we will complete a stock split in the form of a stock dividend with respect to these shares resulting in a total of 63,334 shares of common stock outstanding immediately prior to completion of this offering.

We serve as sole general partner of our operating partnership, Columbia Equity, LP, a Virginia limited partnership, which was also formed in September 2004. We will own our properties and conduct our business through our operating partnership. We will contribute the net proceeds of this offering to our operating partnership and initially will own an approximate 88.8% interest in our operating partnership.

Upon completion of this offering, our operating partnership will issue operating partnership units having an aggregate value of approximately $15.8 million, and $81.0 million in cash, to acquire all of the outstanding equity interests in the entities that own five of our initial properties and partial interests in the joint ventures that own eight of our other initial properties, the asset management agreements for the initial properties and five properties owned by third parties, and certain other tangible and intangible assets, including furniture, fixtures and equipment. The number of operating partnership units that we will issue in the formation transactions is based on the public offering price for our common stock in this offering. For purposes of this discussion, we have assumed an offering price of $15, which is the midpoint of the price range on the front cover of this prospectus. If the actual initial public offering price is greater or less than $15, then the number of operating partnership units and shares of common stock indicated below to be issued in our formation transactions will be decreased or increased accordingly.

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

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

The contribution agreements provide for our acquisition of the interests in the initial properties and other assets for the consideration described below. The contributors have made certain representations and warranties in the contribution agreements, including, with respect to the initial properties and management agreements, (i) good standing in each of their respective jurisdictions of organization or incorporation, (ii) full right, power and authority to enter into the agreements and perform all obligations thereunder, (iii) good title to the membership interests and management agreements being contributed, (iv) that there is no pending or threatened litigation materially affecting the membership interests and management agreements being contributed, and (v) that they are not presently in default under certain agreements. However, the contributors have made limited representations and warranties regarding the initial properties and there could be unknown liabilities with respect to the initial properties or the entities that own the initial properties, and we will have limited or no recourse against the parties from whom we are acquiring the interests in our initial properties.

The formation transactions are described in further detail below.

Acquisition of Wholly Owned Properties

Upon completion of the formation transactions, we will acquire 100% ownership interest in five of our initial properties as follows:

we will acquire all of the outstanding limited liability company interests in the company that owns the Greenbriar property by purchasing the membership interests held by two unaffiliated third parties for approximately $4.2 million in cash, and by issuing operating partnership units having a value of approximately $429,000 in exchange for the 9.2% membership interests held by The Oliver Carr Company (13,489 operating partnership units having a value of approximately $202,000), Carr Holdings, LLC (13,491 operating partnership units having a value of approximately $202,000) and Carr Capital Real Estate Investments, LLC (1,648 operating partnership units having a value of approximately $25,000), each an affiliate of Carr Capital;

we will acquire all of the outstanding limited liability company interests in the company that owns the Sherwood Plaza property by purchasing the membership interests held by two unaffiliated third parties for approximately $6.8 million in cash, and by issuing operating partnership units having a value of approximately $181,000 in exchange for the 1.3% membership interests held by Carr Capital Real Estate Investments, LLC, an affiliate of Carr Capital (6,053 operating partnership units having a value of approximately $91,000), Mr. Fisch, our senior vice president and director of acquisitions (2,234 operating partnership units having a value of approximately $34,000) and an unaffiliated third party (3,769 operating partnership units having a value of approximately $56,000);

we will acquire all of the outstanding limited liability company interests in the company that owns the Fair Oaks property by purchasing the membership interests held by two unaffiliated third parties for approximately $2.1 million in cash, and by issuing 56,266 operating partnership units having a value of approximately $843,000 for the 28.9% membership interests held by Carr Capital Real Estate Investments, LLC, an affiliate of Carr Capital;

we will acquire all of the outstanding limited liability company interests in the company that indirectly owns, through its subsidiary, the Meadows IV property, by purchasing the membership interests held by two unaffiliated third parties for approximately $4.5 million in cash, and by issuing operating partnership units having a value of approximately $657,000 for the 12.8% membership interests held by The Oliver Carr Company (20,226 operating partnership units having a value of approximately $303,000), Carr Holdings, LLC (20,226 operating partnership units having a value of approximately $303,000), Carr Capital Real Estate Investments, LLC and Meadows IV Investors SPE, LLC, (3,370 operating partnership units having a value of approximately $51,000) each an affiliate of Carr Capital;

we will acquire from an unaffiliated third party all of the outstanding limited liability company interests in the company that owns the Loudoun Gateway IV property for approximately $21.9 million in cash, which includes approximately $500,000 of transaction costs, including a $213,500 cash fee payable to Carr Capital;

in connection with our acquisition of the five initial properties described above, our operating partnership will use approximately $40.8 million of the net proceeds of this offering to repay outstanding indebtedness, interest and prepayment penalties on these properties as follows (as of March 31, 2005):

approximately $10.6 million of first mortgage debt on the Greenbriar property;

approximately $9.0 million of first mortgage debt on the Sherwood Plaza property;

approximately $10.2 million of first mortgage debt and $6.4 million of mezzanine debt on the Fair Oaks property;

approximately $4.4 million of mezzanine debt on the Meadows IV property. Wachovia Capital Investments, Inc., an affiliate of Wachovia Capital Markets, LLC, is the lender of this indebtedness; and

prepayment penalties for the prepayment of the Fair Oaks and Greenbriar first mortgages aggregating approximately $157,000; and

we will also assume $19.0 million of first mortgage debt that encumbers the Meadows IV property.

Acquisition of Ownership Interests in Joint Venture Properties

Upon completion of the formation transactions, we will acquire partial ownership interests in eight of our initial properties as follows:

we will acquire a 100% interest in Carr Capital Westfields, LLC. Carr Capital Westfields, LLC owns a 14.7% interest in 15036 Conference Center Drive, LLC, the entity that owns the Independence Center property. The 100% ownership interest in Carr Westfields, LLC will be acquired by purchasing a membership interest for approximately $1.9 million in cash from an unaffiliated third party, and by issuing operating partnership units having a value of approximately $2.8 million in exchange for the remaining membership interest held by Carr Capital Real Estate Investments, LLC (109,318 operating partnership units having a value of approximately $1.6 million) and Carr Holdings, LLC (76,737 operating partnership units having a value of approximately $1.2 million), both affiliates of Carr Capital. An entity controlled by JP Morgan Investment Management will own the remaining 85.3% interest in 15036 Conference Center Drive, LLC. The property will continue to be subject to approximately $31.5 million of first mortgage indebtedness;

we will acquire a 50% interest in King I, LLC, the entity that owns the King Street property, by purchasing an aggregate 36% membership interest held by unaffiliated third parties for approximately $5.4 million in cash, and by issuing operating partnership units having a value of approximately $2.9 million in exchange for the 14% membership interest held by The Oliver Carr Company (129,933 operating partnership units having a value of approximately $1.9 million), Carr

