CORPORATE OFFICE PROPERTIES TRUST
Form 10-K
February 27, 2009
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark one)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2008

or

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

For the transition period from to

Commission file number 1-14023

Corporate Office Properties Trust

(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	**23-2947217** (IRS Employer Identification No.)
6711 Columbia Gateway Drive, Suite 300 **Columbia, MD** (Address of principal executive offices)	**21046** (Zip Code)

Registrant s telephone number, including area code: **(443) 285-5400**

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

(Title of Each Class)	(Name of Exchange on Which Registered)
Common Shares of beneficial interest, $0.01 par value	**New York Stock Exchange**
Series G Cumulative Redeemable Preferred Shares of beneficial interest, $0.01 par value	**New York Stock Exchange**
Series H Cumulative Redeemable Preferred Shares of beneficial interest, $0.01 par value	**New York Stock Exchange**
Series J Cumulative Redeemable Preferred Shares of beneficial interest, $0.01 par value	**New York Stock Exchange**

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

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

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

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

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

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

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of the voting and nonvoting common equity held by non-affiliates of the registrant was approximately $1.6 billion, as calculated using the closing price of the common shares of beneficial interest on the New York Stock Exchange and our outstanding shares as of June 30, 2008. For purposes of calculating this amount only, affiliates are defined as Trustees, executive owners and beneficial owners of more than 10% of the registrant s outstanding common shares of beneficial interest, $0.01 par value. At January 30, 2009, 51,790,755 of the registrant s common shares of beneficial interest were outstanding.

Portions of the annual shareholders report of the registrant for the year ended December 31, 2008 are incorporated by reference into Parts I and II of this Form 10-K and portions of the proxy statement of the registrant for its 2009 Annual Meeting of Shareholders to be filed within 120 days after the end of the fiscal year covered by this Form 10-K are incorporated by reference into Part III of this Form 10-K.

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Form 10-K

FORWARD-LOOKING STATEMENTS

This Form 10-K contains forward-looking statements, as defined in the Private Securities Litigation Reform Act of 1995, that are based on our current expectations, estimates and projections about future events and financial trends affecting the financial condition and operations of our business. Forward-looking statements can be identified by the use of words such as may, will, should, expect, estimate or other comparable terminology. Forward-looking statements are inherently subject to risks and uncertainties, many of which we cannot predict with accuracy and some of which we might not even anticipate. Although we believe that the expectations, estimates and projections reflected in such forward-looking statements are based on reasonable assumptions at the time made, we can give no assurance that these expectations, estimates and projections will be achieved. Future events and actual results may differ materially from those discussed in the forward-looking statements. Important factors that may affect these expectations, estimates and projections include, but are not limited to:

- our ability to borrow on favorable terms;
- general economic and business conditions, which will, among other things, affect office property demand and rents, tenant creditworthiness, interest rates and financing availability;

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- adverse changes in the real estate markets including, among other things, increased competition with other companies;
- risks of real estate acquisition and development activities, including, among other things, risks that development projects may not be completed on schedule, that tenants may not take occupancy or pay rent or that development and operating costs may be greater than anticipated;
- risks of investing through joint venture structures, including risks that our joint venture partners may not fulfill their financial obligations as investors or may take actions that are inconsistent with our objectives;
- our ability to satisfy and operate effectively under Federal income tax rules relating to real estate investment trusts and partnerships;
- governmental actions and initiatives; and
- environmental requirements.

For further information on factors that could affect the company and the statements contained herein, you should refer to the section below entitled Item 1A. Risk Factors. We undertake no obligation to update or supplement forward-looking statements.

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PART I

Item 1. Business

OUR COMPANY

General. We are a specialty office real estate investment trust (REIT) that focuses primarily on strategic customer relationships and specialized tenant requirements in the United States Government, defense information technology and data sectors. We acquire, develop, manage and lease properties that are typically concentrated in large office parks primarily located adjacent to government demand drivers and/or in demographically strong markets possessing growth opportunities. As of December 31, 2008, our investments in real estate included the following:

- 238 wholly owned operating properties in Maryland, Virginia, Colorado, Texas, Pennsylvania and New Jersey containing 18.5 million square feet that were 93.2% occupied;

- 14 wholly owned office properties under construction or development that we estimate will total approximately 1.6 million square feet upon completion;

- wholly owned land parcels totaling 1,611 acres that were predominantly located near certain of our operating properties and that we believe are potentially developable into approximately 14.0 million square feet; and

- partial ownership interests through joint ventures in the following:

- 18 operating properties containing approximately 769,000 square feet that were 90.1% occupied;

- three properties under construction that we estimate will total 388,000 square feet upon completion and 356,000 square feet in one property that was under redevelopment; and

- land parcels totaling 274 acres (including 42 acres under contract in one joint venture) that were predominantly located near certain of our operating properties and potentially developable into approximately 3.0 million square feet.

We conduct almost all of our operations through our operating partnership, Corporate Office Properties, L.P. (the Operating Partnership), a Delaware limited partnership, of which we are the managing general partner. The Operating Partnership owns real estate both directly and through subsidiary partnerships and limited liability companies (LLCs). The Operating Partnership also owns 100% of a number of entities that provide real estate services such as property management, construction and development and heating and air conditioning services primarily for our properties, but also for third parties.

Interests in our Operating Partnership are in the form of common and preferred units. As of December 31, 2008, we owned 86.2% of the outstanding common units and 95.8% of the outstanding preferred units in our Operating Partnership. The remaining common and preferred units in our Operating Partnership were owned by third parties, which included certain of our Trustees.

We believe that we are organized and have operated in a manner that permits us to satisfy the requirements for taxation as a REIT under the Internal Revenue Code of 1986, as amended, and we intend to continue to operate in such a manner. If we qualify for taxation as a REIT, we generally will not be subject to Federal income tax on our taxable income that is distributed to our shareholders. A REIT is subject to a number of organizational and operational requirements, including a requirement that it distribute to its shareholders at least 90% of its annual taxable income (excluding net capital gains).

Our executive offices are located at 6711 Columbia Gateway Drive, Suite 300, Columbia, Maryland 21046 and our telephone number is (443) 285-5400.

Our Internet address is www.copt.com. We make available on our Internet website free of charge our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably possible after we file such material with the Securities and Exchange Commission (the SEC). In addition, we have made available on our Internet website under the heading Corporate Governance the charters for our Board of Trustees Audit, Nominating and Corporate Governance and Compensation Committees, as well as our Corporate Governance Guidelines, Code of Business Conduct and Ethics and Code of Ethics for Financial Officers. We intend to make available on our website any future amendments or waivers to our Code of Business Conduct and Ethics and Code of Ethics for Financial Officers within four business days after any such amendments or waivers. The information on our Internet site is not part of this report.

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The SEC maintains an Internet website that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. This Internet website can be accessed at www.sec.gov. The public may also read and copy paper filings that we have made with the SEC at the SEC s Public Reference Room, located at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling (800) SEC-0330.

Significant 2008 Developments

During 2008, we:

- experienced growth in revenues from real estate operations and property operating expenses due primarily to the addition of properties through development activities and acquisitions;
- finished the period with our wholly owned portfolio of properties 93.2% occupied;
- acquired three office properties totaling 247,000 square feet that were 100% occupied at December 31, 2008 (one located in Colorado Springs and two in San Antonio) for $40.6 million;
- had seven newly constructed properties totaling 528,000 square feet become fully operational (89,000 of these square feet were placed into service in 2007). We also placed into service 85,000 square feet in two partially operational properties;
- entered into a construction loan agreement with a group of lenders that provides for an aggregate commitment by the lenders of $225.0 million, with a right for us to further increase the aggregate commitment during the term to a maximum of $325.0 million, subject to certain conditions;
- borrowed $221.4 million under a mortgage loan requiring interest only payments for the term at a variable rate of LIBOR plus 225 basis points (subject to a floor of 4.25%) that matures in 2012, and may be extended by one year at our option, subject to certain conditions; and
- issued 3.7 million common shares at a public offering price of $39 per share, for net proceeds of $139.2 million after underwriting discount but before offering expenses.

Business and Growth Strategies

Our primary objectives are to achieve sustainable long-term growth in results of operations and to maximize long-term shareholder value. This section sets forth key components of our business and growth strategies that we have in place to support these objectives.

Business Strategies

Customer Strategy: We believe that we differentiate ourselves by being a real estate company that does not view space in properties as its primary commodity. Rather, we focus our operations first and foremost on serving the needs of our customers and enabling them to be successful. This strategy includes a focus on establishing and nurturing long-term relationships with quality tenants and accommodating their multi-locational needs. It also includes a focus on providing a level of service that exceeds customer expectations both in terms of the quality of the space we provide and our level of responsiveness to their needs. In 2008, we won the CEL & Associates, Inc. award for quality service and tenant satisfaction among nationwide office operators in the large owner category for the fifth consecutive year. We believe that operating with such a consistent emphasis on service enables us to be the landlord of choice with high quality customers and contributes to high levels of customer loyalty and retention.

Our focus on tenants in the United States Government, defense information technology and data sectors is another key aspect of our customer strategy. A high concentration of our revenue is derived from customers in these sectors, and we believe that we are well positioned for future growth through such customers for reasons that include the following:

- our strong relationships and reputation for high service levels that we have forged over the years and continue to emphasize;
- the proximity of our properties to government demand drivers (such as military installations) in various regions of the country and our willingness to expand to other regions where such demand exists; and
- the depth of our collective team knowledge, experience and capabilities in developing and operating secure properties that meet the United States Government s Force Protection requirements and data centers.

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Market Strategy: As discussed above with regard to our customer strategy, we focus on owning properties where our tenants want to be, which in the case of the United States Government and defense information technology customers is mostly near government demand drivers. We also concentrate our operations in markets and submarkets with certain growth characteristics that are located where we believe we already possess, or can effectively achieve, the critical mass necessary to maximize management efficiencies, operating synergies and competitive advantages through our acquisition, property management, leasing and development activities. The attributes we look for in selecting markets and submarkets include, among others: (1) proximity to large demand drivers; (2) strong demographics; (3) attractiveness to high quality tenants; (4) potential for growth and stability in economic down cycles; (5) future acquisition and development opportunities; and (6) minimal competition from long-term office property owners. We typically focus on owning and operating properties in large business parks located outside of central business districts. We believe that such parks generally attract long-term, high-quality tenants seeking to attract and retain quality work forces because they are typically situated along major transportation routes with easy access to support services, amenities and residential communities.

Product Strategy: Our product strategy is to focus our operations mostly on properties that either: (1) serve customers in the United States Government, defense information technology and data sectors; or (2) serve our market strategy. We also pursue certain other opportunistic investments that we believe provide us with the ability to create value through favorable risk-adjusted returns.

Capital Strategy: Our capital strategy s primary goal is to effectively support our customer, market and product strategies. It is aimed at maintaining a flexible capital structure in order to facilitate consistent growth and performance in the face of differing market conditions in the most cost-effective manner by:

- using equity raised through issuances of common and preferred shares of beneficial interest, issuances of common and preferred units in our Operating Partnership and joint venture structures for certain investments;
- using debt comprised primarily of mortgage loans and our unsecured revolving credit facility;
- conservatively managing our debt by monitoring, among other things: our debt levels relative to our overall capital structure; the relationship of certain measures of earnings to certain financing cost requirements (commonly referred to as coverage ratios); the relationship of our total variable-rate debt to our total debt; and the timing of our debt maturities to ensure that the maximum maturities of debt in any year do not exceed a certain percentage of our total debt; and
- continuously evaluating the ability of our capital resources to accommodate our plans for future growth.

Environmentally Responsible Development and Management Strategy: We are focused on developing and operating our properties in a manner that minimizes the impact to our planet. This strategy includes:

- constructing new Green buildings that are designed to use resources with a higher level of efficiency and lower impact on human health and the environment during their life cycle than conventional buildings. An example of our focus in this area is our participation in the United States Government s Leadership in Energy and Environmental Design (LEED) program, which has a rigorous certification process for evaluating and rating Green buildings in order for such buildings to qualify for the program s Certified, Silver, Gold and Platinum ratings. We constructed our first Green building in 2003;

- retrofitting select existing properties to also become Green buildings and perhaps meet the LEED certification ratings that apply to existing properties; and

- using Green operating and purchase practices and housekeeping standards in managing our properties.

We believe that our commitment to this strategy is evident in the fact that as of December 31, 2008, we had four buildings certified LEED Gold, four buildings certified LEED Silver and 31 other buildings registered for LEED Silver or Gold certification, and we had 13 professionals on staff who hold the LEED Accredited Professional designation. We also have established an internal goal to have 50% of the buildings in our portfolio be Green buildings by 2015. We believe that this strategy is important not just because it is it is increasingly becoming the expectation of our customers, but also because it is simply the right thing to do for our planet.

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Growth Strategies

Acquisition and Property Development Strategy: We pursue acquisition and property development opportunities for properties that support our customer, market and product strategies discussed above. As a result, the focus of our acquisition and development activities generally include properties that:

- serve customers in the United States Government, defense information technology and data sectors or that we expect are or could be targeted for use by such customers in the future;
- are located near demand drivers that we believe are attractive to customers in the United States Government, defense information technology and data sectors;
- are located in markets or submarket that we believe meet the criteria set forth above in our market strategy; or
- do not align with our customer, market or product strategies but represent situations that we believe provide high opportunity for favorable risk-adjusted returns on investment.

We typically seek to make acquisitions at attractive yields and below replacement cost. We also seek to increase cash flow and enhance the underlying value through certain acquisitions by repositioning the properties and capitalizing on existing below market leases and expansion opportunities. We pursue development activities as market conditions and leasing opportunities support favorable risk-adjusted returns.

Internal Growth Strategy: We aggressively manage our portfolio to maximize the operating performance of each property through: (1) proactive property management and leasing; (2) achieving operating efficiencies through increasing economies of scale and, where possible, aggregating vendor contracts to achieve volume pricing discounts; and (3) renewing tenant leases and re-tenanting at increased rents where market conditions permit. To enhance the stability of our cash flow, we typically structure our leases with terms ranging from three to ten years. Given the terms of our leases, we monitor the timing of our lease expirations with the goal being that such timing should not be highly concentrated in any given one-year or five-year period.

Industry Segments

We operate in one primary industry: suburban office real estate. At December 31, 2008, our suburban office real estate operations had nine primary geographical segments, as set forth below:

- Baltimore/Washington Corridor (generally defined as the Maryland counties of Howard and Anne Arundel);
- Northern Virginia (defined as Fairfax County, Virginia);
- Suburban Maryland (defined as the Maryland counties of Montgomery, Prince George s and Frederick);
- St. Mary s & King George Counties (located in Maryland and Virginia, respectively);
- Suburban Baltimore, Maryland (generally defined as the Maryland counties of Baltimore and Harford) (Suburban Baltimore);
- Colorado Springs, Colorado (Colorado Springs);
- San Antonio, Texas (San Antonio);
- Greater Philadelphia, Pennsylvania (Greater Philadelphia); and
- Central New Jersey.

As of December 31, 2008, 142 of our wholly owned properties were located in what is widely known as the Greater Washington, D.C. region, which includes the first four regions set forth above, and 63 were located in neighboring Suburban Baltimore. At December 31, 2008, we also owned 17 wholly owned properties in Colorado Springs and five in San Antonio. In addition, we owned six properties in total as of December 31, 2008 in the last two locations set forth above that are considered non-core to the Company. For information relating to these geographic segments, you should refer to Note 15 to our Consolidated Financial Statements, which is included in a separate section at the end of this report beginning on page F-1.

Employees

As of December 31, 2008, we had 372 employees, none of which are parties to collective bargaining agreements. We believe that our relations with our employees are good.

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Competition

The commercial real estate market is highly competitive. Numerous commercial properties compete with our properties for tenants. Some of the properties competing with ours may be newer or have more desirable locations, or the competing properties owners may be willing to accept lower rents than are acceptable to us. In addition, the competitive environment for leasing is affected considerably by a number of factors including, among other things, changes in economic factors and supply and demand of space. These factors may make it difficult for us to lease existing vacant space and space associated with future lease expirations at rental rates that are sufficient to meeting our short-term capital needs.

We also compete for the purchase of commercial properties with many entities, including other publicly-traded commercial REITs. Many of our competitors for such purchases have substantially greater financial resources than ours. In addition, our competitors may be willing to accept lower returns on their investments. If our competitors prevent us from buying properties that we have targeted for acquisition, we may not be able to meet our property acquisition goals.

Item 1A. Risk Factors

Set forth below are risks and uncertainties relating to our business and the ownership of our securities. You should carefully consider each of these risks and uncertainties and all of the information in this Form 10-K and its Exhibits, including our Consolidated Financial Statements and notes thereto for the year ended December 31, 2008, which are included in a separate section at the end of this report beginning on page F-1.

We may suffer adverse consequences as a result of recent and future economic events. Since the latter part of 2007, the United States and world economies have been in the midst of a significant recession, with most key economic indicators on the decline, including gross domestic product, consumer sales, housing starts and employment. This slowdown has had devastating effects on the capital markets, with declining stock prices and tightening credit availability. The commercial real estate industry was affected by these events in 2007 and 2008 and will likely be affected for a significant period of time. These events could adversely affect us in numerous ways discussed throughout this Annual Report on Form 10-K. The real estate industry in general has encountered increased difficulty in obtaining capital to fund growth activities, such as acquisitions and development costs, debt repayments and other capital requirements. As a result, the level of risk that we may not be able to obtain new financing for acquisitions, development activities, refinancing of existing debt or other capital requirements at reasonable terms, if at all, has increased. We believe that there may be an increased likelihood in the current economic climate of tenants encountering financial difficulties, including bankruptcy, insolvency or general downturn of business, and as a result there is an increased likelihood of such tenants defaulting in their lease obligations to us. We also expect that our leasing activities will be adversely affected, with an increasing likelihood of our being unsuccessful in renewing tenants, renewing tenants on terms less favorable to us or being unable to lease newly constructed space. As a result, the conditions brought about by these economic events could collectively have an adverse effect on our financial position, results of operations, cash flows and ability to make expected distributions to our shareholders.

We are dependent on external sources of capital for future growth. Because we are a REIT, we must distribute at least 90% of our annual taxable income to our shareholders. Due to this requirement, we will not be able to significantly fund our acquisition, construction and development activities using cash flow from operations. Therefore, our ability to fund these activities is dependent on our ability to access capital funded by third parties. Such capital could be in the form of new debt, equity issuances of common shares, preferred shares, common and preferred units in our Operating Partnership or joint venture funding. These capital sources may not be available on favorable terms or at all. Since the United States financial markets are experiencing extreme volatility, and credit markets have tightened considerably, the level of risk that we may not be able to obtain new financing for acquisitions, development activities or other capital requirements at reasonable terms, if at all, in the near future has increased. Moreover, additional debt financing may substantially increase our leverage and subject us to covenants that restrict management s flexibility in directing our operations, and additional equity offerings may result in substantial dilution of our shareholders interests. Our inability to obtain capital when needed could have a material adverse effect on our ability to expand our business and fund other cash requirements.

We use our Revolving Credit Facility to initially finance much of our investing and financing activities. We also use our Revolving Construction Facility and other credit facilities to fund a significant portion of our construction activities. Our lenders under these and other facilities could, for financial hardship or other reasons, fail to honor their commitments

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to fund our requests for borrowings under these facilities. In the event that one or more lenders under these facilities are not able or willing to fund a borrowing request, it would adversely affect our ability to access borrowing capacity under these facilities, which would in turn adversely affect our financial condition, cash flows and ability to make expected distributions to our shareholders.

We may suffer adverse consequences as a result of our reliance on rental revenues for our income. We earn revenue from renting our properties. Our operating costs do not necessarily fluctuate in relation to changes in our rental revenue. This means that our costs will not necessarily decline and may increase even if our revenues decline.

For new tenants or upon lease expiration for existing tenants, we generally must make improvements and pay other leasing costs for which we may not receive increased rents. We also make building-related capital improvements for which tenants may not reimburse us.

If our properties do not generate revenue sufficient to meeting our operating expenses and capital costs, we may have to borrow additional amounts to cover these costs. In such circumstances, we would likely have lower profits or possibly incur losses. We may also find in such circumstances that we are unable to borrow to cover such costs, in which case our operations could be adversely affected. Moreover, there may be less or no cash available for distributions to our shareholders.

In addition, the competitive environment for leasing is affected considerably by a number of factors including, among other things, changes due to economic factors and supply and demand of space. These factors may make it difficult for us to lease existing vacant space and space associated with future lease expirations at rental rates that are sufficient to meeting our short-term capital needs.

Adverse developments concerning some of our major tenants and sector concentrations could have a negative impact on our revenue. As of December 31, 2008, our 20 largest tenants accounted for 55.0% of the total annualized rental revenue of our wholly owned properties, and our five largest of these tenants accounted for 35.5% of that total. We computed the annualized rental revenue by multiplying by 12 the sum of monthly contractual base rents and estimated monthly expense reimbursements under active leases in our portfolio of wholly owned properties as of December 31, 2008. Information regarding our five largest tenants is set forth below:

Tenant		**Annualized Rental Revenue at December 31, 2008 (in thousands)**	**Percentage of Total Annualized Rental Revenue of Wholly Owned Properties**	**Number of Leases**
United States of America	$	66,782	17.3%	67
Northrop Grumman Corporation (1)		28,375	7.4%	16
Booz Allen Hamilton, Inc.		19,985	5.2%	8
Computer Sciences Corporation (1)		11,875	3.1%	4
L-3 Communications Holdings, Inc. (1)		9,730	2.5%	5

(1) Includes affiliated organizations and agencies and predecessor companies.

Most of our leases with the United States Government provide for a series of one-year terms or provide for early termination rights. The government may terminate its leases if, among other reasons, the United States Congress fails to provide funding. If any of our five largest tenants fail to make rental payments to us or if the United States Government elects to terminate several of its leases and the space cannot be re-leased on satisfactory terms, there would be an adverse effect on our financial performance and ability to make distributions to our shareholders.

As of December 31, 2008, the United States Government, defense information technology and data sectors accounted for 54.8% of the total annualized rental revenue of our wholly owned properties. We expect to increase our reliance on these sectors for revenue. A reduction in government spending targeting these sectors could affect the ability of these tenants to fulfill lease obligations or decrease the likelihood that these tenants will renew their leases. Such occurrences could have an adverse effect on our results of operations, financial condition, cash flows and ability to make distributions to our shareholders. We classified the revenue from our leases into this sector grouping based solely on management s knowledge of the tenants operations in leased space. Occasionally, classifications require subjective and

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complex judgments. We do not use independent sources such as Standard Industrial Classification codes for classifying our revenue into sector groupings and if we did, the resulting groupings would be materially different.

We rely on the ability of our tenants to pay rent and would be harmed by their inability to do so. Our performance depends on the ability of our tenants to fulfill their lease obligations by paying their rental payments in a timely manner. Under the current economic climate, we believe that there may be an increased likelihood of tenants encountering financial hardships. If one or more of our major tenants, or a number of our smaller tenants, were to experience financial difficulties, including bankruptcy, insolvency or general downturn of business, there could be an adverse effect on financial position, results of operations, cash flows and ability to make expected distributions to our shareholders.

Most of our properties are geographically concentrated in the Mid-Atlantic region, particularly in the Greater Washington, D.C. region and neighboring Suburban Baltimore, or in particular office parks. We may suffer economic harm in the event of a decline in the real estate market or general economic conditions in those regions. Most of our properties are located in the Mid-Atlantic region of the United States and, as of December 31, 2008, our properties located in the Greater Washington, D.C. region and neighboring Suburban Baltimore accounted for a combined 86.0% of our total annualized rental revenue from wholly owned properties. Our properties are also typically concentrated in office parks in which we own most of the properties. Consequently, we do not have a broad geographic distribution of our properties. As a result, a decline in the real estate market or general economic conditions in the Mid-Atlantic region, the Greater Washington, D.C. region or the office parks in which our properties are located could have an adverse effect on our financial position, results of operations, cash flows and ability to make expected distributions to our shareholders.

We would suffer economic harm if we were unable to renew our leases on favorable terms. When leases expire, our tenants may not renew or may renew on terms less favorable to us than the terms of their original leases. If a tenant vacates a property, we can expect to experience a vacancy for some period of time, as well as incur higher leasing costs, than if a tenant renews. As a result, our financial performance and ability to make expected distributions to our shareholders could be adversely affected if we experience a high volume of tenant departures at the end of their lease terms. We expect that the effects of the global downturn on our real estate operations will make our leasing activities increasingly challenging in 2009, 2010 and perhaps beyond and, as a result, there could be an increasing likelihood of our being unsuccessful in renewing tenants or renewing on terms less favorable to us than the terms of the original leases. Set forth below are the percentages of total annualized rental revenue from wholly owned properties as of December 31, 2008 that are subject to scheduled lease expirations in each of the next five years:

2009	13.6%
2010	13.9%
2011	9.7%
2012	14.2%
2013	12.3%

As noted above, most of the leases with our largest tenant, the United States Government, provide for consecutive one-year terms or provide for early termination rights. All of the leasing statistics set forth above assume that the United States Government will remain in the space that it leases through the end of the respective arrangements, without ending consecutive one-year leases prematurely or exercising early termination rights.

We may encounter a decline in the values of our real estate assets. The value of our real estate could be adversely affected by general economic and market conditions connected to a specific property, a market or submarket or a broader economic region. Examples of such conditions include a broader economic recession, as we are experiencing today, declining demand for space and decreases in market rental rates and/or market values of real estate assets. If our real estate assets decline in value, it could result in our recognition of impairment losses, which would adversely affect our operations. Moreover, a decline in the value of our real estate could adversely affect the amount of borrowings available to us under credit facilities, which could, in turn, adversely affect our cash flows and financial condition.

We may not be able to compete successfully with other entities that operate in our industry. The commercial real estate market is highly competitive. We compete for the purchase of commercial property with many entities, including other publicly traded commercial REITs. Many of our competitors have substantially greater financial resources than we do. If our competitors prevent us from buying properties that we target for acquisition, we may not be able to meet our property acquisition and development goals. Moreover, numerous commercial properties compete for tenants with our properties. Some of the properties competing with ours may be newer or in more desirable locations, or the competing properties owners may be willing to accept lower rates than are acceptable to us. Competition for property acquisitions, or for tenants in properties that we own, could have an adverse effect on our financial performance and distributions to our shareholders.

We may be unable to successfully execute our plans to acquire existing commercial real estate properties. We intend to acquire existing commercial real estate properties to the extent that suitable acquisitions can be made on advantageous terms. Acquisitions of commercial properties entail risks, such as the risks that we may not be in a position, or have the opportunity in the future, to make suitable property acquisitions on advantageous terms and/or that such acquisitions will fail to perform as expected. The failure of our acquisitions to perform as expected could adversely affect our financial performance and our ability to make distributions to our shareholders.

We may suffer economic harm as a result of making unsuccessful acquisitions in new markets. We may pursue selective acquisitions of properties in regions where we have not previously owned properties. These acquisitions may entail risks in addition to those we face in other acquisitions where we are familiar with the regions, such as the risk that we do not correctly anticipate conditions or trends in a new region and are therefore not able to operate the acquired property profitably. If this occurs, it could adversely affect our financial performance and our ability to make distributions to our shareholders.

We may be unable to execute our plans to develop and construct additional properties. Although the majority of our investments are in currently leased properties, we also develop, construct and renovate properties, including some that are not fully pre-leased. When we develop, construct and renovate properties, we assume the risk that actual costs will exceed our budgets, that we will experience delays and that projected leasing will not occur, any of which could adversely affect our financial performance and our ability to make distributions to our shareholders; the risk of projected leasing not occurring has increased as a result of the current economic conditions. In addition, we generally do not obtain construction financing commitments until the development stage of a project is complete and construction is about to commence. We may find that we are unable to obtain financing needed to continue with the construction activities for such projects.

Certain of our properties containing data centers contain space not suitable for lease other than as data centers, which could make it difficult to reposition them for alternative use. Certain of our properties contain data center space, which is highly specialized space containing extensive electrical and mechanical systems that are designed uniquely to run and maintain banks of computer servers. As a result, in the event we needed to reposition such data center space for another use, major renovations and expenditures could be required.

We may suffer adverse effects as a result of the indebtedness that we carry and the terms and covenants that relate to this debt. Many of our properties are pledged by us to support repayment on indebtedness. In addition, we rely on borrowings to fund some or all of the costs of new property acquisitions, construction and development activities and other items. Our organizational documents do not limit the amount of indebtedness that we may incur.

Payments of principal and interest on our debt may leave us with insufficient cash to operate our properties or pay distributions to our shareholders required to maintain our qualification as a REIT. We are also subject to the risks that:

- we may not be able to refinance our existing indebtedness, or may refinance on terms that are less favorable to us than the terms of our existing indebtedness;

- in the event of our default under the terms of our Revolving Credit Facility by us, our Operating Partnership could be restricted from making cash distributions to us, which could result in reduced distributions to our shareholders or the need for us to incur additional debt to fund these distributions; and

- if we are unable to pay our debt service on time or are unable to comply with restrictive financial covenants in certain of our debt, our lenders could foreclose on our properties securing such debt and, in some cases, other properties and assets that we own.

Some of our debt is cross-defaulted, which means that failure to pay interest or principal on a loan above a threshold value will create a default on certain of our other loans. In addition, some of our debt which is cross-defaulted also contains cross-collateralization provisions. Any foreclosure of our properties could result in loss of

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income and asset value that would negatively affect our financial condition, results of operations, cash flows and ability to make expected distributions to our shareholders. In addition, if we are in default and the value of the properties securing a loan is less than the loan balance, we may be required to pay the resulting shortfall to the lender using other assets.

As of December 31, 2008, 26.0% of our debt had variable interest rates, including the effect of interest rate swaps. If short-term interest rates were to rise, our debt service payments on this debt would increase, which would lower our net income and could decrease our distributions to our shareholders. We use interest rate swap agreements from time to time to reduce the impact of changes in interest rates. Decreases in interest rates would result in increased interest payments due under interest rate swap agreements in place and, in the event we decided to unwind such agreements, could result in our recognizing a loss and remitting a payment.

We must refinance our debt in the future. As of December 31, 2008, our scheduled debt payments over the next five years, including maturities, were as follows:

Year		**Amount (1) (in thousands)**
2009	$	103,982
2010		74,033
2011		746,081(2)
2012		263,600
2013		137,718

(1) Represents principal maturities only and therefore excludes premiums and discounts.

(2) Includes maturities totaling $473.8 million that may be extended for a one-year period, subject to certain conditions.

Our operations likely will not generate enough cash flow to repay some or all of this debt without additional borrowings or new equity issuances. If we cannot refinance our debt, extend the repayment dates, or raise additional equity prior to the dates when our debt matures, we would default on our existing debt, which would have an adverse effect on our financial position, results of operations, cash flows and ability to make expected distributions to our shareholders.

We have certain distribution requirements that reduce cash available for other business purposes. As discussed above, as a REIT, we must distribute at least 90% of our annual taxable income (excluding capital gains), which limits the amount of cash we can retain for other business purposes, including amounts to fund acquisitions and development activity. Also, it is possible that because of the differences between the time we actually receive revenue or pay expenses and the period during which we report those items for distribution purposes, we may have to borrow funds to meet the 90% distribution requirement. We may also become subject to tax liabilities that adversely affect our operating cash flow and available cash for distribution to shareholders.

We may be unable to continue to make shareholder distributions at expected levels. We intend to make regular quarterly cash distributions to our shareholders. However, distribution levels depend on a number of factors, some of which are beyond our control.

Some of our loan agreements contain provisions that could restrict future distributions. Our ability to sustain our current distribution level will also be dependent, in part, on other matters, including:

- continued property occupancy and timely receipt of rent obligations;
- the amount of future capital expenditures and expenses relating to our properties;
- the level of leasing activity and future rental rates;
- the strength of the commercial real estate market;
- our ability to compete;
- our costs of compliance with environmental and other laws;
- our corporate overhead levels;
- our amount of uninsured losses; and
- our decision to reinvest in operations rather than distribute available cash.

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In addition, we can make distributions to the holders of our common shares only after we make preferential distributions to holders of our preferred shares.

We may incur additional indebtedness, which may harm our financial position and cash flow and potentially impact our ability to pay dividends on any series of preferred shares. Our governing documents do not limit us from incurring additional indebtedness and other liabilities. As of December 31, 2008, we had $1.9 billion of consolidated indebtedness outstanding. We may incur additional indebtedness and become more highly leveraged, which could harm our financial position and potentially limit our cash available to pay dividends. As a result, we may not have sufficient funds remaining to satisfy our dividend obligations relating to any series of preferred shares if we incur additional indebtedness.

Our ability to pay dividends may be limited, and we cannot assure you that we will be able to pay dividends regularly. Because we conduct substantially all of our operations through our Operating Partnership, our ability to pay dividends will depend almost entirely on payments and dividends received on our interests in our Operating Partnership, the payment of which depends in turn on our ability to operate profitably and generate cash flow from our operations. We cannot guarantee that we will be able to pay dividends on a regular quarterly basis in the future. Additionally, the terms of some of the debt to which our Operating Partnership is a party limit its ability to make some types of payments and other dividends to us. This in turn limits our ability to make some types of payments, including payment of dividends on common or preferred shares, unless we meet certain financial tests or such payments or dividends are required to maintain our qualification as a REIT. As a result, if we are unable to meet the applicable financial tests, we may not be able to pay dividends on our shares in one or more periods. Furthermore, any new shares of beneficial interest issued will substantially increase the cash required to continue to pay cash dividends at current levels. Any common or preferred shares of beneficial interest that may in the future be issued to finance acquisitions, upon exercise of options or otherwise, would have a similar effect.

Our ability to pay dividends on preferred shares is further limited by the requirements of Maryland law. Under applicable Maryland law, a Maryland REIT may not make a distribution if, after giving effect to the distribution, the REIT would not be able to pay its debts as the debts become due in the usual course of business, or the REIT s total assets would be less than the sum of its total liabilities plus the amount that would be needed, if the REIT were dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of shareholders whose preferential rights are superior to those receiving the distribution. Accordingly, we may not make a distribution on any series of preferred shares if, after giving effect to the distribution, we would not be able to pay our debts as they become due in the usual course of business or our total assets would be less than the sum of our total liabilities plus the amount that would be needed to satisfy the preferential rights upon dissolution of the holders of shares of any series of preferred shares then outstanding, if any, with preferences senior to those of any such series of preferred shares.

Real estate investments are illiquid, and we may not be able to sell our properties on a timely basis when we determine it is appropriate to do so. Real estate investments can be difficult to sell and convert to cash quickly, especially if market conditions are not favorable, and we may find that to be increasingly the case under the current economic conditions due to a lack of credit availability for potential buyers. Such illiquidity could limit our ability to quickly change our portfolio of properties in response to changes in economic or other conditions. Moreover, under certain circumstances, the Internal Revenue Code imposes certain penalties on a REIT that sells property held for less than two years and limits the number of properties it can sell in a given year. In addition, for certain of our properties that we acquired by issuing units in our Operating Partnership, we are restricted by agreements with the sellers of the properties for a certain period of time from entering into transactions (such as the sale or refinancing of the acquired property) that will result in a taxable gain to the sellers without the seller s consent. Due to these factors, we may be unable to sell a property at an advantageous time.

We may suffer economic harm as a result of the actions of our joint venture partners. We invest in certain entities in which we are not the exclusive investor or principal decision maker. As of December 31, 2008, we owned 18 fully operational properties and four properties under construction or redevelopment, and control land for future development, through joint ventures. We also may continue to pursue new investments in real estate through joint ventures. Aside from our inability to unilaterally control the operations of joint ventures, our investments in joint ventures entail the additional risks that (1) the other parties to these investments may not fulfill their financial obligations as investors, in which case we may need to fund such parties share of additional capital requirements and (2) the other parties to these investments may take actions that are inconsistent with our objectives, either of which could have an adverse effect on our financial condition, results of operations, cash flows and ability to make expected distributions to our shareholders.