Capital Real Estate Investments, LLC (47,795 operating partnership units having a value of approximately $717,000) and Oliver T. Carr, Jr., the father of our chairman, president and chief executive officer (18,468 operating partnership units having a value of approximately $277,000), each an affiliate of Carr Capital, and by four unaffiliated parties, Anson Klock, Felix Klock, Susan Freeling and Lee Campbell. Aetna Life Insurance Company will own the remaining 50% interest in King I, LLC. The property will continue to be subject to approximately $22.0 million of first mortgage indebtedness;

we will acquire a 100% interest in Carr Capital Madison, LLC, by purchasing a 80% membership interest from two unaffiliated third parties for approximately $1.7 million and by issuing 44,960 operating partnership units having an aggregate value of approximately $674,000 to Carr Capital Real Estate Investments, LLC, an affiliate of Carr Capital. Carr Capital Madison, LLC owns a 15% interest in Madison Place, LLC, the entity that owns the Madison Place property. We will also acquire a 35% interest in Madison Place, LLC for approximately $4.1 million in cash from Aetna Life Insurance Company. Aetna Life Insurance Company will own the remaining 50% interest in Madison Place, LLC. The property will continue to be subject to approximately $15.5 million of first mortgage indebtedness;

we will acquire a 36.5% interest in Suffolk Building, LLC, the entity that owns the Suffolk Building property, by purchasing a 35% membership interest from an unaffiliated third party for approximately $9.6 million in cash, and by issuing 27,829 operating partnership units having an aggregate value of approximately $417,000 in exchange for the 1.5% membership interest held by two affiliates of Carr Capital. JP Morgan Investment Management will own a 55% interest and Clark/Carr Investments, LLC will own an 8.5% interest in Suffolk Building, LLC. The property will continue to be subject to approximately $42.0 million of first mortgage indebtedness;

we will acquire a 20% interest in Carr Capital Atrium, LLC by issuing operating partnership units having a value of approximately $412,000 to Carr Holdings, LLC (9,148 operating partnership units having a value of approximately $137,000), Carr Capital Real Estate Investments, LLC (9,148 operating partnership units having a value of approximately $137,000) and The Oliver Carr Company (9,148 operating partnership units having a value of approximately $137,000), each an affiliate of Carr Capital. Carr Capital Atrium, LLC owns a 15% interest in Atrium Buildings, LLC, the entity that owns the Atrium property. We will also acquire a 34% interest in Atrium Building, LLC for approximately $4.7 million in cash from Aetna Life Insurance Company. Aetna Life Insurance Company will own a 51% interest in Atrium Building, LLC and Clark/Carr Investments, LLC and Holualoa K^3 Atrium VA, LLC will own, in aggregate, a 80% interest in Carr Capital Atrium, LLC. The property will continue to be subject to approximately $24.3 million of first mortgage indebtedness;

we will acquire an indirect 9.2% interest in the entity that owns the 1575 Eye Street property, by issuing operating partnership units having a value of approximately $2.6 million, in exchange for 21.4% of the membership interests held by certain affiliates of Carr Capital in Carr Capital 1575 Eye, LLC, the entity that owns a 41.6% interest in the 1575 Eye Street property. These affiliates include The Oliver Carr Company (81,195 operating partnership units having a value of approximately $1.2 million), Carr Capital Real Estate Investments, LLC (9,730 operating partnership units having a value of approximately $146,000) and Carr Holdings, LLC (81,195 operating partnership units having a value of approximately $1.2 million). The American Society of Association Executives, the American Society of Association Executives II, Aetna Life Insurance Company and twelve unaffiliated individual members will own the remaining 90.8% interest in the 1575 Eye Street property. The property will continue to be subject to approximately $42.2 million of first mortgage indebtedness;

we will acquire a 10% interest in 14200 Park Meadow Drive LLC, the entity that owns the Victory Point property, by purchasing a 9% membership interest held by Clark/Carr Investments, LLC for approximately $834,000 and a 1% membership interest from an affiliate of Carr Capital in exchange for 6,667 operating partnership units having a value of approximately $100,000. JP Morgan Investment Management will own the remaining 90% interest in 14200 Park Meadow Drive, LLC. The property will continue to be subject to $14.8 million of first mortgage indebtedness; and

we will fund an equity contribution of approximately $13.3 million in cash for a 40% interest in a newly formed limited liability company that will acquire more than 99% of the outstanding stock of a corporation that owns the Barlow Building property in a cash merger with unaffiliated third parties. Unaffiliated investors will own the remaining 60% interest in the private REIT. The property will be subject to approximately $61.8 million of first mortgage indebtedness.

Acquisition of Asset Management Agreements and Other Assets

Upon completion of this offering, Carr Capital will contribute asset or property management agreements for each of the initial properties, three third party asset management agreements for commercial office properties, two third party asset management agreements for hotels and certain other tangible and intangible assets to our operating partnership in exchange for operating partnership units having a value of $3.7 million.

Included in these assets that will be contributed is a non-exclusive arrangement that Carr Capital entered into in June 2004 with the Trammell Crow Company, one of the largest diversified commercial real estate services companies in the United States. Under this arrangement, Carr Capital entered into individual agreements with the Trammell Crow Company for each of the initial properties, each of which also will be contributed to our operating partnership for the consideration described above. Under these agreements, the Trammell Crow Company will perform certain routine property functions including property level accounting, risk management and insurance, lease administration and physical maintenance. We believe this arrangement currently is optimal for our company because it should ultimately yield operating cost efficiencies as the arrangement enables us to integrate newly acquired properties without incurring upfront personnel costs and other overhead expenses.

Carr Capital will contribute its furniture, fixtures and equipment to our operating partnership in exchange for $25,000 in cash.

Carr Capital will also contribute to our operating partnership an agreement with The Oliver Carr Company to lease us office space and perform certain administrative functions. Carr Capital and its affiliated entities may acquire interests in commercial office properties with joint venture partners prior to completion of this offering. To the extent these entities acquire such interests, they have agreed to contribute, and we have agreed to acquire, these interests upon completion of the offering. We will acquire any such interests in exchange for operating partnership units valued on a per unit basis at the public offering price for our common stock in the offering. The consideration for any such interests shall equal Carr Capital s or its affiliated entities cost for such interests, plus an agreed upon rate of return.