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We may need to make additional cash outlays to protect our investment in loans we make that are subordinate to other loans. We have and may in the future make loans under which we have a secured interest in the ownership of a property that is subordinate to other loans on the property. If a default were to occur under the terms of any such loans with us or under the first mortgage loans related to the properties on such loans, we may be in a position where, in order to protect our investment, we would need to either (1) purchase the other loan or (2) foreclose on the ownership interest in the property and repay the first mortgage loan, either of which could have an adverse effect on our financial condition, results of operations, cash flows and ability to make expected distributions to our shareholders.

We may be subject to possible environmental liabilities. We are subject to various Federal, state and local environmental laws. These laws can impose liability on property owners or operators for the costs of removal or remediation of hazardous substances released on a property, even if the property owner was not responsible for the release of the hazardous substances. Costs resulting from environmental liability could be substantial. The presence of hazardous substances on our properties may also adversely affect occupancy and our ability to sell or borrow against those properties. In addition to the costs of government claims under environmental laws, private plaintiffs may bring claims for personal injury or other reasons. Additionally, various laws impose liability for the costs of removal or remediation of hazardous substances at the disposal or treatment facility. Anyone who arranges for the disposal or treatment of hazardous substances at such a facility is potentially liable under such laws. These laws often impose liability on an entity even if the facility was not owned or operated by the entity.

We may be subject to other possible liabilities that would adversely affect our financial position and cash flows. Our properties may be subject to other risks related to current or future laws, including laws benefiting disabled persons, and state or local laws relating to zoning, construction and other matters. These laws may require significant property modifications in the future for which we may not have budgeted and could result in the levy of fines against us. In addition, although we believe that we adequately insure our properties, we are subject to the risk that our insurance may not cover all of the costs to restore a property that is damaged by a fire or other catastrophic events, including acts of war or terrorism. The occurrence of any of these events could have an adverse effect on our financial condition, results of operations, cash flows and ability to make expected distributions to our shareholders.

We may be subject to increased costs of insurance and limitations on coverage regarding acts of terrorism. Our portfolio of properties is insured for losses under our property, casualty and umbrella insurance policies through September 30, 2009. These policies include coverage for acts of terrorism. Future changes in the insurance industry s risk assessment approach and pricing structure may increase the cost of insuring our properties and decrease the scope of insurance coverage, either of which could adversely affect our financial position and operating results.

Our ownership limits are important factors. Our Declaration of Trust limits ownership of our common shares by any single shareholder to 9.8% of the number of the outstanding common shares or 9.8% of the value of the outstanding common shares, whichever is more restrictive. Our Declaration of Trust also limits ownership by any single shareholder of our common and preferred shares in the aggregate to 9.8% of the aggregate value of the outstanding common and preferred shares. We call these restrictions the Ownership Limit. Our Declaration of Trust allows our Board of

Trustees to exempt shareholders from the Ownership Limit.

Our Declaration of Trust includes other provisions that may prevent or delay a change of control. Subject to the requirements of the New York Stock Exchange, our Board of Trustees has the authority, without shareholder approval, to issue additional securities on terms that could delay or prevent a change in control. In addition, our Board of Trustees has the authority to reclassify any of our unissued common shares into preferred shares. Our Board of Trustees may issue preferred shares with such preferences, rights, powers and restrictions as our Board of Trustees may determine, which could also delay or prevent a change in control.

The Maryland business statutes also impose potential restrictions on a change of control of our company. Various Maryland laws may have the effect of discouraging offers to acquire us, even if the acquisition would be advantageous to shareholders. Resolutions adopted by our Board of Trustees and/or provisions of our bylaws exempt us from such laws, but our Board of Trustees can alter its resolutions or change our bylaws at any time to make these provisions applicable to us.

Our failure to qualify as a REIT would have adverse tax consequences. We believe that since 1992 we have qualified for taxation as a REIT for Federal income tax purposes. We plan to continue to meet the requirements for

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taxation as a REIT. Many of these requirements, however, are highly technical and complex. The determination that we are a REIT requires an analysis of various factual matters and circumstances that may not be totally within our control. For example, to qualify as a REIT, at least 95% of our gross income must come from certain sources that are specified in the REIT tax laws. We are also required to distribute to shareholders at least 90% of our REIT taxable income (excluding capital gains). The fact that we hold most of our assets through our Operating Partnership and its subsidiaries further complicates the application of the REIT requirements. Even a technical or inadvertent mistake could jeopardize our REIT status. Furthermore, Congress and the Internal Revenue Service might make changes to the tax laws and regulations and the courts might issue new rulings that make it more difficult or impossible for us to remain qualified as a REIT.

If we fail to qualify as a REIT, we would be subject to Federal income tax at regular corporate rates. Also, unless the Internal Revenue Service granted us relief under certain statutory provisions, we would remain disqualified as a REIT for four years following the year we first fail to qualify. If we fail to qualify as a REIT, we would have to pay significant income taxes and would therefore have less money available for investments or for distributions to our shareholders. This would likely have a significant adverse effect on the value of our securities.

A number of factors could cause our security prices to decline. As is the case with any publicly-traded securities, certain factors outside of our control could influence the value of our common and preferred shares. These conditions include, but are not limited to:

- market perception of REITs in general and office REITs in particular;
- market perception of REITs relative to other investment opportunities;
- the level of institutional investor interest in our Company;
- general economic and business conditions;
- prevailing interest rates; and
- market perception of our financial condition, performance, dividends and growth potential.

Generally, REITs are tax-advantaged relative to C corporations because they generally are not subject to corporate-level Federal income tax on income that they distribute to shareholders. However, Congress made changes to the tax laws and regulations that could make it less advantageous for investors to invest in REITs. The Jobs and Growth Tax Relief Reconciliation Act of 2003, or the (2003 Act), provides that generally for taxable years beginning after December 31, 2002 and before December 31, 2008, certain dividends received by domestic individual shareholders from certain C corporations are subject to a reduced rate of tax of up to 15%. Prior to the 2003 Act, such dividends received by domestic individual shareholders were generally subject to tax at ordinary income rates, which were as high as 38.6%. In general, the provisions of the 2003 Act do not benefit individual shareholders of REITs and could make an investment in a C corporation that is not a REIT more attractive than an investment in a REIT.

The average daily trading volume of our common shares during the year ended December 31, 2008 was approximately 733,000 shares, and the average trading volume of our publicly-traded preferred shares is generally insignificant. As a result, relatively small volumes of transactions could have a pronounced effect on the market price of such shares.

We may experience significant losses and harm to our financial condition if any of financial institutions holding our cash and cash equivalents files for bankruptcy protection. We maintain our cash and cash equivalents with high quality financial institutions. Accounts at each institution are insured by the FDIC up to $250,000 under the recently increased limit that the U.S. Congress has temporarily granted until December 31, 2009. We have not experienced any losses to date on our deposited cash. However, we may incur significant losses and harm to our financial condition in the future if any of these financial institutions files for bankruptcy protection.

Certain of our Trustees have potential conflicts of interest. Certain members of our Board of Trustees own partnership units in our Operating Partnership. These individuals may have personal interests that conflict with the interests of our shareholders. For example, if our Operating Partnership sells or refinances certain of the properties that these Trustees contributed to the Operating Partnership, the Trustees could suffer adverse tax consequences. Their personal interests could conflict with our interests if such a sale or refinancing would be advantageous to us. We have certain policies in place that are designed to minimize conflicts of interest. We cannot, however, assure you that these policies will be successful in eliminating the influence of such conflicts, and if they are not successful, decisions could be made that might fail to reflect fully the interests of all of our shareholders.

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We are dependent on our key personnel, and the loss of any key personnel could have an adverse effect on our operations. We are dependent on the efforts of our executive officers. The loss of any of their services could have an adverse effect on our operations. Although certain of our officers have entered into employment agreements with us, we cannot assure you that they will remain employed with us.

We may change our policies without shareholder approval, which could adversely affect our financial condition, results of operations, market price of our common shares or ability to pay distributions. Our Board of Trustees determines all of our policies, including our investment, financing and distribution policies. Although our Board of Trustees has no current plans to do so, it may amend or revise these policies at any time without a vote of our shareholders. Policy changes could adversely affect our financial condition, results of operations, the market price of our securities or distributions.

Compliance with changing regulation of corporate governance and public disclosure may result in additional expenses, affect our operations and affect our reputation. Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002 and new SEC regulations and New York Stock Exchange rules, continue to create uncertainty for public companies. These new or changed laws, regulations and standards are subject to varying interpretations in many cases due to their lack of specificity, and as a result, their application in practice is evolving over time as new guidance is provided by regulatory and governing bodies, which could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We are committed to maintaining high standards of corporate governance and public disclosure. As a result, our efforts to comply with evolving laws, regulations and standards have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. In particular, our efforts to comply with Section 404 of the Sarbanes-Oxley Act of 2002 and the related regulations regarding our required assessment of our internal controls over financial reporting has required the commitment of significant financial and managerial resources. In addition, it has become more expensive for us to obtain director and officer liability insurance. We expect these efforts to require the continued commitment of significant resources. Further, our Trustees, Chief Executive Officer and Chief Financial Officer could face an increased risk of personal liability in connection with the performance of their duties. As a result, we may have difficulty attracting and retaining qualified Trustees and executive officers, which could harm our business. If our efforts to comply with new or changed laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, our reputation may be harmed.

Our business and operations would suffer in the event of system failures. Despite system redundancy, the implementation of security measures and the existence of a disaster recovery plan for our internal information technology systems, our systems are vulnerable to damages from computer viruses, unauthorized access, energy blackouts, natural disasters, terrorism, war and telecommunication failures. Any system failure or accident that causes interruptions in our operations could result in a material disruption to our business. We may also incur additional costs to remedy damages caused by such disruptions.

Item 1B. Unresolved Staff Comments

None

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Item 2. Properties

The following table provides certain information about our wholly owned office properties as of December 31, 2008:

Property and Location	Submarket	Year Built/ Renovated	Rentable Square Feet	Occupancy (1)	Annualized Rental Revenue (2)	Annualized Rental Revenue per Occupied Square Foot (2) (3)
Baltimore/Washington Corridor:						
2730 Hercules Road *Annapolis Junction, MD*	BWI Airport	1990	240,336	100.0%	$ 7,555,106	$ 31.44
304 Sentinel Drive *Annapolis Junction, MD*	BWI Airport	2005	162,498	100.0%	4,669,036	28.73
306 Sentinel Drive *Annapolis Junction, MD*	BWI Airport	2006	157,896	100.0%	4,649,375	29.45
2720 Technology Drive *Annapolis Junction, MD*	BWI Airport	2004	156,730	100.0%	7,196,403	45.92
2711 Technology Drive *Annapolis Junction, MD*	BWI Airport	2002	152,112	100.0%	4,452,696	29.27
320 Sentinel Way *Annapolis Junction, MD*	BWI Airport	2007	125,681	100.0%	3,239,679	25.78
318 Sentinel Way *Annapolis Junction, MD*	BWI Airport	2005	125,681	100.0%	3,996,241	31.80
322 Sentinel Way *Annapolis Junction, MD*	BWI Airport	2006	125,568	100.0%	4,234,445	33.72
140 National Business Parkway *Annapolis Junction, MD*	BWI Airport	2003	119,904	100.0%	3,755,173	31.32
132 National Business Parkway *Annapolis Junction, MD*	BWI Airport	2000	118,598	100.0%	3,532,712	29.79
2721 Technology Drive *Annapolis Junction, MD*	BWI Airport	2000	117,447	100.0%	3,506,612	29.86
2701 Technology Drive *Annapolis Junction, MD*	BWI Airport	2001	117,450	100.0%	3,472,494	29.57
1306 Concourse Drive *Linthicum, MD*	BWI Airport	1990	114,046	94.0%	2,707,181	25.26
870-880 Elkridge Landing Road *Linthicum, MD*	BWI Airport	1981	105,151	100.0%	2,371,916	22.56
2691 Technology Drive *Annapolis Junction, MD*	BWI Airport	2005	103,683	100.0%	2,839,282	27.38
1304 Concourse Drive *Linthicum, MD*	BWI Airport	2002	101,753	82.8%	2,245,256	26.65
900 Elkridge Landing Road *Linthicum, MD*	BWI Airport	1982	97,261	100.0%	2,479,057	25.49
1199 Winterson Road *Linthicum, MD*	BWI Airport	1988	96,636	100.0%	2,468,972	25.55
920 Elkridge Landing Road *Linthicum, MD*	BWI Airport	1982	96,566	100.0%	1,817,587	18.82
134 National Business Parkway *Annapolis Junction, MD*	BWI Airport	1999	93,482	100.0%	2,647,004	28.32
135 National Business Parkway *Annapolis Junction, MD*	BWI Airport	1998	87,422	100.0%	2,740,371	31.35
133 National Business Parkway *Annapolis Junction, MD*	BWI Airport	1997	87,253	87.5%	2,230,008	29.20
141 National Business Parkway	BWI Airport	1990	87,206	100.0%	2,601,003	29.83

Annapolis Junction, MD						
1302 Concourse Drive *Linthicum, MD*	BWI Airport	1996	85,117	87.3%	1,870,674	25.18
7467 Ridge Road *Hanover, MD*	BWI Airport	1990	74,326	88.3%	1,639,409	24.99
7240 Parkway Drive *Hanover, MD*	BWI Airport	1985	74,160	86.8%	1,364,562	21.20
881 Elkridge Landing Road *Linthicum, MD*	BWI Airport	1986	73,572	100.0%	1,718,097	23.35
1099 Winterson Road *Linthicum, MD*	BWI Airport	1988	70,569	20.7%	369,598	25.26
1190 Winterson Road *Linthicum, MD*	BWI Airport	1987	69,127	78.7%	1,547,361	28.44
131 National Business Parkway *Annapolis Junction, MD*	BWI Airport	1990	69,039	86.5%	1,738,323	29.09

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Property and Location	Submarket	Year Built/ Renovated	Rentable Square Feet	Occupancy (1)	Annualized Rental Revenue (2)	Annualized Rental Revenue per Occupied Square Foot (2) (3)
849 International Drive *Linthicum, MD*	BWI Airport	1988	68,791	84.1%	1,553,447	26.84
911 Elkridge Landing Road *Linthicum, MD*	BWI Airport	1985	68,296	100.0%	1,606,322	23.52
1201 Winterson Road *Linthicum, MD*	BWI Airport	1985	67,903	100.0%	1,307,133	19.25
999 Corporate Boulevard *Linthicum, MD*	BWI Airport	2000	67,455	91.8%	1,844,196	29.78
7272 Park Circle Drive *Hanover, MD*	BWI Airport	1991/1996	59,436	73.6%	1,008,155	23.04
7318 Parkway Drive *Hanover, MD*	BWI Airport	1984	59,204	100.0%	1,153,651	19.49
891 Elkridge Landing Road *Linthicum, MD*	BWI Airport	1984	58,454	91.1%	1,250,431	23.48
7320 Parkway Drive *Hanover, MD*	BWI Airport	1983	58,453	26.8%	224,947	14.38
901 Elkridge Landing Road *Linthicum, MD*	BWI Airport	1984	57,617	90.4%	1,233,713	23.70
930 International Drive *Linthicum, MD*	BWI Airport	1986	57,409	40.5%	503,257	21.63
800 International Drive *Linthicum, MD*	BWI Airport	1988	57,379	100.0%	1,163,833	20.28
900 International Drive *Linthicum, MD*	BWI Airport	1986	57,140	100.0%	895,846	15.68
921 Elkridge Landing Road *Linthicum, MD*	BWI Airport	1983	54,175	100.0%	1,118,009	20.64
939 Elkridge Landing Road *Linthicum, MD*	BWI Airport	1983	53,218	94.9%	1,044,220	20.67
938 Elkridge Landing Road *Linthicum, MD*	BWI Airport	1984	52,988	100.0%	1,215,015	22.93
302 Sentinel Drive *Annapolis Junction, MD*	BWI Airport	2007	155,731	78.9%	3,918,028	31.89
1340 Ashton Road *Hanover, MD*	BWI Airport	1989	46,400	100.0%	917,488	19.77
1334 Ashton Road *Hanover, MD*	BWI Airport	1989	37,565	36.7%	261,855	18.99
1331 Ashton Road *Hanover, MD*	BWI Airport	1989	29,153	100.0%	531,956	18.25
5522 Research Park Drive *Catonsville, MD*	BWI Airport	2007	23,500	100.0%	614,231	26.14
1350 Dorsey Road *Hanover, MD*	BWI Airport	1989	19,992	52.9%	208,406	19.70
1344 Ashton Road *Hanover, MD*	BWI Airport	1989	17,062	100.0%	492,421	28.86
1341 Ashton Road *Hanover, MD*	BWI Airport	1989	15,841	100.0%	333,462	21.05
1343 Ashton Road *Hanover, MD*	BWI Airport	1989	9,962	0.0%		
1362 Mellon Road *Hanover, MD*	BWI Airport	2006	43,295	0.0%		
114 National Business Parkway *Annapolis Junction, MD*	BWI Airport	2002	9,908	100.0%	216,814	21.88
314 Sentinel Way *Annapolis Junction, MD*	BWI Airport	2008	4,462	100.0%	128,223	28.74
1348 Ashton Road *Hanover, MD*	BWI Airport	1988	3,108	100.0%	86,040	27.68
7125 Columbia Gateway Drive	Howard County	1973/1999	612,109	97.4%	9,059,933	15.20

Columbia, MD	Perimeter					
Old Annapolis Road *Columbia, MD*	Howard County Perimeter	1974/1985	171,436	100.0%	6,495,384	37.89
7200 Riverwood Drive *Columbia, MD*	Howard County Perimeter	1986	160,000	100.0%	4,240,000	26.50
7000 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	1999	145,806	100.0%	1,585,527	10.87
6731 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	2002	123,911	84.8%	2,888,713	27.49
6711 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	2006-2007	123,599	91.2%	3,122,330	27.69
6940 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	1999	109,003	98.2%	2,827,403	26.41
6950 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	1998	107,778	100.0%	2,557,606	23.73