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

The following table summarizes the aggregate consideration to be received by each of the parties involved in the formation transactions:

Party to Formation Transaction(1)	Cash	Operating Partnership Units(2)	Percentage Limited Partnership Interest(3)
Aetna Life Insurance Company	$13,965,507	$	%
Alter Management Group	21,900,000		
Clark Enterprises, Inc.	4,533,326		
Hampton Realty Inc.	225,448		
Holualoa Arizona, Inc.	13,810,922		
JP Morgan Investment Management, Inc.	22,947,500		
Judith Klock	109,081		
Kulea, LLC	3,496,961		
Carr Capital Corporation(4)		3,700,000	2.05
Carr Capital Real Estate Investment, LLC(4)		4,587,734	2.55
The Oliver Carr Company		4,063,326	2.26
Carr Holdings, LLC		3,011,948	1.67
Oliver T. Carr, Jr.		277,019	0.15
Lee Campbell		264	*
Clinton D. and Tracey E. Fisch		33,503	0.02
Susan Freeling		106	*
Anson Klock		40,906	0.02
Felix Klock		40,906	0.02
Gregory Murdock		56,536	0.03

* Represents less than a 0.01% interest in our operating partnership.

(1) Reflects the Suffolk Building transaction, which closed on May 4, 2005 and the Loudoun Gateway IV and Barlow Building transactions which are expected to close after the offering.

(2) Represents dollar value of operating partnership units issuable in the formation transactions based on the offering price for the common stock, excluding the 290,000 LTIP units granted to directors, certain consultants and employees.

(3) Represents percentage ownership interest in our operating partnership upon completion of the formation transactions.

(4) The percentage ownership interests in the entities are set forth below:

Carr Capital Corporation	
Oliver T. Carr, III	41.4%
Clinton D. Fisch	17.2%
Oliver T. Carr, Jr.	41.4%
Carr Capital Real Estate Investments, LLC	
Carr Capital Corporation	100%

OUR BUSINESS AND PROPERTIES

Overview

We are a self-advised, self-managed Maryland corporation formed in September 2004 to succeed to the commercial office property business of Carr Capital Corporation, or Carr Capital. We intend to be taxed as a real estate investment trust, or REIT, under the Internal Revenue Code.

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

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

Upon the completion of this offering and our other formation transactions, we will own interests in an initial portfolio of 13 office properties located in the Greater Washington, D.C. area. In the aggregate, we will pay approximately $121.8 million in cash (including debt repayment), issue operating partnership units having a value of approximately $15.8 million and assume approximately $96.8 million of indebtedness, including our pro rata share of joint venture indebtedness in connection with the acquisition of our interests in the initial properties and the other assets we will acquire in our formation transactions. The initial properties contain approximately 2.1 million net rentable square feet. The interests in the initial properties comprise all of Carr Capital s office property assets. Our initial properties include five properties containing approximately 583,000 net rentable square feet that we will wholly own, and eight properties containing approximately 1,556,569 net rentable square feet in which we will own equity interests ranging from 9% to 50% through investments in joint ventures with unaffiliated investors, including one property in which we expect our investment will be made through a 40% equity investment in a private REIT that will own the property. At March 31, 2005, the occupancy rate for the initial properties was approximately 92%, excluding Victory Point, which was acquired vacant by an affiliate of Carr Capital and its joint venture partners and is in the initial stages of leasing. We will also provide third-party asset management services for three office buildings containing approximately 690,000 net rentable square feet and two hotel properties containing approximately 610 rooms.

As a result of extensive and long-standing local relationships, our senior management has access to a substantial number of investment opportunities. Currently, we have identified 17 properties that are under consideration for investment representing an aggregate investment in excess of $730 million. After further analysis and due diligence review, we may elect not to pursue, or we may not be able to complete, any or all of these transactions.

Our Primary Market

General

We believe our focus on the Greater Washington, D.C. office market provides ample opportunities for growth. In addition to the significant presence of the federal government, which provides stability to the area s economy, the region benefits from both a predominantly service based economy and highly educated workforce that are strong drivers of office space demand. The area has approximately 5 million residents and 2.8 million jobs and generated a 2004 gross regional product of approximately $300 billion. Key metrics reflecting the region s economic and demographic strengths, when compared to the 20 largest metropolitan areas in the U.S., include:

- the highest percentage (42%) of adult population age 25 years and older with an undergraduate degree;
- the highest percentage (18.8%) of adult population age 25 years and older with graduate degrees; and
- the largest number of scientists and engineers (more than 175,000).

The Greater Washington, D.C. office market is comprised of over 5,600 individual office properties containing approximately 370 million square feet of office space. The Greater Washington, D.C. office market is broadly divided into the following three regions:

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

Drawing on the region s attractive demographics, knowledge-based firms in biotechnology, telecommunications, computer, information services, management services, media and data communications have clustered in the Greater Washington, D.C. area. The region s economy is diversified further by an extensive professional and business services market. The region is one of the country s primary legal centers and is home to over 5,300 associations and trade groups, the largest such concentration in the United States. With over 170 foreign embassies and headquarters for The World Bank, the International Monetary Fund, the Inter-American Development Bank and the Organization of American States, the region has experienced a significant increase in the number of trade-related and international financial firms that have offices in the area.

As the home of the U.S. Government, the Greater Washington, D.C. area is one of the country s primary centers for national and international business, law and politics. The federal government s presence provides stability for the economy through both direct employment and the procurement of goods and services, and generates approximately one-third of the area s gross regional product, serving as a powerful generator of employment and income and tempering the negative impact of national economic cycles on the region. During the late 1990s, the federal government s percentage of the area s gross regional product grew at an annual average rate of approximately 4%. Driven by increased levels of defense and security spending, the federal government s percentage of the area s gross regional product grew by 11.1% in 2003 and is estimated to have grown by 9.5% in 2004. The non-government sectors of the Washington, D.C. market are expected to increase their contribution to the area s gross regional product over 2003 levels.

The federal government also represents a dependable source for job growth. According to the Bureau of Labor Statistics, the government sector created approximately 9,400 new jobs in the Greater Washington, D.C. area during the 12 months ended January 31, 2005. Additionally, professional and business services firms, comprised mostly of contractors who serve the federal government, added over 31,200 jobs to the Greater Washington, D.C. area employment base during the same period.

In addition to direct employment and purchases of goods and services, the Greater Washington, D.C. area has benefited from the increasing trend within the federal government to outsource high tech information services. Federal procurement spending totaled approximately $42.2 billion in 2003 within the Greater Washington, D.C. area. No state receives as much in the total value of federal procurement awards as the Greater Washington, D.C. area. Federal procurement spending has grown each of the past three years and is estimated to reach $47.5 billion in 2004, representing a 12.5% increase over 2003.

As a result of its underlying economic and demographic characteristics, the Greater Washington, D.C. area office market has consistently outperformed nearly all of the markets in the peer group, which we define as the top ten office markets in the United States, excluding Washington, D.C. According to data compiled by the National Council of Real Estate Investment Fiduciaries, or NCREIF, the Greater Washington, D.C. commercial office market has exceeded the average cumulative return of its peer markets based on investment and income appreciation by approximately 97.1% for the period January 1, 2000 to December 31, 2004. Over a longer timeframe, from January 1, 1985 through December 31, 2004, the

Greater Washington, D.C. commercial office market exceeded the average cumulative return of its peer markets by approximately 79.9%.

We believe the total returns in the Greater Washington, D.C. office market are the product of economic and market fundamentals that have combined to create a unique operating environment specific to the Greater Washington, D.C. market. The driving forces behind the area s total returns include:

- above average office demand characteristics;
- strong, consistent operating performance; and
- attractiveness of the market amongst the investment community.

Office Demand

We believe that the Greater Washington, D.C. area s ability to create new jobs is the driving force behind the positive changes in net occupied space, which is commonly referred to as net absorption. According to the Bureau of Labor Statistics, 78,000 new jobs were created in the Greater Washington, D.C. area in the twelve months ended January 31, 2005, well above the region s average annual job growth of approximately 66,000 between 1999 and 2004. With a growth rate of 2.7%, the Greater Washington, D.C. area posted significantly stronger job growth for the twelve months ended January 31, 2005 than the national average of 1.7%. According to a report by Delta Associates, a leading real estate consulting firm, annual job growth in the Greater Washington, D.C. area is projected to average 75,500 new jobs per year through 2007, a 14.4% increase over the area s average annual job growth rate between 1999 and 2004.

Projected Job Growth

Washington Metro Area

In addition, the unique employment base of the Greater Washington, D.C. area, attributed to the presence of the federal government and government related services, creates a market that is dependent on a consistent supply of office space. Typically, a large percentage of the jobs created in the Greater Washington, D.C. area require the use of office space, as the area is less reliant on manufacturing jobs.

For the period January 1, 2000 to March 31, 2005, the Greater Washington, D.C. office market has increased its total square footage by approximately 46 million square feet, or approximately 14.3%. During this period of growth, the Greater Washington, D.C. market has remained strong, consistently absorbing more space than the peer group average. During the period January 1, 2000 to December 31, 2004, the Greater Washington D.C. area s net absorption has exceeded the average net absorption of the peer markets by approximately 4.9 million square feet per year.

Historical Net Absorption

Note: Peer office markets consists of Atlanta, Boston, Chicago, Dallas/Ft. Worth, Denver, Houston, Los Angeles, New York, Phoenix, and San Francisco.

Source: CoStar reports as of March 31, 2005.

Operating Performance

The favorable demographic and economic environment within the Greater Washington, D.C. area has promoted strong operating performance throughout the region. According to the CoStar Group, the Greater Washington, D.C. office market has continued to outperform the peer markets by achieving average occupancy rates 3.5% above the average occupancy rates for the peer group for the period December 31, 2000 to March 31, 2005. The area s office occupancy rate has continued to increase since December 31, 2002. In the first quarter of 2005, occupancy rates increased 0.6% from the previous quarter to 89.7%.

Annual Average Occupancy Rates

Note: Peer office markets consists of Atlanta, Boston, Chicago, Dallas/Ft. Worth, Denver, Houston, Los Angeles, New York, Phoenix, and San Francisco.

Source: CoStar reports as of March 31, 2005.

Strong demand and above average occupancies have supported steady asking rent rates within the Greater Washington, D.C. office market, creating stability in portfolio operating income. Asking rent rates in the area have consistently outperformed both the national office market average and the average for the peer group. For the period December 31, 2004 to March 31, 2005, the Greater Washington, D.C. office market s annual asking rent rate averaged 29.8% and 22.8% above the national office market and the average for the peer group, respectively.

Average Asking Rent Rate

Note: Peer office markets consists of Atlanta, Boston, Chicago, Dallas/Ft. Worth, Denver, Houston, Los Angeles, New York, Phoenix, and San Francisco.

Source: CoStar reports as of March 31, 2005.

Investment Performance

The combination of strong demand and consistent, above average operating fundamentals have made the Greater Washington, D.C. office market an attractive opportunity for the real estate investment community, as evidenced by unprecedented transaction volume. According to Delta Associates, 37 transactions totaling approximately $2.6 billion closed in the first quarter of 2005 and 116 transactions totaling $5.5 billion closed in 2004.

As the Greater Washington, D.C. office market has continued to generate above average returns, the area has experienced higher rates of capital appreciation. For the three months ended March 31, 2005, the average sales price in the Greater Washington, D.C. office market was $313 per square foot. At these per square foot prices, average capitalization rates are at 7.7% in the Greater Washington, D.C. area, reflecting the strength of the Washington, D.C. office market and providing an opportunity for continued capital appreciation.

Our Strategy

We intend to seek to generate attractive, long-term, risk-adjusted investment returns for our stockholders by employing an operating model focused on the following strategies:

Investing in Small-to-Medium Size Office Buildings. We believe the investment in small-to-medium size office properties with an initial cost between $10 and $60 million containing 75,000 to 250,000 net rentable square feet presents compelling opportunities to earn attractive risk-adjusted returns. We believe this market typically attracts fewer competitive buyers due, in part, to the need of many institutional buyers and larger REITs to more efficiently deploy capital by acquiring larger assets. As a result, this market segment is generally populated by buyers who, among other factors, do not maintain the infrastructure necessary to identify, underwrite and close transactions quickly and owners who often do not possess the ability to adequately manage these assets.

We believe that we can acquire properties at or below replacement cost that provide the opportunity for near-term capital appreciation resulting from identifiable deficiencies such as market inefficiencies, sub-optimal management practices, higher vacancy levels, near-term lease rollover risk or incompatibility with the current owner s investment strategy. By repositioning the property through changes in the tenant mix, new leasing strategies, improved lease terms and capital improvements on the property, we seek to maximize incremental operating income and enjoy near-to-intermediate term capital appreciation.