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Property and Location	Submarket	Year Built/ Renovated	Rentable Square Feet	Occupancy (1)	Annualized Rental Revenue (2)	Annualized Rental Revenue per Occupied Square Foot (2) (3)
8621 Robert Fulton Drive *Columbia, MD*	Howard County Perimeter	2005-2006	86,033	100.0%	1,712,479	19.90
7067 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	2001	86,055	76.5%	1,462,628	22.23
6750 Alexander Bell Drive *Columbia, MD*	Howard County Perimeter	2001	79,135	63.9%	1,364,728	26.98
6700 Alexander Bell Drive *Columbia, MD*	Howard County Perimeter	1988	74,852	97.4%	1,752,890	24.05
6740 Alexander Bell Drive *Columbia, MD*	Howard County Perimeter	1992	63,480	100.0%	1,631,119	25.70
7160 Riverwood Drive *Columbia, MD*	Howard County Perimeter	2000	62,084	93.6%	1,256,029	21.61
7015 Albert Einstein Drive *Columbia, MD*	Howard County Perimeter	1999	61,203	100.0%	905,296	14.79
8671 Robert Fulton Drive *Columbia, MD*	Howard County Perimeter	2002	56,350	100.0%	1,093,869	19.41
6716 Alexander Bell Drive *Columbia, MD*	Howard County Perimeter	1990	52,005	94.8%	989,936	20.08
8661 Robert Fulton Drive *Columbia, MD*	Howard County Perimeter	2002	49,307	100.0%	890,112	18.05
9020 Mendenhall Court *Columbia, MD*	Howard County Perimeter	1982/2005	49,217	88.6%	613,093	14.06
7130 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	1989	46,460	100.0%	878,269	18.90
7142 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	1994	47,668	100.0%	683,284	14.33
9140 Guilford Road *Columbia, MD*	Howard County Perimeter	1983	41,511	79.1%	569,041	17.34
7150 Riverwood Drive *Columbia, MD*	Howard County Perimeter	2000	41,382	100.0%	772,204	18.66
9720 Patuxent Woods Drive *Columbia, MD*	Howard County Perimeter	1986/2001	40,004	84.8%	567,152	16.71
6708 Alexander Bell Drive *Columbia, MD*	Howard County Perimeter	1988	39,203	100.0%	856,764	21.85
7065 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	2000	38,560	100.0%	766,653	19.88
9740 Patuxent Woods Drive *Columbia, MD*	Howard County Perimeter	1986/2001	38,292	100.0%	455,410	11.89
7138 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	1990	38,225	100.0%	844,286	22.09
9160 Guilford Road *Columbia, MD*	Howard County Perimeter	1984	37,034	100.0%	764,721	20.65
7063 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	2000	36,813	100.0%	855,600	23.24
6760 Alexander Bell Drive *Columbia, MD*	Howard County Perimeter	1991	36,440	100.0%	889,099	24.40
7150 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	1991	35,812	100.0%	654,244	18.27
9700 Patuxent Woods Drive *Columbia, MD*	Howard County Perimeter	1986/2001	31,261	91.5%	648,084	22.67
9730 Patuxent Woods Drive *Columbia, MD*	Howard County Perimeter	1986/2001	31,012	100.0%	523,757	16.89
7061 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	2000	29,910	100.0%	669,328	22.38
7170 Riverwood Drive *Columbia, MD*	Howard County Perimeter	2000	29,162	87.9%	548,115	21.39
6724 Alexander Bell Drive	Howard County	2001	28,420	100.0%	729,247	25.66

Columbia, MD	Perimeter					
7134 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	1990	21,991	100.0%	411,946	18.73
9150 Guilford Drive *Columbia, MD*	Howard County Perimeter	1984	18,592	100.0%	368,442	19.82
10280 Old Columbia Road *Columbia, MD*	Howard County Perimeter	1988/2001	16,796	100.0%	277,547	16.52
10270 Old Columbia Road *Columbia, MD*	Howard County Perimeter	1988/2001	16,686	100.0%	291,991	17.50
9710 Patuxent Woods Drive *Columbia, MD*	Howard County Perimeter	1986/2001	15,229	100.0%	351,428	23.08
9130 Guilford Drive *Columbia, MD*	Howard County Perimeter	1984	13,700	100.0%	256,086	18.69
10290 Old Columbia Road *Columbia, MD*	Howard County Perimeter	1988/2001	10,890	77.3%	165,478	19.66
6741 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	2008	4,592	100.0%	154,521	33.65

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Property and Location	Submarket	Year Built/ Renovated	Rentable Square Feet	Occupancy (1)		Annualized Rental Revenue (2)		Annualized Rental Revenue per Occupied Square Foot (2) (3)
2500 Riva Road *Annapolis, MD*	Annapolis	2000	155,000	100.0%		2,131,596		13.75
Subtotal/Average			**7,834,175**	**93.4%**	**$**	**180,020,100**	**$**	**24.61**
Suburban Maryland:								
11800 Tech Road *Silver Spring, MD*	North Silver Spring	1969/1989	228,179	100.0%	$	4,190,385	$	18.36
400 Professional Drive *Gaithersburg, MD*	Gaithersburg	2000	129,355	98.4%		3,846,747		30.21
110 Thomas Johnson Drive *Frederick, MD*	Frederick	1987/1999	117,803	88.4%		2,564,786		24.64
45 West Gude Drive *Rockville, MD*	Rockville	1987	108,588	100.0%		2,162,688		19.92
15 West Gude Drive *Rockville, MD*	Rockville	1986	106,694	100.0%		2,625,242		24.61
Subtotal/Average			**690,619**	**97.7%**	**$**	**15,389,848**	**$**	**22.80**
Suburban Baltimore:								
11311 McCormick Road *Hunt Valley, MD*	Hunt Valley/Rte 83 Corridor	1984/1994	215,364	78.1%	$	3,585,555	$	21.31
10150 York Road *Hunt Valley, MD*	Hunt Valley/Rte 83 Corridor	1985	178,286	100.0%		3,601,892		20.20
9690 Deereco Road *Timonium, MD*	Hunt Valley/Rte 83 Corridor	1988	134,167	100.0%		3,582,088		26.70
200 International Circle *Hunt Valley, MD*	Hunt Valley/Rte 83 Corridor	1987	127,196	72.6%		2,066,306		22.36
375 W. Padonia Road *Timonium, MD*	Hunt Valley/Rte 83 Corridor	1986	110,378	91.4%		1,679,319		16.64
226 Schilling Circle *Hunt Valley, MD*	Hunt Valley/Rte 83 Corridor	1980	98,640	100.0%		2,296,627		23.28
201 International Circle *Hunt Valley, MD*	Hunt Valley/Rte 83 Corridor	1982	78,461	86.1%		1,507,901		22.33
11011 McCormick Road *Hunt Valley, MD*	Hunt Valley/Rte 83 Corridor	1974	58,412	52.7%				
216 Schilling Circle *Hunt Valley, MD*	Hunt Valley/Rte 83 Corridor	1988/2001	36,003	80.7%		619,666		21.33
222 Schilling Circle *Hunt Valley, MD*	Hunt Valley/Rte 83 Corridor	1978/1997	28,805	64.8%		380,783		20.41
224 Schilling Circle *Hunt Valley, MD*	Hunt Valley/Rte 83 Corridor	1978/1997	27,372	84.0%		416,688		18.13
11101 McCormick Road *Hunt Valley, MD*	Hunt Valley/Rte 83 Corridor	1976	24,232	88.4%		396,323		18.50
7210 Ambassador Road *Woodlawn, MD*	Baltimore County Westside	1972	83,435	100.0%		934,034		11.19

7152 Windsor Boulevard *Woodlawn, MD*	Baltimore County Westside	1986	57,855	100.0%	915,717	15.83
21 Governor s Court *Woodlawn, MD*	Baltimore County Westside	1981/1995	56,714	47.1%	472,775	17.70
7125 Ambassador Road *Woodlawn, MD*	Baltimore County Westside	1985	50,604	84.9%	851,437	19.81
7104 Ambassador Road *Woodlawn, MD*	Baltimore County Westside	1988	30,257	100.0%	543,645	17.97
17 Governor s Court *Woodlawn, MD*	Baltimore County Westside	1981	14,619	100.0%	261,296	17.87
15 Governor s Court *Woodlawn, MD*	Baltimore County Westside	1981	14,568	100.0%	240,371	16.50
7127 Ambassador Road *Woodlawn, MD*	Baltimore County Westside	1985	11,630	62.2%	130,230	18.00
7129 Ambassador Road *Woodlawn, MD*	Baltimore County Westside	1985	11,075	100.0%	176,812	15.96
7108 Ambassador Road *Woodlawn, MD*	Baltimore County Westside	1988	9,018	47.1%	75,398	17.77
7102 Ambassador Road *Woodlawn, MD*	Baltimore County Westside	1988	8,879	100.0%	178,858	20.14
7106 Ambassador Road *Woodlawn, MD*	Baltimore County Westside	1988	8,858	52.6%	89,101	19.11
7131 Ambassador Road *Woodlawn, MD*	Baltimore County Westside	1985	7,453	100.0%	132,104	17.72
502 Washington Avenue *Towson, MD*	Towson	1984	91,343	67.3%	1,335,632	21.72

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Property and Location	Submarket	Year Built/ Renovated	Rentable Square Feet	Occupancy (1)	Annualized Rental Revenue (2)	Annualized Rental Revenue per Occupied Square Foot (2) (3)
102 West Pennsylvania Avenue *Towson, MD*	Towson	1968/2001	49,091	91.6%	902,337	20.06
100 West Pennsylvania Avenue *Towson, MD*	Towson	1952/1989	18,715	66.9%	220,931	17.66
109-111 Allegheny Avenue *Towson, MD*	Towson	1971	18,431	100.0%	283,557	15.38
10001 Franklin Square Drive *White Marsh, MD*	White Marsh	1997	216,915	64.7%	1,232,091	8.78
8140 Corporate Drive *White Marsh, MD*	White Marsh	2003	76,116	98.6%	1,900,976	25.32
8110 Corporate Drive *White Marsh, MD*	White Marsh	2001	75,687	100.0%	1,662,633	21.97
8031 Corporate Drive *White Marsh, MD*	White Marsh	1988/2004	66,000	100.0%	1,138,584	17.25
7941-7949 Corporate Drive *White Marsh, MD*	White Marsh	1996	57,600	100.0%	737,100	12.80
9910 Franklin Square Drive *White Marsh, MD*	White Marsh	2005	56,271	100.0%	1,191,732	21.18
8020 Corporate Drive *White Marsh, MD*	White Marsh	1997	51,600	100.0%		
8094 Sandpiper Circle *White Marsh, MD*	White Marsh	1998	50,812	100.0%	1,081,901	21.29
4979 Mercantile Road *White Marsh, MD*	White Marsh	1985	50,498	100.0%	791,996	15.68
4940 Campbell Boulevard *White Marsh, MD*	White Marsh	1990	49,888	85.3%	950,085	22.32
8098 Sandpiper Circle *White Marsh, MD*	White Marsh	1998	47,680	100.0%	813,696	17.07
4969 Mercantile Road *White Marsh, MD*	White Marsh	1983	47,574	100.0%	830,061	17.45
8114 Sandpiper Circle *White Marsh, MD*	White Marsh	1986	45,008	83.4%	961,924	25.63
5020 Campbell Boulevard *White Marsh, MD*	White Marsh	1986-1988	44,362	65.4%	425,535	14.68
9920 Franklin Square Drive *White Marsh, MD*	White Marsh	2006	43,574	85.6%	367,952	9.86
8007 Corporate Drive *White Marsh, MD*	White Marsh	1995	43,068	85.3%	719,629	19.60
9930 Franklin Square Drive *White Marsh, MD*	White Marsh	2001	39,750	100.0%	868,613	21.85
8010 Corporate Drive *White Marsh, MD*	White Marsh	1998	39,351	19.2%	150,560	19.93
8615 Ridgely s Choice Drive *White Marsh, MD*	White Marsh	2005	37,840	62.6%	487,093	20.57
5325 Nottingham Ridge Road *White Marsh, MD*	White Marsh	2002	36,626	76.9%	619,599	21.99
8013 Corporate Drive *White Marsh, MD*	White Marsh	1990	30,003	27.6%	136,195	16.44
9900 Franklin Square Drive *White Marsh, MD*	White Marsh	1999	33,912	88.8%	570,887	18.96
5024 Campbell Boulevard *White Marsh, MD*	White Marsh	1986-1988	33,858	93.8%	508,419	16.01
9940 Franklin Square Drive *White Marsh, MD*	White Marsh	2000	32,293	65.2%	414,064	19.68
5026 Campbell Boulevard	White Marsh	1986-1988	30,868	73.6%	465,027	20.46

White Marsh, MD						
7939 Honeygo Boulevard *White Marsh, MD*	White Marsh	1984	28,066	90.3%	559,548	22.09
8133 Perry Hall Boulevard *White Marsh, MD*	White Marsh	1988	27,860	89.1%	494,647	19.93
5022 Campbell Boulevard *White Marsh, MD*	White Marsh	1986-1988	27,358	81.7%	392,698	17.57
8019 Corporate Drive *White Marsh, MD*	White Marsh	1990	33,274	76.5%	496,425	19.50
8029 Corporate Drive *White Marsh, MD*	White Marsh	1988/2004	25,000	100.0%	434,073	17.36
7923 Honeygo Boulevard *White Marsh, MD*	White Marsh	1985	24,054	100.0%	478,017	19.87
8003 Corporate Drive *White Marsh, MD*	White Marsh	1999	18,327	100.0%	378,784	20.67
8015 Corporate Drive *White Marsh, MD*	White Marsh	1990	16,610	79.5%	268,897	20.36
8023 Corporate Drive *White Marsh, MD*	White Marsh	1990	9,486	100.0%	143,134	15.09
Subtotal/Average			**3,207,050**	**83.1%**	**$ 50,549,958**	**$ 18.96**

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Property and Location	Submarket	Year Built/ Renovated	Rentable Square Feet	Occupancy (1)		Annualized Rental Revenue (2)		Annualized Rental Revenue per Occupied Square Foot (2) (3)
Greater Philadelphia:								
753 Jolly Road *Blue Bell, PA*	Blue Bell	1960/92-94	419,472	100.0%	$	4,277,607	$	10.20
785 Jolly Road *Blue Bell, PA*	Blue Bell	1970/1996	219,065	100.0%		2,564,958		11.71
760 Jolly Road *Blue Bell, PA*	Blue Bell	1974/1994	208,854	100.0%		3,129,480		14.98
751 Jolly Road *Blue Bell, PA*	Blue Bell	1966/1991	112,958	100.0%		1,151,900		10.20
Subtotal/Average			**960,349**	**100.0%**	**$**	**11,123,945**	**$**	**11.58**
Central New Jersey:								
431 Ridge Road *Dayton, NJ*	Exit 8A - Cranbury	1958/1998	171,200	100.0%	$	2,026,924	$	11.84
437 Ridge Road *Dayton, NJ*	Exit 8A - Cranbury	1962/1996	30,000	100.0%		313,524		10.45
Subtotal/Average			**201,200**	**100.0%**	**$**	**2,340,448**	**$**	**11.63**
Northern Virginia:								
15000 Conference Center Drive *Chantilly, VA*	Dulles South	1989	470,406	100.0%	$	11,580,327	$	24.62
15010 Conference Center Drive *Chantilly, VA*	Dulles South	2006	223,610	100.0%		6,308,761		28.21
15059 Conference Center Drive *Chantilly, VA*	Dulles South	2000	145,224	100.0%		4,509,273		31.05
15049 Conference Center Drive *Chantilly, VA*	Dulles South	1997	145,053	100.0%		4,393,414		30.29
14900 Conference Center Drive *Chantilly, VA*	Dulles South	1999	127,857	100.0%		3,550,318		27.78
14280 Park Meadow Drive *Chantilly, VA*	Dulles South	1999	114,126	100.0%		3,234,048		28.34
4851 Stonecroft Boulevard *Chantilly, VA*	Dulles South	2004	88,094	100.0%		2,562,239		29.09
14850 Conference Center Drive *Chantilly, VA*	Dulles South	2000	69,711	100.0%		2,223,894		31.90
14840 Conference Center Drive *Chantilly, VA*	Dulles South	2000	69,710	100.0%		2,047,400		29.37
13200 Woodland Park Drive *Herndon, VA*	Herndon	2002	404,665	100.0%		11,629,320		28.74
2900 Towerview Road *Herndon, VA*	Herndon	1982	137,037	57.0%		975,605		12.48
13454 Sunrise Valley Road *Herndon, VA*	Herndon	1998	112,633	100.0%		2,903,183		25.78
13450 Sunrise Valley Road *Herndon, VA*	Herndon	1998	53,728	98.6%		1,345,768		25.40
1751 Pinnacle Drive *McLean, VA*	Tysons Corner	1989/1995	260,469	96.5%		8,463,224		33.68
1753 Pinnacle Drive	Tysons Corner	1976/2004	186,707	100.0%		6,614,772		35.43

McLean, VA								
Subtotal/Average			**2,609,030**	**97.4%**	**$**	**72,341,546**	**$**	**28.48**
St. Mary s & King George Counties:								
22309 Exploration Drive *Lexington Park, MD*	St. Mary s County	1984/1997	98,860	100.0%	$	1,434,851	$	14.51
46579 Expedition Drive *Lexington Park, MD*	St. Mary s County	2002	61,156	100.0%		1,319,028		21.57
22289 Exploration Drive *Lexington Park, MD*	St. Mary s County	2000	61,059	88.9%		1,084,163		19.98
46591 Expedition Drive *Lexington Park, MD*	St. Mary s County	2005-2006	59,483	89.1%		1,028,934		19.42
44425 Pecan Court *California, MD*	St. Mary s County	1997	59,055	83.4%		948,597		19.27
22299 Exploration Drive *Lexington Park, MD*	St. Mary s County	1998	58,231	93.9%		1,244,919		22.77
44408 Pecan Court *California, MD*	St. Mary s County	1986	50,532	100.0%		603,140		11.94
23535 Cottonwood Parkway *California, MD*	St. Mary s County	1984	46,656	100.0%		543,170		11.64
22300 Exploration Drive *Lexington Park, MD*	St. Mary s County	1997	44,830	100.0%		711,843		15.88