Selective and Strategic Geographic Focus. Through the operations of Carr Capital, our senior management team has established extensive local market knowledge and a strong reputation within the Greater Washington, D.C. office market. Our senior management team has extensive and long-standing business and personal relationships with property owners, developers, tenants, property managers and brokers, established through many years of transactional experience in the markets and sub-markets in which we intend to operate. By leveraging these relationships and focusing on the Greater Washington, D.C. commercial office property market, we believe that we will be able to successfully identify attractive acquisition opportunities and create economies of scale through the clustering of properties.

We consider the Greater Washington, D.C. area to be one of the strongest and most attractive real estate markets in the United States. The region is the third largest office market in the country, has a disproportionate level of jobs that require office space and benefits from a highly educated workforce that attracts a broad range of domestic and international businesses. Spending by the federal government in the region provides a stabilizing base for the economy, both through direct employment and federal procurement. The Greater Washington, D.C. area receives the highest allocation of government dollars annually, and we believe that continued federal government spending for national defense and homeland security, along with overall economic growth within the region, will increase demand for office space.

In order to maximize acquisition opportunities and leverage our business relationships, we may also selectively consider investments in other markets.

Intensive and Efficient Asset Management. We will seek to grow net income in our portfolio by intensively managing our properties in accordance with a specific strategic plan for each property. We intend to accomplish this growth, in part, through changes in the tenant mix, new leasing strategies, improved lease terms and capital improvements, which we believe will provide us the opportunity to underwrite leases for higher rent than current levels. We will also emphasize disciplined expense control in our property operations while maintaining efficiency through the outsourcing of non-strategic property functions, including property level accounting, risk management, lease administration and physical maintenance. In June of 2004, Carr Capital entered into an arrangement with the Trammell Crow Company, to perform routine day-to-day property management functions for certain of the initial properties. We believe this structure will give us the ability to grow our portfolio of properties while maintaining strategic decision making authority over the portfolio.

Strategic Joint Ventures. We will selectively enter into joint ventures where appropriate to leverage our equity returns through fees and disproportionate cash flow distributions, as well as manage the risks associated with certain properties that may be inappropriate to wholly own due to size or vacancy levels. Carr Capital has successfully employed this joint venture strategy with institutional investors such as JP Morgan Investment Management, Inc., Aetna Life Insurance Company, Invesco Realty Advisors, Clark Enterprises, Inc. and The Carlyle Group. Under the proposed contribution agreements associated with this offering, certain joint venture investors are maintaining their investment in their respective properties. We believe this highlights the success of the joint venture relationships established by our senior management team while with Carr Capital.

Recycling Capital. We intend to continue Carr Capital s successful strategy of capturing value created through opportunistic dispositions or recapitalizations of acquired and repositioned office assets. We will review each of our properties on a regular basis, assessing its future potential growth against its current market value to determine the appropriate investment plan for the property consistent with our strategy of qualifying as a REIT.

Our Acquisition Strategy

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

$10 to $60 million in initial cost;

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

- well-located within sub-market;
- purchase price typically equal to or below replacement cost; and
- high-quality design and construction.

Our investment strategy focuses on office properties that fall generally into one of the following two categories: value-added and core.

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

We generally will acquire a value-added property only if it meets the following investment criteria:

- recovering sub-market fundamentals;
- in-place rents below market with ability to re-lease at market rents during the holding period; and
- ability to reposition the asset through pro-active leasing, targeted capital improvements, management and/or recapitalization strategies.

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

We generally will acquire a core property only if it meets the following investment criteria:

- significant in-place occupancies;
- limited lease rollover exposure; and
- attractive valuation to competing assets on a relative basis.

We evaluate each potential acquisition based on established underwriting criteria, including:

Building Design and Functionality

- relative cost to build property of similar quality (replacement cost analysis);
- physical condition and age of property;
- functional and efficient floor plates that maximize the number of exterior offices;
- modern systems (including life/safety) and technological adaptability;
- on-site and nearby parking; and
- compliant with all federal and state regulations including the Americans with Disabilities Act;

Sub-Market and Location

- established sub-market with identified demand generators, including employment;
- analysis of large space users in the market, terms of their leases and expected expansion, relocation or downsizing plans;

new development under construction, pipeline for new projects and inventory of land available for future development;

- property s competitive position within sub-market (rent trends, market vacancy including sub-let space, and historical operating performance); and

- proximity to major transportation arteries and public transportation;

Tenant Credit Analysis

- financial and business outlook for each tenant as it relates to ability to meet future obligations;

- the terms of existing leases including relationship to current market rents and schedule of lease expirations;

- current payment history; and

- importance of space to tenant s operations; and

Portfolio Analysis

- impact of asset size, lease rollover and tenant mix on existing portfolio.

Our Operating Strategy

Once we acquire a property we seek to aggressively manage the property in accordance with a strategic plan developed during pre-acquisition due diligence. Depending on the property, the strategic plan may seek to add value either through active property leasing efforts, investment in targeted capital improvement projects or the repositioning or redevelopment of certain properties. We intend to increase asset level cash flows through cost efficient property operations and leasing strategies designed to capture market rental growth from the renewal of below-market leases of higher rates and/or recruitment of quality new tenants. We believe we have maintained both rigorous lessee underwriting and strong tenant relationships.

We self-manage our portfolio, meaning that we retain the decision making authority and strategic planning responsibility for the assets that we own. In June 2004, we entered into a non-exclusive arrangement with the Trammell Crow Company, one of the largest diversified commercial real estate services companies in the United States, to perform routine day-to-day property functions for certain of the properties. Our arrangement with the Trammell Crow Company is cancelable on 30 days notice by either party and provides that the Trammell Crow Company is responsible, with our oversight, for all property level accounting, risk management, lease administration and physical maintenance and repairs. We believe this structure is optimal for a firm of our size as it is scalable and enables us to integrate newly acquired properties without incurring upfront personnel costs.

Leasing for our portfolio is assigned on a property-by-property basis to third party brokerage firms based on their demonstrated track record and knowledge of the sub-markets in which our properties are located.

We will seek to enhance our cash flows by investing in certain properties through strategic joint ventures with institutional partners. This allows us to manage the risk associated with properties that may not be appropriate for a company of our size to wholly own, to include larger assets or properties that have greater than normal vacancy risk, and to leverage our operating infrastructure and generate fee income by providing asset management and other services for the joint venture. Carr Capital employed this same joint venture strategy, successfully executing joint ventures and transacting business with institutional investors, including JP Morgan Investment Management, Inc., Aetna Life Insurance Company, Invesco Realty Advisors, Clark Enterprises, Inc. and The Carlyle Group.