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Property and Location	Submarket	Year Built/ Renovated	Rentable Square Feet	Occupancy (1)		Annualized Rental Revenue (2)		Annualized Rental Revenue per Occupied Square Foot (2) (3)
44417 Pecan Court *California, MD*	St. Mary s County	1989	29,053	100.0%		287,276		9.89
44414 Pecan Court *California, MD*	St. Mary s County	1986	25,444	100.0%		250,864		9.86
44420 Pecan Court *California, MD*	St. Mary s County	1989	25,200	100.0%		183,268		7.27
16480 Commerce Drive *Dahlgren, VA*	King George County	2000	70,728	100.0%		1,283,525		18.15
16541 Commerce Drive *King George, VA*	King George County	1996	36,053	89.4%		584,538		18.14
16539 Commerce Drive *King George, VA*	King George County	1990	32,076	70.9%		326,808		14.36
16442 Commerce Drive *Dahlgren, VA*	King George County	2002	25,518	100.0%		518,467		20.32
16501 Commerce Drive *Dahlgren, VA*	King George County	2002	22,833	100.0%		462,684		20.26
16543 Commerce Drive *Dahlgren, VA*	King George County	2002	17,370	100.0%		401,848		23.13
Subtotal/Average			**824,137**	**95.2%**	**$**	**13,217,923**	**$**	**16.85**
San Antonio:								
7700 Potranco Road *San Antonio, TX*	San Antonio	1982/1985	508,412	100.0%	$	8,042,300	$	15.82
7700 Potranco Road *San Antonio, TX*	San Antonio	2007	8,674	100.0%		283,215		32.65
1560 Cable Ranch Road *San Antonio, TX*	San Antonio	2008	122,975	100.0%		1,529,222		12.44
Subtotal/Average			**640,061**	**100.0%**	**$**	**9,854,737**	**$**	**15.40**
Colorado Springs:								
3535 Northrop Grumman Point *Colorado Springs, CO*	Colorado Springs East	2008	124,305	100.0%	$	2,248,377	$	18.09
655 Space Center Drive *Colorado Springs, CO*	Colorado Springs East	2008	103,970	100.0%		2,009,106		19.32
985 Space Center Drive *Colorado Springs, CO*	Colorado Springs East	1989	102,821	82.1%		2,100,460		24.87
1670 North Newport Road *Colorado Springs, CO*	Colorado Springs East	1986-1987	67,500	100.0%		1,423,380		21.09
1055 North Newport Road *Colorado Springs, CO*	Colorado Springs East	2007-2008	59,763	100.0%		1,261,801		21.11
745 Space Center Drive *Colorado Springs, CO*	Colorado Springs East	2006	51,500	100.0%		1,386,239		26.92
1915 Aerotech Drive *Colorado Springs, CO*	Colorado Springs East	1985	37,946	85.8%		643,405		19.75
1925 Aerotech Drive *Colorado Springs, CO*	Colorado Springs East	1985	37,946	100.0%		752,101		19.82
980 Technology Court *Colorado Springs, CO*	Colorado Springs East	1995	33,190	100.0%		643,899		19.40
525 Babcock Road *Colorado Springs, CO*	Colorado Springs East	1967	14,000	100.0%		140,664		10.05

9950 Federal Drive	I-25 North Corridor	2001	66,222	83.6%		894,724		16.17
Colorado Springs, CO								
9960 Federal Drive	I-25 North Corridor	2001	46,948	78.3%		861,314		23.42
Colorado Springs, CO								
9965 Federal Drive	I-25 North Corridor	1983/2007	74,749	100.0%		1,192,772		15.96
Colorado Springs, CO								
9925 Federal Drive	I-25 North Corridor	2008	43,721	100.0%		731,058		16.72
Colorado Springs, CO								
5775 Mark Dabling Boulevard	Colorado Springs	1984	109,678	100.0%		1,887,816		17.21
Colorado Springs, CO	Northwest							
5725 Mark Dabling Boulevard	Colorado Springs	1984	108,976	100.0%		2,069,490		18.99
Colorado Springs, CO	Northwest							
5755 Mark Dabling Boulevard	Colorado Springs	1989	105,997	77.9%		1,733,309		21.00
Colorado Springs, CO	Northwest							
Subtotal/Average			**1,189,232**	**94.3%**	**$**	**21,979,915**	**$**	**19.61**
Other:								
11751 Meadowville Lane	Richmond Southwest	2007	193,000	100.0%	$	5,221,176	$	27.05
Chester, VA								
201 Technology Park Drive	Southwest Virginia	2007	102,842	100.0%		3,220,937		31.32
Lebanon, VA								
14303 Lake Royer Drive	Fort Ritchie	1990/2007	6,370	100.0%		105,843		16.62
Cascade, MD								

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Property and Location	Submarket	Year Built/ Renovated	Rentable Square Feet	Occupancy (1)		Annualized Rental Revenue (2)		Annualized Rental Revenue per Occupied Square Foot (2) (3)
304 Castle Drive *Cascade, MD*	Fort Ritchie	1993/2008	3,014	100.0%				
14316 Lake Royer Drive *Cascade, MD*	Fort Ritchie	1953	864	100.0%		4,104		4.75
Subtotal/Average			**306,090**	**100.0%**	**$**	**8,552,060**	**$**	**27.94**
Total/Average			**18,461,943**	**93.2%**	**$**	**385,370,480**	**$**	**22.40**

(1) This percentage is based upon all rentable square feet under lease terms that were in effect as of December 31, 2008.

(2) Annualized rental revenue is the monthly contractual base rent as of December 31, 2008 multiplied by 12 plus the estimated annualized expense reimbursements under existing leases. We consider annualized rental revenue to be a useful measure for analyzing revenue sources because, since it is point-in-time based, it does not contain increases and decreases in revenue associated with periods in which lease terms were not in effect; historical revenue under GAAP does contain such fluctuations. We find the measure particularly useful for leasing, tenant, segment and industry analysis.

(3) Annualized rental revenue per occupied square foot is the property s annualized rental revenue divided by that property s occupied square feet as of December 31, 2008.

The following table provides certain information about our wholly owned properties that are under construction or development as of December 31, 2008:

Property and Location	Submarket	Estimated Rentable Square Feet Upon Completion	Percentage Leased/ Committed
Under Construction			
Baltimore/Washington Corridor:			
6721 Columbia Gateway Drive *Columbia, MD*	Howard Co. Perimeter	131,451	100.00%
300 Sentinel Drive (300 NBP) *Annapolis Junction, MD*	BWI Airport	185,719	39.00%
5520 Research Park Drive (UMBC) *Baltimore, MD*	BWI Airport	105,964	26.00%
Subtotal/Average		**423,134**	
Colorado Springs:			
10807 New Allegiance Drive (Epic One) *Colorado Springs, CO*	I-25 North Corridor	145,723	23.00%
565 Space Center Drive (Patriot Park 7) *Colorado Springs, CO*	Colorado Springs East	89,773	0.00%
9945 Federal Drive (Hybrid I) *Colorado Springs, CO*	I-25 North Corridor	73,940	0.00%
9925 Federal Drive (Hybrid II) *Colorado Springs, CO*	I-25 North Corridor	53,745	91.00%
Subtotal/Average		**363,181**	

Total Under Construction		**786,315**	
<u>Under Development</u>			
Baltimore/Washington Corridor:			
Riverwood I & II *Columbia, MD*	Howard Co. Perimeter	70,000	N/A
324 Sentinel Drive (324 NBP) *Annapolis Junction, MD*	BWI Airport	121,250	N/A
308 Sentinel Way (308 NBP) *Annapolis Junction, MD*	BWI Airport	161,200	N/A
Subtotal/Average		**352,450**	N/A
Suburban Baltimore:			
Northgate Business Park (Lot A) *Aberdeen, MD*	Harford County	82,131	N/A
Northgate Business Park (Lot C) *Aberdeen, MD*	Harford County	82,405	N/A
Subtotal/Average		**164,536**	N/A

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Property and Location	Submarket	Estimated Rentable Square Feet Upon Completion	Percentage Leased/ Committed
San Antonio:			
8000 Potranco Road *San Antonio, TX*	San Antonio Northwest	125,000	N/A
8030 Potranco Road *San Antonio, TX*	San Antonio Northwest	125,000	N/A
Subtotal/Average		**250,000**	N/A
Total Under Development		**766,986**	**N/A**

The following table provides certain information about our wholly owned developable land holdings not under construction or development as of December 31, 2008:

Land Location	Submarket	Acres	Estimated Developable Square Feet
Baltimore/Washington Corridor:			
National Business Park (Phase II) *Annapolis Junction, MD*	BWI Airport	26	565,000
National Business Park (Phase III) *Annapolis Junction, MD*	BWI Airport	194	1,475,000
1243 Winterson Road (AS 22) *Linthicum, MD*	BWI Airport	2	30,000
940 Elkridge Landing Road (AS 7) *Linthicum, MD*	BWI Airport	3	53,941
1460 Dorsey Road *Hanover, MD*	BWI Airport	6	60,000
Columbia Gateway Parcel T-11 *Columbia, MD*	Howard Co. Perimeter	14	220,000
7125 Columbia Gateway Drive *Columbia, MD*	Howard Co. Perimeter	5	120,000
Subtotal		**250**	**2,523,941**
Northern Virginia:			
Westfields Corporate Center *Chantilly, VA*	Dulles South	23	400,460
Westfields Park Center *Chantilly, VA*	Dulles South	33	674,163
Woodland Park *Herndon, VA*	Herndon	5	225,000
Subtotal		**61**	**1,299,623**
Suburban Maryland:			
110 Thomas Johnson Drive *Frederick, MD*	Frederick	6	170,000
Route 15 / Biggs Ford Road *Frederick, MD*	Frederick	107	1,000,000
Rockville Corporate Center *Rockville, MD*	Rockville	10	220,000
Subtotal		**123**	**1,390,000**

Suburban Baltimore:			
White Marsh *White Marsh, MD*	White Marsh	152	1,692,000
37 Allegheny Avenue (1) *Towson, MD*	Towson	0	40,000
Northgate Business Park *Aberdeen, MD*	Harford County	45	600,464
Subtotal		**197**	**2,332,464**
St. Mary s & King George Counties:			
Dahlgren Technology Center *Dahlgren, MD*	King George County	39	122,000
Expedition Park *Lexington Park, MD*	St. Mary s County	6	60,000
Subtotal		**45**	**182,000**

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Land Location	Submarket	Acres	Estimated Developable Square Feet
Colorado Springs:			
InterQuest *Colorado Springs, CO*	I-25 North Corridor	113	1,626,592
9965 Federal Drive *Colorado Springs, CO*	I-25 North Corridor	4	30,000
Patriot Park *Colorado Springs, CO*	Colorado Springs East	71	756,257
Aerotech Commerce *Colorado Springs, CO*	Colorado Springs East	6	90,000
Subtotal		**194**	**2,502,849**
San Antonio:			
San Antonio *San Antonio, TX*	San Antonio Northwest	9	125,000
San Antonio *San Antonio, TX*	San Antonio Northwest	31	375,000
Santikos *San Antonio, TX*	San Antonio Northwest	31	500,000
Westpointe Business Center *San Antonio, TX*	San Antonio Northwest	15	250,000
Subtotal		**86**	**1,250,000**
Greater Philadelphia:			
Unisys Campus *Blue Bell, PA*	Blue Bell	**45**	**600,000**
Northern/Central New Jersey:			
Princeton Technology Center *Cranbury, NJ*	Exit 8A - Cranbury	**19**	**250,000**
Other:			
Fort Ritchie (2) *Cascade, MD*	Fort Ritchie	**591**	**1,700,000**
Total Land		**1,611**	**14,030,877**

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(1) This property contains 0.3 of an acre.

(2) The Fort Ritchie acquisition includes 284,000 square feet of existing office space targeted for future development (of which 10,248 square feet were leased as of December 31, 2008) and 110 existing usable residential units.

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The following table provides certain information about our joint venture office properties as of December 31, 2008:

Property and Location	Submarket	Year Built/ Renovated	Rentable Square Feet	Occupancy (1)		Annualized Rental Revenue (2)		Annualized Rental Revenue per Occupied Square Foot (2) (3)
Suburban Maryland:								
4230 Forbes Boulevard *Prince Georges, MD*	Lanham	2003	55,866	90.9%	$	843,964	$	16.62
5825 University Research Drive *College Park*	College Park	2008	41,500	100.0%		1,162,000		28.00
Subtotal/Average			**97,366**	**94.8%**	**$**	**2,005,964**	**$**	**21.73**
Greater Harrisburg:								
2605 Interstate Drive *Harrisburg, PA*	East Shore	1990	79,456	100.0%	$	1,466,758	$	18.46
6345 Flank Drive *Harrisburg, PA*	East Shore	1989	69,443	88.5%		855,308		13.92
6340 Flank Drive *Harrisburg, PA*	East Shore	1988	68,200	100.0%		785,559		11.52
2601 Market Place *Harrisburg, PA*	East Shore	1989	65,411	89.2%		1,130,047		19.36
6400 Flank Drive *Harrisburg, PA*	East Shore	1992	52,439	75.5%		521,245		13.17
6360 Flank Drive *Harrisburg, PA*	East Shore	1988	46,500	78.5%		479,850		13.15
6385 Flank Drive *Harrisburg, PA*	East Shore	1995	32,921	27.8%		119,345		13.03
6380 Flank Drive *Harrisburg, PA*	East Shore	1991	32,668	80.6%		394,126		14.97
6405 Flank Drive *Harrisburg, PA*	East Shore	1991	32,000	100.0%		418,438		13.08
95 Shannon Road *Harrisburg, PA*	East Shore	1999	21,976	100.0%		398,421		18.13
75 Shannon Road *Harrisburg, PA*	East Shore	1999	20,887	100.0%		434,250		20.79
6375 Flank Drive *Harrisburg, PA*	East Shore	2000	19,783	100.0%		392,216		19.83
85 Shannon Road *Harrisburg, PA*	East Shore	1999	12,863	100.0%		233,204		18.13
5035 Ritter Road *Mechanicsburg, PA*	West Shore	1988	56,556	100.0%		890,757		15.75
5070 Ritter Road - Building A *Mechanicsburg, PA*	West Shore	1989	32,309	89.6%		421,718		14.56
5070 Ritter Road - Building B *Mechanicsburg, PA*	West Shore	1989	28,347	100.0%		412,849		14.56
Subtotal/Average			**671,759**	**89.4%**	**$**	**9,354,091**	**$**	**15.58**
Total/Average			**769,125**	**90.1%**	**$**	**11,360,055**	**$**	**16.40**

(1) This percentage is based upon all rentable square feet under lease terms that were in effect as of December 31, 2008.

(2) Annualized rental revenue is the monthly contractual base rent as of December 31, 2008 multiplied by 12 plus the estimated annualized expense reimbursements under existing leases.

(3) Annualized rental revenue per occupied square foot is the property s annualized rental revenue divided by that property s occupied square feet as of December 31, 2008.

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The following table provides certain information about our office properties owned through joint ventures that were under construction or redevelopment as of December 31, 2008:

Property and Location	Submarket	Estimated Rentable Square Feet Upon Completion	Percentage Leased/ Committed
Under Construction			
Baltimore/Washington Corridor:			
5850 University Research Court *College Park, MD*	College Park	123,464	100.00%
7740 Milestone Parkway *Hanover, MD*	BWI Airport	148,130	6.00%
5825 University Research Court *College Park, MD*	College Park	116,083	53.00%
Total Under Construction		**387,677**	
Under Redevelopment			
Baltimore/Washington Corridor:			
7468 Candlewood Road *Hanover, MD*	BWI Airport	**356,000**	**0.00%**
Total Under Redevelopment		**356,000**	

The following table provides certain information about our developable land holdings owned through joint ventures that were not under construction or development as of December 31, 2008:

Land Location	Submarket	Acres	Estimated Developable Square Feet
Baltimore/Washington Corridor:			
Arundel Preserve *Hanover, MD*	BWI Airport	56	1,651,870
M Square Research Park *College Park, MD*	College Park	49	510,453
Other:			
Indian Head *Charles County, MD*	Charles County	169	827,250
Total Land		**274**	**2,989,573**

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Lease Expirations

The following table provides a summary schedule of the lease expirations for leases in place for our wholly owned properties as of December 31, 2008, assuming that none of the tenants exercise renewal options:

Year of Lease Expiration(1)	Number of Leases Expiring	Square Footage of Leases Expiring	Percentage of Total Occupied Square Feet	Annualized Rental of Expiring Leases(2) (in thousands)	Percentage of Total Annualized Rental Revenue Expiring(2)	Total Annualized Rental Revenue of Expiring Leases Per Occupied Square Foot
2009	205	2,722,038	15.8%	$ 52,339	13.6%	$ 19.23
2010	170	2,475,533	14.4%	53,702	13.9%	21.69
2011	158	1,764,045	10.3%	37,275	9.7%	21.13
2012	121	2,551,476	14.8%	54,716	14.2%	21.44
2013	108	1,879,805	10.9%	47,359	12.3%	25.19
2014	42	817,954	4.8%	23,381	6.0%	28.58
2015	40	1,485,303	8.6%	37,190	9.7%	25.04
2016	26	573,639	3.3%	15,539	4.0%	27.09
2017	29	773,657	4.5%	19,675	5.1%	25.43
2018	24	818,135	4.8%	18,791	4.9%	22.97
2019	8	117,707	0.7%	1,525	0.4%	12.95
2020	2	208,854	1.2%	3,129	0.8%	14.98
2021	1	104,695	0.6%	2,571	0.6%	24.56
2022	2	295,842	1.7%	8,443	2.2%	28.54
2023	1	44,616	0.3%	600	0.2%	13.44
2024			0.0%		0.0%	0.00
2025	3	517,086	3.0%	8,326	2.2%	16.10
Other (3)	21	57,443	0.3%	810	0.2%	14.10
Total/Weighted Average	**961**	**17,207,828**	**100.0%**	**$ 385,371**	**100.0%**	**$ 22.40**

(1) Most of our leases with the United States Government provide for consecutive one-year terms or provide for early termination rights. All of the leasing statistics set forth above assumed that the United States Government will remain in the space that it leases through the end of the respective arrangements, without ending consecutive one-year leases prematurely or exercising early termination rights. We reported the statistics in this manner because we manage our leasing activities using these same assumptions and believe these assumptions to be probable.

(2) Annualized rental revenue is the monthly contractual base rent as of December 31, 2008 multiplied by 12, plus the estimated annualized expense reimbursements under existing office leases.

(3) Other consists primarily of amenities, including cafeterias, concierge offices and property management space. In addition, month-to-month leases and leases that have expired but the tenant remains in holdover are included in this line item as the exact expiration date is unknown.

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Item 3. Legal Proceedings

Jim Lemon and Robin Biser, as plaintiffs, initiated a suit on May 12, 2005, in The United States District Court for the District of Columbia (Case No. 1:05CV00949), against The Secretary of the United States Army, PenMar Development Corporation (PMDC) and the Company, as defendants, in connection with the then pending acquisition by the Company of the former army base known as Fort Ritchie located in Cascade, Maryland. The case was dismissed by the United States District Court on September 28, 2006, due to the plaintiffs lack of standing. The plaintiffs filed an appeal in the case in the United States Court of Appeals for the District of Columbia Circuit and the Court of Appeals reversed the findings of the District Court and remanded the case to the District Court for further proceedings. The plaintiffs were unsuccessful in their request for an emergency injunction pending appeal. The Company acquired from PMDC fee simple title to 500 acres of the 591 acres comprising Fort Ritchie on October 5, 2006 and the remaining 91 acres on November 29, 2007.

We are not currently involved in any other material litigation nor, to our knowledge, is any material litigation currently threatened against the Company (other than routine litigation arising in the ordinary course of business, substantially all of which is expected to be covered by liability insurance).

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Repurchases of Equity Securities

Market Information

Our common shares trade on the New York Stock Exchange (NYSE) under the symbol OFC. The table below shows the range of the high and low sale prices for our common shares as reported on the NYSE, as well as the quarterly common share dividends per share declared:

	Price Range		Dividends
2007	**Low**	**High**	**Per Share**
First Quarter	$ 44.85	$ 56.45	$ 0.3100
Second Quarter	$ 40.47	$ 48.81	$ 0.3100
Third Quarter	$ 35.21	$ 44.63	$ 0.3400
Fourth Quarter	$ 30.81	$ 45.39	$ 0.3400

	Price Range		Dividends
2008	**Low**	**High**	**Per Share**
First Quarter	$ 25.43	$ 36.16	$ 0.3400
Second Quarter	$ 33.65	$ 40.00	$ 0.3400
Third Quarter	$ 32.00	$ 43.50	$ 0.3725
Fourth Quarter	$ 20.39	$ 39.84	$ 0.3725

The number of holders of record of our common shares was 619 as of December 31, 2008. This number does not include shareholders whose shares are held of record by a brokerage house or clearing agency, but does include any such brokerage house or clearing agency as one record holder.

We will pay dividends at the discretion of our Board of Trustees. Our ability to pay cash dividends will be dependent upon: (i) the income and cash flow generated from our operations; (ii) cash generated or used by our financing and investing activities; and (iii) the annual distribution requirements under the REIT provisions of the Code described above and such other factors as the Board of Trustees deems relevant. Our ability to make cash dividends will also be limited by the terms of our Operating Partnership Agreement and our financing arrangements, as well as limitations imposed by state law and the agreements governing any future indebtedness.

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Unregistered Sales of Equity Securities and Use of Proceeds

During the three months ended December 31, 2008, 203,675 of the Operating Partnership s common units were exchanged for 203,675 common shares in accordance with the Operating Partnership s Second Amended and Restated Limited Partnership Agreement, as amended. The issuance of these common shares was effected in reliance upon the exemption from registration under Section 4(2) of the Securities Act of 1933, as amended.

Common Shares Performance Graph

The graph and the table set forth below assume $100 was invested on December 31, 2003 in the common shares of Corporate Office Properties Trust. The graph and the table compare the cumulative return (assuming reinvestment of dividends) of this investment with a $100 investment at that time in the S&P 500 Index or the All Equity REIT Index of the National Association of Real Estate Investment Trusts (NAREIT):

Period Ending

Index	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08
Corporate Office Properties Trust	100.00	145.16	181.97	265.27	171.13	174.16
S&P 500	100.00	110.88	116.33	134.70	142.10	89.53
NAREIT All Equity REIT Index	100.00	131.58	147.58	199.32	168.05	104.65

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Item 6. Selected Financial Data

The following table sets forth summary financial data as of and for each of the years ended December 31, 2004 through 2008. The table illustrates the significant growth our Company experienced over the periods reported. Most of this growth, particularly pertaining to revenues, operating income and total assets, was attributable to our addition of properties through acquisition and development activities. We financed most of the acquisition and development activities by incurring debt and issuing preferred and common equity, as indicated by the growth in our interest expense, preferred share dividends and weighted average common shares outstanding. The growth in our general and administrative expenses reflects, in large part, the growth in management resources required to support the increased size of our portfolio. Since this information is only a summary, you should refer to our Consolidated Financial Statements and notes thereto and the section of this report entitled Management s Discussion and Analysis of Financial Condition and Results of Operations for additional information.

Corporate Office Properties Trust and Subsidiaries

(in thousands, except per share data and number of properties)

	2008	2007	2006	2005	2004
Revenues					
Revenues from real estate operations (1)	$ 399,633	$ 365,914	$ 291,444	$ 235,956	$ 198,672
Construction contract and other service operations revenues	188,385	41,225	60,084	79,234	28,903
Total revenues	588,018	407,139	351,528	315,190	227,575
Expenses					
Property operating expenses (1)	141,139	123,258	93,088	70,202	57,745
Depreciation and other amortization associated with real estate operations (1)	102,720	104,700	76,344	60,342	48,623
Construction contract and other service operations expenses	184,142	39,793	57,345	77,287	26,996
General and administrative expenses	25,329	21,704	18,048	13,533	10,938
Total operating expenses	453,330	289,455	244,825	221,364	144,302
Operating income	134,688	117,684	106,703	93,826	83,273
Interest expense	(83,646)	(85,576)	(72,984)	(55,979)	(43,663)
Interst and other income	2,070	3,030	1,077	304	269
Gain on early extinguishment of debt	10,376				
Income from continuing operations before equity in loss of unconsolidated entities, income taxes and minority interests	63,488	35,138	34,796	38,151	39,879
Equity in loss of unconsolidated entities	(147)	(224)	(92)	(88)	(88)
Income tax expense	(201)	(569)	(887)	(668)	(795)
Income from continuing operations before minority interests	63,140	34,345	33,817	37,395	38,996
Minority interests in income from continuing operations (1)	(7,488)	(3,331)	(3,742)	(4,867)	(4,997)
Income from continuing operations	55,652	31,014	30,075	32,528	33,999
Discontinued operations, net of minority interests (1)(2)	2,179	2,210	18,420	6,235	3,146
Gain (loss) on sales of real estate, net (1)(3)	837	1,560	732	268	(113)
Net income	58,668	34,784	49,227	39,031	37,032
Preferred share dividends	(16,102)	(16,068)	(15,404)	(14,615)	(16,329)
Issuance costs associated with redeemed preferred shares (4)			(3,896)		(1,813)
Net income available to common shareholders	$ 42,566	$ 18,716	$ 29,927	$ 24,416	$ 18,890
Basic earnings per common share					
Income from continuing operations	$ 0.84	$ 0.35	$ 0.28	$ 0.49	$ 0.47
Net income available to common shareholders	$ 0.88	$ 0.40	$ 0.72	$ 0.65	$ 0.57
Diluted earnings per common share					
Income from continuing operations	$ 0.83	$ 0.35	$ 0.27	$ 0.47	$ 0.45
	$ 0.87	$ 0.39	$ 0.69	$ 0.63	$ 0.54

Net income available to common shareholders					
Weighted average common shares outstanding basic	48,132	46,527	41,463	37,371	33,173
Weighted average common shares outstanding diluted	48,865	47,630	43,262	38,997	34,982

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	2008	2007	2006	2005	2004
Balance Sheet Data (as of year end):					
Investment in real estate	$ 2,776,889	$ 2,603,939	$ 2,111,310	$ 1,888,106	$ 1,544,501
Total assets	$ 3,112,867	$ 2,931,853	$ 2,419,601	$ 2,129,759	$ 1,732,026
Debt	$ 1,866,623	$ 1,825,842	$ 1,498,537	$ 1,348,351	$ 1,022,688
Total liabilities	$ 2,041,688	$ 1,979,116	$ 1,629,111	$ 1,442,036	$ 1,111,224
Minority interests	$ 137,865	$ 130,095	$ 116,187	$ 105,210	$ 98,878
Shareholders equity	$ 933,314	$ 822,642	$ 674,303	$ 582,513	$ 521,924
Other Financial Data (for the year ended):					
Cash flows provided by (used in):					
Operating activities	$ 181,864	$ 137,701	$ 113,151	$ 95,944	$ 84,494
Investing activities	$ (290,142)	$ (327,714)	$ (253,834)	$ (420,301)	$ (268,720)
Financing activities	$ 90,415	$ 206,728	$ 137,822	$ 321,320	$ 188,566
Numerator for diluted EPS	$ 42,566	$ 18,716	$ 29,927	$ 24,416	$ 18,911
Diluted funds from operations (5)	$ 150,401	$ 125,309	$ 98,937	$ 88,801	$ 76,248
Diluted funds from operations per share (5)	$ 2.64	$ 2.24	$ 1.91	$ 1.86	$ 1.74
Cash dividends declared per common share	$ 1.43	$ 1.30	$ 1.18	$ 1.07	$ 0.98
Property Data (as of year end):					
Number of properties owned (1)(6)	238	228	170	165	143
Total rentable square feet owned (1)(6)	18,462	17,832	15,050	13,708	11,765

(1) Certain prior period amounts pertaining to properties included in discontinued operations have been reclassified to conform with the current presentation. These reclassifications did not affect consolidated net income or shareholders equity.

(2) Reflects income derived from three operating properties we sold in 2005, seven operating real estate properties we sold in 2006, four operating real estate properties we sold in 2007 and three operating real estate properties we sold in 2008 (see Note 17 to our Consolidated Financial Statements).

(3) Reflects gain (loss) from sales of properties and unconsolidated real estate joint ventures not associated with discontinued operations.

(4) Reflects a decrease to net income available to common shareholders pertaining to the original issuance costs recognized upon the redemption of the Series E and Series F Preferred Shares of beneficial interest in 2006 and the Series B Preferred Shares of beneficial interest in 2004.

(5) For definitions of diluted funds from operations per share and diluted funds from operations and reconciliations of these measures to their comparable measures under generally accepted accounting principles, you should refer to the section entitled Funds from Operations within the section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations.

(6) Amounts reported reflect only wholly owned properties.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

You should refer to our Consolidated Financial Statements and the notes thereto and our Selected Financial Data table as you read this section.

This section contains forward-looking statements, as defined in the Private Securities Litigation Reform Act of 1995, that are based on our current expectations, estimates and projections about future events and financial trends affecting the financial condition and operations of our business. Forward-looking statements can be identified by the use of words such as may, will, should, expect, estimate or other comparable terminology. Forward-looking statements are inherently subject to risks and uncertainties, many of which we cannot predict with accuracy and some of which we might not even anticipate. Although we believe that the expectations, estimates and projections reflected in such forward-looking statements are based on reasonable assumptions at the time made, we can give no assurance that these expectations, estimates and projections will be achieved. Future events and actual results may differ materially from those discussed in the forward-looking statements. Important factors that may affect these expectations, estimates and projections include, but are not limited to:

- our ability to borrow on favorable terms;
- general economic and business conditions, which will, among other things, affect office property demand and rents, tenant creditworthiness, interest rates and financing availability;
- adverse changes in the real estate markets, including, among other things, increased competition with other companies;
- risks of real estate acquisition and development activities, including, among other things, risks that development projects may not be completed on schedule, that tenants may not take occupancy or pay rent or that development and operating costs may be greater than anticipated;
- risks of investing through joint venture structures, including risks that our joint venture partners may not fulfill their financial obligations as investors or may take actions that are inconsistent with our objectives;
- our ability to satisfy and operate effectively under Federal income tax rules relating to real estate investment trusts and partnerships;
- governmental actions and initiatives; and
- environmental requirements.

We undertake no obligation to update or supplement forward-looking statements.

Overview

We are a specialty office real estate investment trust (REIT) that focuses primarily on strategic customer relationships and specialized tenant requirements in the United States Government, defense information technology and data sectors. We acquire, develop, manage and lease properties that are typically concentrated in large office parks primarily located adjacent to government demand drivers and/or in demographically strong markets possessing growth opportunities. As of December 31, 2008, our investments in real estate included the following:

- 238 wholly owned operating properties totaling 18.5 million square feet;
- 14 wholly owned properties under construction or development that we estimate will total approximately 1.6 million square feet upon completion;
- wholly owned land parcels totaling 1,611 acres that we believe are potentially developable into approximately 14.0 million square feet; and
- partial ownership interests in a number of other real estate projects in operations, under construction or redevelopment or held for future development.

Most of our revenues relating to real estate operations are derived from rents and property operating expense reimbursements earned from tenants leasing space in our properties. Most of our expenses relating to our real estate operations take the form of: (1) property operating costs, such as real estate taxes, utilities and repairs and maintenance; (2) interest costs; and (3) depreciation and amortization associated with our operating properties. Much of our profitability from real estate operations depends on our ability to maintain high levels of occupancy and increasing rents, which is affected by a number of factors, including, among other things, our tenants ability to fulfill their leases obligations and their continuing space needs based on employment levels, business confidence and competition and general economic conditions in the markets in which we operate.

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At December 31, 2008, our wholly owned properties were located in the following geographic regions, which are also our reportable segments:

	As of December 31, 2008		
Region	**Operational Square Feet**	**Number of Properties**	**Occupancy Rate**
Baltimore/Washington Corridor (generally the Maryland counties of Howard and Anne Arundel)	7,834	104	93.4%
Northern Virginia	2,609	15	97.4%
Suburban Baltimore, Maryland (generally the Maryland counties of Baltimore and Harford)(Suburban Baltimore)	3,207	63	83.1%
Colorado Springs, Colorado (Colorado Springs)	1,189	17	94.3%
Greater Philadelphia, Pennsylvania (Greater Philadelphia)	961	4	100.0%
St. Mary s and King George Counties (located in Maryland and Virginia)	824	18	95.2%
Suburban Maryland (defined as the Maryland counties of Montgomery, Prince George s and Frederick)	691	5	97.7%
San Antonio, Texas (San Antonio)	640	5	100.0%
Central New Jersey	201	2	100.0%
Other	306	5	100.0%
Total	18,462	238	93.2%

During 2008, we grew our portfolio by acquiring three office properties totaling 247,000 square feet (one located in Colorado Springs and two in San Antonio) for $40.6 million and having seven newly constructed properties totaling 528,000 square feet become fully operational (89,000 of these square feet were placed into service in 2007). We also had 85,000 square feet placed into service in two partially operational properties.

A key part of our strategy for operations and growth focuses on establishing and nurturing long-term relationships with quality tenants and accommodating their multi-locational needs, particularly tenants in the United States Government, defense information technology and data sectors. As a result of this strategy, a large concentration of our revenue is derived from several large tenants. At December 31, 2008, 55.0% of our annualized rental revenue (as defined in the section entitled Concentration of Operations) from wholly owned properties was from our 20 largest tenants, 35.5% from our five largest tenants, 17.3% from our largest tenant, the United States Government and 54.8% from properties with tenants in the United States Government, defense information technology and data sectors.

In addition to owning real estate properties, we provide real estate-related services that include: (1) construction and development management; (2) property management; and (3) heating and air conditioning services and controls. The revenues and costs associated with these services include subcontracted costs that are reimbursed to us by the customer at no mark up. As a result, the operating margins from these operations are small relative to the revenue. We use the net of such revenues and expenses to evaluate the performance of our service operations.

Since the latter part of 2007, the United States and world economies have been in the midst of a significant recession, with most key economic indicators on the decline, including gross domestic product, consumer sales, housing starts and employment. This slowdown has had devastating effects on the capital markets, with declining stock prices and tightening credit availability. The commercial real estate industry was affected by these events in 2007 and 2008 and will likely be affected for a significant period of time. As a capital-intensive industry, the most uniform and immediate effect was the increasing difficulty in obtaining capital to fund growth activities, such as acquisitions and development costs, and debt repayments. From an operations perspective, we believe that the magnitude and timing of these effects has and will vary significantly between individual sectors within the industry and individual companies within such sectors. Real estate sectors hit the hardest through 2008 were primarily those that operate with short term revenue streams (such as hotels, residential rental and healthcare rental), have rental revenues that are highly dependent on the revenue of their tenants (such as retail) or have operating models that are highly dependent on fees for services.

For much of the office real estate sector, we believe that, since the core operations tend to be structured as long-term leases, the changes in the overall economy were not fully felt in 2008 operations since revenue streams generally remain in place until leases expire or tenants fail to satisfy lease terms. Due in large part to this reason, we do not believe that the economic downturn significantly affected the operations of our real estate properties in 2008. We

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experienced significant growth in our revenues from real estate operations in total by amounts that exceeded the growth in our property operating expenses from 2007 to 2008. While much of this increase is attributable to the growth of our portfolio from acquisitions and construction activities, we also experienced growth in our revenues from real estate operations by amounts that exceeded the growth in our property operating expenses for properties that were owned and 100% operational from 2007 to 2008 (properties that we refer to collectively as Same-Office Properties). Our ability to increase rental rates and maintain high levels of occupancy and renewal rates in our portfolio contributed strongly towards this growth. The events in the economy did lead to significant reductions in interest rates, which contributed towards our being able to decrease interest expense in 2008 compared to 2007 despite having higher debt in place on average in 2008.