We intend to selectively pursue development opportunities where such opportunities will result in a favorable risk-adjusted return on investment. In general, we will commence development primarily when economic conditions are favorable and the development site is located in a stable sub-market where demand for office space currently exceeds, or is expected to exceed within the development time horizon, available space. At this time, the Independence Center and Victory Point properties have land available for additional development.

In addition to enhancing our returns through intensive asset management, strategic joint ventures and development, we intend to capture the value created by these activities through opportunistic dispositions or recapitalizations. In this regard, we will review each of our properties on a regular basis, weighing its future potential growth against its current market value to determine the appropriate investment plan for the property. We believe this discipline will generate attractive returns for our stockholders and facilitate our ability to finance growth internally with a lower cost of capital.

Our Competitive Strengths

We believe we enjoy significant competitive strengths, including:

Our Local Market Knowledge and Relationships. Through the operations of Carr Capital, we are intimately familiar with market conditions and investment opportunities in both the central business district and suburban property sub-markets in the Greater Washington, D.C. area. Our management team also has extensive and long-standing business and personal relationships with property owners, developers, tenants, property managers and brokers established through many years of transactional experience in these sub-markets, which facilitate our access to acquisitions outside the normal auction process. As a result of this experience and these relationships, we believe we will be able to continue to successfully identify attractive acquisition opportunities.

Our Quality Portfolio. We believe the locations and quality of our properties, coupled with the on-going growth of the Greater Washington, D.C. economy, will drive continued capital appreciation. At March 31, 2005, our initial properties, excluding Victory Point, which was acquired vacant by an affiliate of Carr Capital and its joint venture partners in March 2005 and is in the initial stages of leasing, had a weighted average occupancy rate of approximately 92% with a weighted average remaining lease term of approximately five years. Our stable and diverse tenant roster includes a blend of professional service firms, government contractors and U.S. government agencies.

Our Experience as Value Added Investors. With an average of over 18 years of real estate and capital markets experience, our senior management team has extensive experience in owning, financing, managing, re-positioning and re-leasing office properties that either are underperforming due to poor management or are challenged by relatively high near-term tenant expirations.

Our senior management team s track record as value added investors is demonstrated by gains realized through sales to third parties. Since January 1, 2002, our senior management team has sold the following three previously owned properties realizing an average leveraged internal rate of return of approximately 32% to investors:

- the sale of Springfield Corporate Center for $21.2 million, which generated an approximate 40% leveraged internal rate of return to investors over a 26-month holding period;

- the sale of 1800 Robert Fulton Drive in Reston, VA for $6.9 million, delivering an approximate 20% leveraged internal rate of return to investors over the three and a half year holding period; and

- the sale of 2121 Wisconsin Avenue, NW in Washington, DC for $17.3 million, which generated an approximate 35% leveraged internal rate of return to investors over a 19-month holding period.

The leveraged internal rates of return described above are based on the amount of the aggregate investment, cash distributions to equity investors during the holding period and the net proceeds from the sale of the property distributed to equity investors.

Our Focused Strategy. We will be a locally-based public REIT focused primarily on the ownership, operation, acquisition and development of small-to-medium size commercial office properties in the Greater Washington, D.C. area. Ownership of these properties is highly fragmented with a myriad of small private investors, operators and owners. We believe the Greater Washington, D.C. commercial office property market, one of the largest, most fragmented office markets in the country, should continue to provide numerous high- quality opportunities for investment.

Our Growth-Oriented Capital Structure. Upon completion of this offering and the formation transactions, we will have a debt-to-total market capitalization of 35% (inclusive of our pro rata share of joint venture debt). Although our organizational documents do not limit the amount of debt we may incur, we intend to limit our debt to 55 to 60% of our total market capitalization (inclusive of our pro rata share of joint venture debt), and believe we will have significant capacity for future acquisitions. We believe our capital structure and improved access to debt and equity capital as a public company, will enable us to compete against less well capitalized investors for small-to-medium size office properties.

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

Our History

Carr Capital Corporation, was formed in Boston, Massachusetts in April 1994 by Messrs. Carr and Fisch as a merchant banking firm focused on providing investment advisory and debt and equity capital placement services for owners of commercial property. Since Carr Capital s formation by our senior management team, Carr Capital has completed over $1.3 billion of capital transactions in the commercial real estate sector, including structured finance transactions, equity joint ventures and tax deferred property sales. Notable advisory transactions include the $180 million sale of Metropolitan Square, a 555,000 square foot office property in Washington, D.C. to a publicly traded REIT in exchange for units of limited partnership interest in the REIT s operating partnership; the $204 million sale of 601 E Street, a 560,000 square foot office property in Washington, D.C. in a tax-deferred transaction; and a $62 million structured financing for a 250,000 square foot office development project in Cambridge, Massachusetts.

In 1999, Carr Capital made the strategic decision to relocate to Washington, D.C. in order to focus on the acquisition and management of office properties located in the Greater Washington, D.C. area. As part of this strategy, Carr Capital looked to acquire properties that offered significant appreciation potential as well as attractive current income returns. In late 1999, Carr Capital acquired two properties, 1800 Robert Fulton Drive in Reston, Virginia and the King Street property, located in Alexandria, Virginia. 1800 Robert Fulton Drive is a 44,141 square foot office property acquired for approximately $6.25 million from Principal Financial Group. Carr Capital acquired 1800 Robert Fulton as a planned five year investment and funded the acquisition with a combination of its own capital, equity capital provided by the Holualoa Companies and a floating rate first mortgage provided by GE Capital.

The King Street property, a 149,080 square foot office property located adjacent to the King Street Metro subway station in Alexandria, Virginia, is an example of the type of property that fits our target investment criteria and our strategy of repositioning properties and actively managing the tenant base to maximize income over our planned holding period. The investment also highlights our management s expertise in structuring complex transactions as a means to acquire properties, or property interests, that are not broadly marketed.

Carr Capital acquired a 60% ownership interest in the King Street property through a privately negotiated purchase from Lend Lease Real Estate Investments based on a property value of approximately $23.5 million. Carr Capital funded the acquisition of the ownership interest through a combination of its own capital, as well as equity capital provided by Clark Enterprises, Inc. Simultaneous with the acquisition, Carr Capital refinanced the existing mortgage debt with $17.6 million of debt provided by CIGNA Corporation. Carr Capital structured its investment in the general partnership interest as preferred equity in which Carr Capital s newly invested equity capital received a 15% internal rate of return preference. Existing limited partners continued to maintain their 40% limited partnership interest in the property and their existing tax basis.