We expect that the effects of the global downturn on our real estate operations will become increasingly evident in 2009 and 2010, and perhaps beyond. In the latter portion of 2008, we were observing signs of increased competition for tenants and downward pressure on rental rates in most of our regions, which we expect, along with an increased intention by certain tenants to reduce costs through job cuts and associated space reductions, could adversely affect our occupancy and renewal rates. However, we believe that our future real estate operations may be affected to a lesser degree than many of our peers for the following reasons:

- our expectation of continued strength in demand from our customers in the United States Government, defense information technology and data sectors; and

- our tenant base being comprised of a high concentration of large, high-quality tenants with a small concentration of revenue from the finance sector.

Despite the challenges faced by us in the broader capital markets, we were able to accomplish the following in 2008:

- we entered into a construction loan agreement with a group of lenders that provides for an aggregate commitment by the lenders of $225.0 million, with a right for us to further increase the aggregate commitment during the term to a maximum of $325.0 million, subject to certain conditions. We refer to this loan herein as the Revolving Construction Facility;

- we borrowed $221.4 million under a mortgage loan requiring interest only payments for the term at a variable rate of LIBOR plus 225 basis points (subject to a floor of 4.25%) that matures in 2012, and may be extended by one year at our option, subject to certain conditions;

- we repaid $279.6 million in debt, excluding scheduled principal amortization payments and repayments of our Revolving Credit Facility (defined below) and Revolving Construction Facility, but including a repayment of a $37.5 million aggregate principal amount of our 3.5% Exchangeable Senior Notes for $26.7 million from which we recognized a gain of $10.4 million;

- we issued 3.7 million common shares at a public offering price of $39 per share, for net proceeds of $139.2 million after underwriting discount but before offering expenses; and

- we had fixed interest rates in place on 74.0% of our debt as of December 31, 2008, including the effect of interest rate swaps.

We discuss significant factors contributing to changes in our net income available to common shareholders and diluted earnings per share over the last three years in the section below entitled Results of Operations. We discuss our 2008 investing and financing activities further in the section below entitled Liquidity and Capital Resources, along with discussions of, among other things, the following:

- our cash flows;
- how we expect to generate cash for short and long-term capital needs;
- our off-balance sheet arrangements in place that are reasonably likely to affect our financial condition;
- our commitments and contingencies; and
- the computation of our Funds from Operations.

Critical Accounting Policies and Estimates

Our Consolidated Financial Statements are prepared in accordance with generally accepted accounting principles in the United States of America (GAAP), which require us to make certain estimates and assumptions. A summary of our significant accounting policies is provided in Note 2 to our Consolidated Financial Statements. The following

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section is a summary of certain aspects of those accounting policies involving estimates and assumptions that (1) require our most difficult, subjective or complex judgments in accounting for highly uncertain matters or matters that are susceptible to change and (2) materially affect our reported operating performance or financial condition. It is possible that the use of different reasonable estimates or assumptions in making these judgments could result in materially different amounts being reported in our Consolidated Financial Statements. While reviewing this section, you should refer to Note 2 to our Consolidated Financial Statements, including terms defined therein.

Acquisitions of Real Estate

When we acquire real estate properties, we allocate the acquisition to numerous tangible and intangible components. Most of the terms in this bullet section are discussed in further detail in Note 2 to the Consolidated Financial Statements entitled Acquisitions of Real Estate. Our process for determining the allocation to these components is very complex and requires many estimates and assumptions. Included among these estimates and assumptions are the following: (1) determination of market rental rates; (2) estimation of leasing and tenant improvement costs associated with the remaining term of acquired leases; (3) leasing assumptions used in determining the in-place lease value, if-vacant value and tenant relationship value, including the rental rates, period of time that it will take to lease vacant space and estimated tenant improvement and leasing costs; (4) estimation of the property s future value in determining the if-vacant value; (5) estimation of value attributable to assets such as tenant relationship values; and (6) allocation of the if-vacant value between land and building. A change in any of the above key assumptions, most of which are extremely subjective, can materially change not only the presentation of acquired properties in our Consolidated Financial Statements but also reported results of operations. The allocation to different components affects the following:

- the amount of the purchase price allocated among different categories of assets and liabilities on our balance sheet; the amount of costs assigned to individual properties in multiple property acquisitions; and the amount of costs assigned to individual tenants at the time of acquisition;

- where the amortization of the components appear over time in our Consolidated Statements of Operations. Allocations to the above-market or below-market lease component are amortized into rental revenue, whereas allocations to most of the other components (the one exception being the land component of the if-vacant value) are amortized into depreciation and amortization expense. As a REIT, this is important to us since much of the investment community evaluates our operating performance using non-GAAP measures such as funds from operations, the computation of which includes rental revenue but does not include depreciation and amortization expense; and

- the timing over which the items are recognized as revenue or expense in our Consolidated Statements of Operations. For example, for allocations to the as-if vacant value, the land portion is not depreciated and the building portion is depreciated over a longer period of time than the other components (generally 40 years). Allocations to above-market or below-market leases, in-place lease value and tenant relationship value are amortized over significantly shorter timeframes, and if individual tenants leases are terminated early, any unamortized amounts remaining associated with those tenants are generally expensed upon termination. These differences in timing can materially affect our reported results of operations. In addition, we establish lives for tenant relationship values based on our estimates of how long we expect the respective tenants to remain in the properties; establishing these lives requires estimates and assumptions that are very subjective.

Impairment of Long-lived Assets

If events or changes in circumstances indicate that the carrying values of operating properties, properties in development or land held for future development may be impaired, we perform a recovery analysis based on the estimated undiscounted future cash flows to be generated from the operations of the property and from its eventual disposition. If the analysis indicates that the carrying value of the tested property is not recoverable from estimated future cash flows, it is written down to its estimated fair value and an impairment loss is recognized. Fair values are determined based on estimated future cash flows using appropriate discount and capitalization rates. The estimated cash flows used for the impairment analysis and determining the fair values are based on our plans for the tested property and our views of market and economic conditions. The estimates consider matters such as current and historical rental rates, occupancies for the tested property and comparable properties and recent sales data for comparable properties. Changes in the estimated future cash flows due to changes in our plans or views of market and economic conditions could result in recognition of impairment losses which, under the applicable accounting guidance, could be substantial.

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Properties held for sale are carried at the lower of their carrying values (i.e., cost less accumulated depreciation and any impairment loss recognized, where applicable) or estimated fair values less costs to sell. Accordingly, decisions made by us to sell certain operating properties, properties in development or land held for development will result in impairment losses if carrying values of the specific properties exceed their estimated fair values less costs to sell. The estimates of fair value consider matters such as recent sales data for comparable properties and, where applicable, contracts or the results of negotiations with prospective purchasers. These estimates are subject to revision as market conditions, and our assessment of such conditions, change.

Assessment of Lease Term

As discussed above, a significant portion of our portfolio is leased to the United States Government, and the majority of those leases consist of a series of one-year renewal options. The applicable accounting guidance requires us to recognize minimum rental payments on a straight-line basis over the terms of each lease, and requires us to assess the term as including all periods for which failure to renew the lease imposes a penalty on the lessee in such amounts that a renewal appears, at the inception of the lease, to be reasonably assured. Factors to consider when determining whether a penalty is significant include the uniqueness of the purpose or location of the property, the availability of a comparable replacement property, the relative importance or significance of the property to the continuation of the lessee s line of business and the existence of leasehold improvements or other assets whose value would be impaired by the lessee vacating or discontinuing use of the leased property. We have concluded, based on the factors above, that the United States Government s exercise of all of those renewal options is reasonably assured. Changes in these assessments could result in the write-off of any recorded assets associated with straight-line rental revenue and in the acceleration of depreciation and amortization expense associated with costs we have incurred related to these leases.

Accounting Method for Investments

We generally use three different accounting methods to report our investments in entities: the consolidation method; the equity method; and the cost method (see Note 2 to our Consolidated Financial Statements). We generally use the consolidation method when we own most of the outstanding voting interests in an entity and can control its operations. In accordance with Financial Accounting Standards Board (FASB) Interpretation No. 46(R), Consolidation of Variable Interest Entities (FIN 46(R)), we also consolidate certain entities when control of such entities can be achieved through means other than voting rights (variable interest entities or VIEs) if we are deemed to be the primary beneficiary. Generally, FIN 46(R) applies when either (1) the equity investors (if any) lack one or more of the essential characteristics of a controlling financial interest; (2) the equity investment at risk is insufficient to finance that entity s activities without additional subordinated financial support; or (3) the equity investors have voting rights that are not proportionate to their economic interests and the activities of the entity involve, or are conducted on behalf of, an investor with a disproportionately small voting interest. We generally use the equity method of accounting when we own an interest in an entity and can exert significant influence over, but cannot control, the entity s operations.

In making these determinations, we typically need to make subjective estimates and judgments regarding the entity s future operating performance, financial condition, future valuation and other variables that may affect the partners share of cash flow from the entity over time. We must consider both our and our partner s ability to participate in the management of the entity s operations as well as make decisions that allow the parties to manage their economic risks. We may also need to estimate the probability of different scenarios taking place over time and project the effect that each of those scenarios would have on variables affecting the partners cash flows. The conclusion reached as a result of this process affects whether or not we use the consolidation method in accounting for our investment or the equity method. Whether or not we consolidate an investment can materially affect our Consolidated Financial Statements.

Share-based Compensation

We issue options to purchase common shares (options) and restricted common shares (restricted shares) to many of our employees. Statement of Financial Accounting Standards No. 123(R), Share-Based Payment (SFAS 123(R)) requires us to measure the cost of employee services received in exchange for an award of equity instruments based generally on the fair value of the award on the grant date; such cost should then be recognized over the period during which the employee is required to provide service in exchange for the award (generally the vesting period). We compute the grant date fair value of options using the Black-Scholes option-pricing model, which requires the following input assumptions: risk-free interest rate; expected life; expected volatility; and expected dividend yield. SFAS 123(R) also requires that share-based compensation be computed based on awards that are ultimately expected

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to vest; as a result, future forfeitures of our options and restricted shares are to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The input assumptions used under the Black-Scholes option-pricing model and the estimates used in deriving the forfeiture rates for options and restricted common shares are subjective and require a fair amount of judgment. As a result, these estimates and assumptions can affect the amount of expense that we recognize in our Consolidated Financial Statements for options and restricted shares.

Concentration of Operations

We refer to the measure annualized rental revenue in various sections of the Management s Discussion and Analysis of Financial Condition and Results of Operations section of this Annual Report. Annualized rental revenue is a measure that we use to evaluate the source of our rental revenue as of a point in time. It is computed by multiplying by 12 the sum of monthly contractual base rents and estimated monthly expense reimbursements under active leases as of a point in time. We consider annualized rental revenue to be a useful measure for analyzing revenue sources because, since it is point-in-time based, it does not contain increases and decreases in revenue associated with periods in which lease terms were not in effect; historical revenue under GAAP does contain such fluctuations. We find the measure particularly useful for leasing, tenant, segment and industry analysis.

Customer Concentration of Property Operations

Our customer strategy focuses on establishing and nurturing long-term relationships with quality tenants and accommodating their multi-locational needs. A result of this strategy is that the source of our revenue is highly concentrated with certain tenants. The following schedule lists our 20 largest tenants in our portfolio of wholly owned properties based on percentage of annualized rental revenue:

	Percentage of Annualized Rental Revenue of Wholly Owned Properties for 20 Largest Tenants as of December 31,		
Tenant	**2008**	**2007**	**2006**
United States Government	17.3%	16.3%	16.3%
Northrop Grumman Corporation (1)	7.4%	7.4%	4.2%
Booz Allen Hamilton, Inc.	5.2%	5.6%	6.9%
Computer Sciences Corporation (1)	3.1%	3.2%	3.8%
L-3 Communications Holdings, Inc. (1)	2.5%	2.5%	3.0%
Unisys Corporation (2)	2.3%	2.5%	3.0%
General Dynamics Corporation	2.0%	2.1%	2.4%
The Aerospace Corporation	1.9%	1.9%	2.1%
ITT Corporation (1)	1.8%	1.1%	0.8%
Wachovia Corporation (1)	1.7%	1.9%	2.1%
Comcast Corporation	1.7%	1.7%	N/A
AT&T Corporation (1)	1.4%	1.7%	3.0%
The Boeing Company (1)	1.1%	1.2%	1.4%
Ciena Corporation	1.1%	1.0%	1.2%
BAE Systems PLC (1)	0.8%	0.8%	1.0%
The Johns Hopkins Institutions	0.8%	0.8%	N/A
Science Applications International Corporation	0.8%	0.9%	1.1%

Merck & Co., Inc. (2)	0.7%	0.8%	0.8%
Magellan Health Services, Inc.	0.7%	0.7%	1.0%
AARP	0.7%	N/A	N/A
Wyle Laboratories, Inc.	N/A	0.7%	0.8%
Lockheed Martin Corporation	N/A	N/A	1.0%
Harris Corporation	N/A	N/A	0.8%
Subtotal of 20 largest tenants	55.0%	54.8%	56.7%
All remaining tenants	45.0%	45.2%	43.3%
Total	100.0%	100.0%	100.0%

(1) Includes affiliated organizations and agencies and predecessor companies.

(2) Unisys Corporation (Unisys) subleases space to Merck and Co., Inc. (Merck); revenue from this subleased space is classified as Merck revenue.

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We had no significant changes in these concentrations from December 31, 2007 to December 31, 2008. The United States Government increased in large part due to it taking occupancy of most of our newly-constructed square feet placed in service during the year, and Northrop Grumman Corporation remained unchanged despite our growth during the year in large part due to its occupancy in a property that we acquired during the year. Our changes in concentration from December 31, 2006 to December 31, 2007 occurred in large part due to the Nottingham Acquisition (described in the section below entitled Geographic Concentration); since none of our 20 largest tenants as of December 31, 2006 had significant leasing positions in the properties acquired, the transaction: (1) had a decreasing effect on the level of concentration with those tenants; and (2) led to the addition of Comcast Corporation and Johns Hopkins University as being among our 20 largest tenants.

Our customer strategy focuses in particular on tenants in the United States Government, defense information technology and data sectors. As of December 31, 2008, 54.8% of our annualized rental revenue was from properties with tenants in these sectors. We believe that we are well positioned for future growth from these sectors for reasons that include the following:

- our strong relationships and reputation for high service levels that we have forged over the years and continue to emphasize;
- the proximity of our properties to government demand drivers (such as military installations) in various regions of the country and our willingness to expand to other regions where that type of demand exists; and
- the depth of our collective team knowledge, experience and capabilities in developing and operating secure properties that meet the United States Government s Force Protection requirements and data centers.

We classify the revenue from our leases into sector groupings based solely on our knowledge of the tenants operations in leased space. Occasionally, classifications require subjective and complex judgments. We do not use independent sources such as Standard Industrial Classification codes for classifying our revenue into industry groupings and if we did, the resulting groupings would be materially different.

There is a certain level of risk inherent in concentrating such a large portion of our operations with any one tenant. For example, our cash flow from operations and financial condition would be adversely affected if our larger tenants fail to make rental payments to us or experience financial difficulties, including bankruptcy, insolvency or general downturn of business, or if the United States Government elects to terminate several of its leases and the affected space cannot be re-leased on satisfactory terms. There is also a certain level of risk that is inherent in concentrating such a large portion of our operations with so many tenants whose businesses are in the same economic sector. For example, a reduction in government spending for defense information technology activities could affect the ability of a large number of our tenants to fulfill lease obligations or decrease the likelihood that these tenants would renew their leases, and, in the case of the United States Government, a reduction in government spending could result in the early termination of leases.

Most of our leases with the United States Government provide for a series of one-year terms or provide for early termination rights. The government may terminate its leases if, among other reasons, the United States Congress fails to provide funding.

Geographic Concentration of Property Operations

Our market strategy is to concentrate our operations in select markets and submarkets where we believe we already possess or can achieve the critical mass necessary to maximize management efficiencies, operating synergies and competitive advantages through our acquisition, property management, leasing and development programs. A result of this strategy is that our property positions and operations are highly concentrated in a small number of geographic regions. The table below sets forth the regional allocation of our annualized rental revenue as of the end of the last three calendar years:

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Region	Percentage of Annualized Rental Revenue of Wholly Owned Properties as of December 31, 2008	2007	2006	Number of Wholly Owned Properties as of December 31, 2008	2007	2006
Baltimore/Washington Corridor	46.7%	46.2%	51.2%	104	101	87
Northern Virginia	18.8%	19.4%	20.5%	15	14	14
Suburban Baltimore	13.1%	14.1%	7.5%	63	64	23
Colorado Springs	5.7%	4.0%	4.2%	17	13	11
Suburban Maryland	4.0%	4.3%	4.1%	5	5	5
St. Mary s and King George Counties	3.4%	3.5%	4.2%	18	18	18
Greater Philadelphia	2.9%	3.1%	3.7%	4	4	4
San Antonio	2.6%	2.1%	2.4%	5	2	2
Northern/Central New Jersey	0.6%	1.0%	2.2%	2	4	6
Other	2.2%	2.3%	N/A	5	3	N/A
	100.0%	100.0%	100.0%	238	228	170

In 2007, we acquired 56 operating properties totaling approximately 2.4 million square feet and land parcels totaling 187 acres in a series of transactions that we refer to collectively as the Nottingham Acquisition for an aggregate cost of $366.9 million. All of the acquired properties are located in Maryland, with 36 of the operating properties, totaling 1.6 million square feet, and land parcels totaling 175 acres, located in White Marsh, Maryland (located in the Suburban Baltimore region) and the remaining properties and land parcels located in other regions in Northern Baltimore County and the Baltimore/Washington Corridor.

The most significant change in our regional allocation from December 31, 2007 to December 31, 2008 was due to newly-constructed properties placed into service in 2008. The most significant change in our regional allocation from December 31, 2006 to December 31, 2007 occurred as a result of the Nottingham Acquisition which, due to the large number of properties located in Suburban Baltimore, significantly increased that region s allocation and had a decreasing effect on other regions.