In underwriting the King Street property acquisition, Carr Capital management believed that the existing rents at the building were approximately 15% below market, and also believed that the negotiated acquisition price was approximately 25% below replacement cost. Management s decision to invest in the King Street property was also influenced by the property s superior location at a key transportation hub in Alexandria, directly across a main thoroughfare from the newly developed two million square foot United States Patent and Trade Office, a key demand generator in the sub-market.

Since the acquisition in late 1999, Carr Capital has leased approximately 148,000 square feet of space at the building to 26 tenants, through new and renewal lease transactions, representing approximately 100% of the net rentable area. Additionally, Carr Capital and its partners completed an approximately $1 million façade renovation and invested over $700,000 in the building s common areas to maintain the building s competitive position in the market place.

Carr Capital recapitalized the King Street property in 2003 by selling an 85% equity interest to Aetna based on a property value of $31 million and refinancing the property with a new $22 million mortgage provided by Allstate Insurance. Carr Capital s existing investors received cash, or an increased property ownership interest, at their option, in conjunction with the recapitalization. As of March 31, 2005, the property was 89% leased to a diverse roster of regional and national tenants.

In 2000 and 2001, Carr Capital acquired joint venture interests in four additional office properties. These properties comprised approximately 494,000 square feet with an initial investment cost of approximately $60.1 million. These properties include:

- in October 2000, Carr Capital and its investment partners acquired an interest in Springfield Corporate Center, a 134,499 square foot suburban office property located in Springfield, Virginia for an initial cost of approximately $16.2 million. The acquisition was financed through a combination of its own capital, equity capital provided by the Holualoa Companies and a $12.8 million mortgage loan provided by Nationwide Insurance;

- in November 2000, Carr Capital and its investment partners acquired an interest in Sherwood Plaza, a 92,960 square foot suburban office property located in the Fairfax City sub-market of Fairfax County, Virginia, for an initial cost of approximately $11.4 million. The acquisition was financed through a combination of its own capital, equity capital from the Holualoa Companies and individual investors and a $9.4 million mortgage loan from Nationwide Insurance;

- in June 2001, Carr Capital and its investment partners acquired an interest in Greenbriar Corporate Center, a 111,721 square foot suburban office property located in Fairfax, Virginia, for an initial cost of approximately $15.0 million. The acquisition was financed through a combination of its own capital, equity capital provided by Ka Poe Hana, a regional investment firm, from the Holualoa Companies and other investors and a $11.2 million mortgage loan from Nationwide Insurance; and

- in November 2001, Carr Capital and its investment partners acquired an interest in Fair Oaks, a 154,606 square foot single story suburban office park located in the Fairfax Center sub-market of Fairfax County, Virginia for an initial cost of approximately $17.5 million. The acquisition was financed through a combination of its own capital, equity capital provided by Invesco Realty Advisors and a $11.8 million mortgage loan from Nationwide Insurance.

In 2002, our senior management team completed over $124.4 million of transactions for Carr Capital and its investment partners, including the sale of Springfield Corporate Center for $21.2 million, and the acquisition of three properties totaling approximately 585,000 square feet and an additional 275,000 square feet of development property for an aggregate initial cost of approximately $103.2 million. The sale of Springfield Corporate Center generated a 40% leveraged internal rate of return to the investors over the 26-month ownership period from the purchase in October 2000 through its sale in December 2002.

Carr Capital s first acquisition of 2002 was the purchase of an indirect 9.17% partnership interest in the 1575 Eye Street property, a 210,372 square foot office property located in the central business district of Washington, D.C., based on a property value of $58.7 million. Carr Capital acquired its interest in this property through a privately negotiated purchase from Lend Lease Real Estate Investments. Carr Capital financed its purchase of the 1575 Eye Street property with equity capital provided by Aetna in addition to equity provided by a number of qualified high net worth individual investors. Concurrent with this acquisition, Carr Capital refinanced the existing debt on the property with a new $44.5 million mortgage provided by Metropolitan Life. Our management structured Carr Capital s investment in such a way to maintain the existing investment positions of the American Society of Association Executives, which is also a major tenant in the building, as well as Norfolk Southern Railways, with the value of the existing partners equity positions adjusted to reflect the value ascribed to the property at acquisition.

In May 2002, Carr Capital and its investment partners acquired an interest in 2121 Wisconsin Avenue, a 99,008 square foot office property located in the Georgetown sub-market of Washington, D.C., for an initial cost of approximately $14.4 million. The acquisition was financed through a combination of Carr Capital s own capital, equity capital provided by Ka Poe Hana, a regional investment management firm, and $11.0 million of debt financing provided by Nationwide Insurance.

Later in 2002, Carr Capital and its investment partners acquired the Independence Center property, a 275,002 square foot suburban office property for $30.1 million, or approximately $109.00 per square foot, which Carr Capital management estimated as approximately 50% of the property s replacement cost. At the time of acquisition, the property was 100% vacant. This property includes excess land which will support the development of an additional 275,000 square feet of office space. The Independence Center property is an example of a value-added investment that fits our target investment criteria and our strategy of acquiring properties at a significant discount to replacement cost that offer the potential for near term appreciation. Independence Center is located in Westfields Corporate Center, which is the largest office park in the Washington metro area, consisting of 1,100 acres, in close proximity to Dulles International Airport. The park offers a range of amenities, and is home to the National Reconnaissance Office, an agency of the United States Department of Defense, that designs, builds and operates the nation s reconnaissance satellites. The property was acquired from Alcatel USA, which was selling the building as part of a corporate restructuring. The acquisition was funded through equity capital from JP Morgan Investment Management and Carr Capital, and debt financing of $14.2 million, which included additional financing proceeds to fund the costs associated with operating the vacant property and re-leasing the vacant space.

At March 31, 2005, Carr Capital had successfully leased 90% of the available space in the building to major defense contractors at rental rates in line with its original projections, and recently completed a refinancing for $31.8 million, or more than 100% of the original purchase price. In addition, Carr Capital has commenced the design and municipal approval process to begin development of a 115,000 square foot office building on the excess land.

In 2003, Carr Capital also completed the $20.6 million refinancing of Greenbriar Corporate Center and Sherwood Plaza, converting the existing fixed rate loans to floating rate facilities with flexible prepayment rights. That same year, Carr Capital sold 1800 Robert Fulton Drive in Reston, VA for $6.9 million, delivering a 20% internal rate of return to its investors over the approximate three and a half year period of ownership of this property, and also sold 2121 Wisconsin Avenue, N.W. in Washington, D.C. for $17.3 million. The sale price of the Wisconsin Avenue property generated an approximate 35% internal rate of return to investors over the nineteen months of ownership of this property. We believe these sales illustrate our management team s strategy of selectively selling or recapitalizing properties that have reached their economic value potential.

Since January 2003, Carr Capital and its investment partners have completed the acquisition of five additional office properties for a total of approximately $180.0 million, bringing its portfolio to eleven properties containing approximately 1.8 million net rentable square feet, located primarily in the Northern Virginia market. In July 2003, Carr Capital entered into a joint venture with Aetna to acquire the Madison Place property, a 107,960 square foot office property located in Alexandria, Virginia, from Lend Lease Real Estate Investments, Inc. for $20.1 million. Nationwide Insurance provided acquisition financing of $15.5 million and Carr Capital and its investment partners provided the equity capital. Madison Place was 59% leased at acquisition and was acquired as a value-added investment. In May 2004, Carr Capital and its investment partners acquired the Atrium property in Alexandria from an institutional owner for approximately $35.3 million. At acquisition, the property was 100% leased to a roster of tenants with strong credit quality. This acquisition was funded through a combination of equity capital provided by Aetna, Carr Capital and other private investors, the assumption of $18.6 million of existing mortgage financing and approximately $6 million of additional mortgage financing provided by Allstate Insurance.

In October 2004, Carr Capital and its investment partners acquired the Meadows IV property, a 148,160 square foot suburban office property for $27.3 million, or approximately $186.00 per square foot. At the time of acquisition, the property was 100% leased. The Meadows IV property is located in the Westfields Corporate Center.

In March 2005, Carr Capital and its investment partners, including JP Morgan Investment Management, acquired the Victory Point property, a 147,743 square foot suburban office property for $20.3 million, or approximately $137.00 per square foot. As of March 31, 2005, the property was 100% vacant. The property is located in the Westfields Corporate Center.

In May 2005, Carr Capital and its investment partners, including JP Morgan Investment Management, acquired the Suffolk Building, a 257,425 square foot suburban office property for $68.0 million or approximately $264.00 per square foot. At the time of the acquisition, the property was 100% leased. The property is located in Falls Church, Virginia.

In March 2005, Carr Capital entered into an agreement to acquire Loudoun Gateway IV, a 102,987 square foot suburban office building, for $21.4 million, or approximately $208.00 per square foot. As part of the formation transactions, we will acquire Loudoun Gateway IV for $21.9 million, which includes approximately $500,000 of transaction costs, including a $213,500 cash fee payable to Carr Capital. As of March 31, 2005, Loudoun Gateway IV was 100% leased.

In March 2005, Carr Capital entered into an agreement to merge with the S corporation that owns the Barlow Building, a 270,480 square foot suburban office building, in a transaction that valued the Barlow Building at $81.0 million, or approximately $300.00 per square foot, prior to transaction and defeasance costs of approximately $10 million. Carr Capital will assign the merger agreement to a newly organized limited liability company formed with third party investors, which entity will acquire more than 99% of the outstanding capital stock of the corporation that owns the Barlow Building. The corporation will elect to be taxed as a REIT. As part of the formation transactions, we will contribute approximately $13.3 million for a 40% ownership interest in the limited liability company that will own more than 99% of the outstanding capital stock of the private REIT that owns the property. As of March 31, 2005, the Barlow Building was 97% leased.

Our Initial Properties

Upon completion of this offering and our other formation transactions, we will own or have interests in a portfolio of 13 commercial office properties. The following table provides summary information regarding our initial properties as of March 31, 2005:

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

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

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

(3)

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

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

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

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

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

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

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

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

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

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

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

Description of Properties

Wholly Owned Properties

Fair Oaks Corporate Center, Fairfax, Virginia. The Fair Oaks property, built in 1985, is a four-building, single-story office park totaling 126,949 rentable square feet located approximately seven miles west of the Capital Beltway in Fairfax County, Virginia, approximately one-half mile east of Interstate 66 and twelve miles south south-east of Dulles International Airport. This property was acquired by our predecessor and its investment partners in November 2001 and consisted of five buildings, one of which was sold in August 2004. The remaining four buildings range from approximately 29,000 to 35,000 square feet and provide a 3.4 per 1,000 square foot surface parking ratio. As of March 31, 2005, the property was approximately 90% leased to 13 tenants.

The following table sets forth the occupancy rate and average annual rent per leased rentable square foot for the Fair Oaks property at the end of each period indicated since acquisition.

	Occupancy Rate	Average Annual Base Rent per Leased Square Foot
2001	95%	$20.27
2002	90%	$21.54
2003	80%	$22.22
2004	90%	$22.94
March 31, 2005	90%(1)	$23.20(2)

(1) Occupancy rate at March 31, 2005.

(2) Calculated as actual March 2005 base rent per leased square foot multiplied by 12.

The reduction in occupancy in 2003 was primarily due to Ryland Homes vacating two spaces totaling 11,877 square feet in June 2003 and approximately 50% of the tenants located in 11204 Waples Mill Road vacating prior to their December 2003 lease expiration. The Ryland spaces have been re-leased and the 11204 Waples Mill Road building was sold in August 2004.

The following tables set forth information with respect to the property s major tenants and lease expirations, respectively.

Major Tenants

Name	Principal Nature of Business	Lease Expiration	Leased Square Feet	Percentage of Property s Total Leased Square Feet	Annualized Base Rent(1)	Percentage of Annualized Base Rent(2)
J Spargo	Full Service Event Management	12/31/2006	21,955	19.1%	$527,756	19.8%
SCA Direct	Fund Raising/ Marketing	5/31/2005	15,418	13.4	367,035	13.8
Assisted Living Federation of America	Assisted Living Advocate Group	3/31/2011	13,175	11.5	338,041	12.7

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

(2) Calculated as the percentage of the tenant s annualized base rent divided by the product of the property s actual total March 2005 base rent and 12.

Lease Expiration Schedule

Year of Lease Expiration	Number of Leases Expiring	Square Footage of Expiring Leases	Percentage of Property s Total Leased Square Feet	Annualized Base Rent of Expiring	Percentage of Property s Annualized