As of December 31, 2008, we had construction underway on four wholly owned properties in Colorado Springs and three wholly owned properties in the Baltimore/Washington Corridor; we expect that these properties will be completed and begin generating rental revenue between 2009 and 2010.

There is a certain level of risk that is inherent in concentrating such large portions of our operations in any one geographic region. For example, a decline in the real estate market or general economic conditions in the Mid-Atlantic region, the Greater Washington, D.C. region or the office parks in which our properties are located could have an adverse effect on our financial position, results of operations and cash flows.

Occupancy and Leasing

The table below sets forth leasing information pertaining to our portfolio of wholly owned operating properties:

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	December 31, 2008	2007	2006
Occupancy rates at year end			
Total	93.2%	92.6%	92.8%
Baltimore/Washington Corridor	93.4%	92.6%	95.1%
Northern Virginia	97.4%	98.6%	90.9%
Suburban Baltimore	83.1%	84.8%	81.1%
Colorado Springs	94.3%	96.7%	92.8%
Suburban Maryland	97.7%	97.8%	83.2%
St. Mary s and King George Counties	95.2%	91.6%	92.1%
Greater Philadelphia	100.0%	100.0%	100.0%
San Antonio	100.0%	100.0%	100.0%
Northern/Central New Jersey	100.0%	70.8%	97.2%
Other	100.0%	100.0%	N/A
Renewal rate of square footage for scheduled lease expirations during year (1)	78.1%	69.1%	55.4%
Average contractual annual rental rate per square foot at year end (2)	$ 22.40	$ 21.36	$ 20.90

(1) Includes the effects of early renewals and early lease terminations.

(2) Includes estimated expense reimbursements.

As shown in the above table, the total year end occupancy rate for our portfolio of wholly owned properties did not change significantly from 2007 to 2008. Our renewal rate of square footage for scheduled lease expirations in 2008 was somewhat high in comparison to previous calendar years dating back to 2000, when the annual renewal rates ranged from 55% to 76%, and averaged 68%. We believe that our 2008 renewal rate was positively impacted by the effect of a high number of early renewals during the year. Our average contractual annual rent per square foot increased 4.9% from December 31, 2007 to December 31, 2008 which was primarily the result of higher rates obtained on newly constructed space placed in service and space renewed or retenanted during the year.

We expect that the effects of the global downturn on our real estate operations will make our leasing activities increasingly challenging in 2009, 2010 and perhaps beyond. Most of our regions are experiencing decreased rates of job growth to varying extents. The demand for space has diminished as businesses downsize their space requirements, focusing on containing costs and adjusting space needs in response to decreases in the size of their workforces. We believe that we will experience increased competition from owners of other properties willing to offer tenants aggressively lower rental rates or higher tenant improvements terms than we may be willing to accept. As a result, we may find it increasingly difficult to maintain high levels of occupancy and tenant retention.

We believe that the immediacy of our exposure to the increased challenges in the leasing environment is aided to a certain extent by our leases generally not being short-term in nature and our operating strategy of monitoring concentrations of lease expirations occurring in any one year. Our weighted average lease term for wholly owned properties at December 31, 2008 was approximately five years, and no more than 14% of our annualized rental revenues at December 31, 2008 were scheduled to expire in any one calendar year between 2009 and 2013.

We also believe that our customer and market strategies could serve as advantages over our competitors in meeting some of the leasing challenges we expect to encounter. We believe that the United States Government, defense information technology and data sectors could still experience growth during these tough economic times. Much of this growth for us could be driven by increased government spending that is expected in Federal cyber security technology, which we believe could benefit not only our tenants but also our markets and submarkets. In addition, we believe that demand for leasing in our markets and submarkets will benefit from the relocation of military personnel to government installations in many of the regions in which our properties are located in connection with reporting by the Base Realignment and Closure Commission of the United States Congress (BRAC); we expect to see an increase in the momentum of these relocation activities in 2009, with greater activity in 2010 and 2011. Finally, we believe that demand in most of our markets and submarkets will be sustained, at least to a certain extent, based on their close proximity to government demand drivers such as Washington, D.C. and military installations.

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Set forth below is some additional information pertaining to our three largest regions (in terms of annualized rental revenue)(the sources of the overall market occupancy rate information set forth below are reports compiled by CB Richard Ellis, Inc.):

- Baltimore/Washington Corridor: The 93.4% occupancy of our properties in this region at December 31, 2008 exceeded the overall market occupancy rates for office space of 85.3% in Anne Arundel County and 86.1% in Howard County. The percentages of our annualized rental revenues at December 31, 2008 from this region scheduled to expire in each of the next three years follow: 15% in 2009, 13% in 2010 and 10% in 2011. While we are experiencing increased competition for tenants in this region, we expect demand to benefit, at least to a certain extent, from BRAC relocations to Fort George G. Meade and much of the continuing growth in our focus sectors discussed above.

- Northern Virginia: The 97.4% occupancy of our properties in this region at December 31, 2008 exceeded the overall market occupancy rates for office space of 85.8% in Fairfax County and 83.6% in Reston/Herndon. The percentages of our annualized rental revenues at December 31, 2008 from this region scheduled to expire in each of the next three years follow: 8% in 2009, 20% in 2010 and 4% in 2011.

- Suburban Baltimore: The 83.1% occupancy of our properties in this region at December 31, 2008 was less than the overall market occupancy rate for office space of 87.8% in Upper Suburban Baltimore (which is where most of our properties in this region are located). The percentages of our annualized rental revenues at December 31, 2008 from this region scheduled to expire in each of the next three years follow: 15% in 2009, 11% in 2010 and 20% in 2011. We expect to experience considerable competition in this region. This market benefits to a certain extent from proximity to Washington, D.C. but not to the same extent as the previous two markets. However, we do expect some future growth in demand from BRAC relocations to Aberdeen Proving Ground.

All of our properties in the Greater Philadelphia region are concentrated under three leases with Unisys that expire in June 2009 (Unisys subleases approximately 20% of this space to Merck). During 2008, we entered into new long-term leases with Unisys and Merck for 39% of the currently leased space. We expect to remove 55% of the currently leased space from operations for redevelopment to occur through at least 2010; the removal of this space from operations will have an adverse effect on our results of operations until the redevelopment is completed and the space is leased.

We experienced increased delays in 2008 in the leasing of certain projects under construction that were not pre-leased. These delays resulted in the delay of some square footage under construction from becoming operational and also led to our deferral of certain projects under development on which we were about to commence construction. We believe that we need to commence construction on properties that are not pre-leased to a certain extent in certain of our markets to enable us to meet the demand of United States Government and defense information technology tenants that may require space meeting their needs in a short timeframe. In these situations, we are bearing the risk of our lease expectations not being met on such properties, which could adversely affect on our financial position, results of operations and cash flows.

As noted above, most of the leases with our largest tenant, the United States Government, provide for consecutive one-year terms or provide for early termination rights; all of the leasing statistics set forth above assume that the United States Government will remain in the space that they lease through the end of the respective arrangements, without ending consecutive one-year leases prematurely or exercising early termination rights. We report the statistics in this manner since we manage our leasing activities using these same assumptions and believe these assumptions to be probable.

The table below sets forth occupancy information pertaining to operating properties in which we have a partial ownership interest:

Geographic Region	Ownership Interest	Occupancy Rates at December 31, 2008	2007	2006
Greater Harrisburg (1)	20.0%	89.4%	90.5%	91.2%
Suburban Maryland (2)	(2)	94.8%	76.2%	47.9%
Northern Virginia (3)	N/A	N/A	100.0%	100.0%

(1) Includes 16 properties totaling 672,000 square feet.

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(2) Includes two properties totaling 97,000 operational square feet at December 31, 2008 (we had a 50% interest in 56,000 square feet and a 45% interest in 41,000 square feet). Includes one property with 56,000 square feet in which we had a 50% interest at December 31, 2007 and 2006.

(3) Included one property with 78,000 operational square feet at December 31, 2007 and 2006. In December 2008, this property became wholly owned.

Results of Operations

While reviewing this section, you should refer to the tables in the section entitled Selected Financial Data. You should also consider the factors set forth herein and in Item 1A of our 2008 Annual Report on Form 10-K that could negatively affect various aspects of our operations.

Revenues from Real Estate Operations and Property Operating Expenses

We typically view our changes in revenues from real estate operations and property operating expenses as being comprised of the following components:

- changes attributable to the operations of properties owned and 100% operational throughout the two years being compared. We define these as changes from Same-Office Properties. For further discussion of the concept of operational, you should refer to the section of Note 2 of the Consolidated Financial Statements entitled Commercial Real Estate Properties; and

- changes attributable to operating properties acquired during the two years being compared and newly-constructed properties that were placed into service and not 100% operational throughout the two years being compared. We define these as changes from Property Additions.

The tables included in this section set forth the components of our changes in revenues from real estate operations and property operating expenses (dollars in thousands). These tables, and the discussion that follow, include results and information pertaining to properties included in continuing operations.

	Changes from 2007 to 2008				
	Property Additions	Same-Office Properties		Other	
	Dollar Change (1)	Dollar Change	Percentage Change	Dollar Change (2)	Total
Revenues from real estate operations					
Rental revenue	$ 17,859	$ 5,360	2.0%	$ (973)	$ 22,246
Tenant recoveries and other real estate operations revenue	4,045	7,391	16.9%	37	11,473
Total	$ 21,904	$ 12,751	4.1%	$ (936)	$ 33,719
Property operating expenses	$ 7,714	$ 9,973	9.5%	$ 194	$ 17,881
Straight-line rental revenue adjustments included in rental revenue	$ 1,086	$ (2,629)	N/A	$	$ (1,543)
Amortization of deferred market rental revenue	$ 596	$ (517)	N/A	$	$ 79
Number of operating properties included in component category	76	162	N/A		238

(1) Includes 59 acquired properties, 15 newly-constructed properties and two redevelopment properties placed into service.

(2) Includes, among other things, the effects of amounts eliminated in consolidation. Certain amounts eliminated in consolidation are attributable to the Property Additions and Same-Office Properties.

As the table above indicates, our total increase in revenues from real estate operations and property operating expenses from 2007 to 2008 was attributable primarily to the Property Additions.

With regard to changes in the Same-Office Properties revenues from real estate operations from 2007 to 2008:

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- the increase in rental revenue included the following:

- an increase of $7.1 million, or 2.7%, in rental revenue attributable primarily to changes in occupancy and rental rates between the two periods; partially offset by

- a decrease of $1.8 million, or 79.1%, in net revenue from the early termination of leases.

- tenant recoveries and other revenue increased due primarily to the increase in property operating expenses described below. While we do have some lease structures under which tenants pay for 100% of properties operating expenses, our most prevalent lease structure is for tenants to pay for a portion of property operating expenses to the extent that such expenses exceed amounts established in their respective leases that are based on historical expense levels. As a result, while there is an inherent direct relationship between our tenant recoveries and property operating expenses, this relationship does not result in a dollar for dollar increase in tenant recoveries as property operating expenses increase.

The increase in the Same-Office Properties property operating expenses from 2007 to 2008 included the following:

- an increase of $3.1 million attributable to direct miscellaneous reimbursable expenses pertaining to specific tenants;

- an increase of $1.8 million, or 9.2%, in real estate taxes, which included the effect of increased property value assessments in our portfolio, most notably an increase of $1.3 million, or 19.9%, attributable to our Northern Virginia portfolio;

- an increase of $1.5 million, or 13.8%, in costs for asset and property management operations, much of which was due to increases in the size of our employee base supporting such operations;

- an increase of $885,000, or 3.5%, in electric utilities expense, which included the effect of: (1) increased usage at certain properties due to increased occupancy; (2) our assumption of responsibility for payment of utilities at certain properties due to changes in lease structures; and (3) rate increases that we believe are the result of (a) increased oil prices and (b) energy deregulation in Maryland;

- an increase of $814,000, or 6.8%, in cleaning services and related supplies due in large part to increased contract rates and increased occupancy at certain properties;

- an increase of $803,000, or 14.5%, in heating and air conditioning repairs and maintenance due primarily to an increase in general repair activity and the commencement of new service arrangements at certain properties;

- an increase of $574,000, or 248.2%, in bad debt expense due to additional reserves on tenant receivables;

- an increase of $452,000, or 59.7%, in exterior repairs and maintenance due in large part to additional projects undertaken for roof repairs and building caulking and sealing; and

- a decrease of $1.5 million, or 58.9%, in snow removal due to decreased snow and ice in most of our regions in 2008.

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	Changes from 2006 to 2007				
	Property Additions Dollar Change (1)	Same-Office Properties Dollar Change	Same-Office Properties Percentage Change	Other Dollar Change (2)	Total
Revenues from real estate operations					
Rental revenue	$ 56,257	$ 5,092	2.1%	$ 326	$ 61,675
Tenant recoveries and other real estate operations revenue	8,880	4,238	12.0%	(323)	$ 12,795
Total	$ 65,137	$ 9,330	3.4%	$ 3	$ 74,470
Property operating expenses	$ 21,491	$ 6,872	7.8%	$ 1,807	$ 30,170
Straight-line rental revenue adjustments included in rental revenue	$ 3,439	$ (1,621)	N/A	$ 81	$ 1,899
Amortization of deferred market rental revenue	$ 28	$ 372	N/A	$ (114)	$ 286
Number of operating properties included in component category	77	150	N/A		227

(1) Includes 63 acquired properties, 12 newly-constructed properties and two redevelopment properties placed into service.

(2) Includes, among other things, the effects of amounts eliminated in consolidation. Certain amounts eliminated in consolidation

are attributable to the Property Additions and Same-Office Properties.

As the table above indicates, our total increase in revenues from real estate operations and property operating expenses from 2006 to 2007 was attributable primarily to the Property Additions.

With regard to changes in the Same-Office Properties revenues from real estate operations from 2006 to 2007:

- the increase in rental revenue included the following:

- an increase of $6.2 million, or 2.7%, in rental revenue attributable primarily to changes in occupancy and rental rates between the two periods. Included in this increase was a $5.0 million increase attributable to three properties ($3.8 million in two properties in Northern Virginia and $1.2 million in one property in the Baltimore/Washington Corridor) and a $1.8 million decrease attributable to one property in Suburban Baltimore; partially offset by

- a decrease of $1.1 million, or 35.8%, in net revenue from the early termination of leases.

- tenant recoveries and other revenue increased due primarily to the increase in property operating expenses described below.

The increase in the Same-Office Properties property operating expenses from 2006 to 2007 included the following:

- an increase of $2.9 million, or 14.5%, in utilities due primarily to the same reasons discussed above for the change from 2007 to 2008;
- an increase of $1.6 million, or 201.7%, in snow removal due to increased snow and ice in most of our regions in 2007;
- an increase of $924,000, or 5.5%, in real estate taxes reflecting primarily an increase in the assessed value of many of our properties. Included in this amount was an increase of $241,000, or 55.8%, attributable to our Colorado Springs portfolio which had a number of properties with significantly higher assessed values;
- an increase of $701,000, or 16.1%, in heating and air conditioning repairs and maintenance due to an increase in general repair activity and the commencement of new service arrangements at certain properties; and
- an increase of $714,000, or 8.9%, in repairs and maintenance labor due primarily to: (1) an increase in labor hours due mostly to the addition of new employees to address staffing needs and increased labor requirements at certain properties with increased occupancy; and (2) higher labor rates resulting from an increase in the underlying costs for labor. The higher labor rates were attributable in part to an inflationary trend but also were due to the increased need for us to employ individuals with specialized skills who command higher rates.

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The $1.8 million increase in property operating expenses from 2006 to 2007 that was not attributable to Property Additions or Same-Office Properties included a $1.3 million increase associated with the former Fort Ritchie United States Army base in Cascade, Washington County, Maryland, of which we acquired 500 acres on October 5, 2006 and 91 acres on November 29, 2007. While we had development activities underway at the Fort Ritchie project in 2007, the $1.3 million in operating expenses was associated with the portions of the project held for future lease or development.

Construction Contract and Other Service Revenues and Expenses

The table below sets forth changes in our construction contract and other service revenues and expenses (dollars in thousands):

	Changes from 2007 to 2008			Changes from 2006 to 2007		
	Construction Contract Dollar Change	Other Service Operations Dollar Change	Total Dollar Change	Construction Contract Dollar Change	Other Service Operations Dollar Change	Total Dollar Change
Service operations						
Revenues	$ 149,534	$ (2,374)	$ 147,160	$ (15,108)	$ (3,751)	$ (18,859)
Expenses	146,388	(2,039)	144,349	(14,238)	(3,314)	(17,552)
Income from service operations	$ 3,146	$ (335)	$ 2,811	$ (870)	$ (437)	$ (1,307)

The revenues and costs associated with these services include subcontracted costs that are reimbursed to us by the customer at no mark up. As a result, the operating margins from these operations are small relative to the revenue. We use the net of service operations revenues and expenses to evaluate performance. The increase in income from service operations from 2007 to 2008 was due primarily to a large volume of construction contract activity recognized in 2008 in connection with three large contracts, all of which were with the United States Government. The decrease in income from service operations from 2006 to 2007 was due primarily to: (1) a slow down in activity on certain third party constructions jobs; and (2) a decrease in third party work for heating and air conditioning controls and plumbing services due primarily to our decision in 2007 to limit the amount of these services that we provide to third parties and, instead, focus on providing services predominantly for our properties. As evidenced in the changes set forth above, our volume of construction contract activity is inherently subject to significant variability depending on the volume and nature of projects undertaken by us (primarily on behalf of tenants), and therefore the increase in activity that occurred in 2008 should not necessarily be considered to be a trend that will continue. We view our service operations as an ancillary component of our overall operations that should continue to be a small contributor to our operating income relative to our real estate operations.

Depreciation and Amortization

Our depreciation and other amortization expense from continuing operations increased from 2006 to 2007 by $28.4 million, or 37.1%, due primarily to a $30.4 million increase attributable to the Property Additions. Of the increase attributable to the Property Additions, $22.8 million was attributable to the Nottingham Acquisition. When we acquire operating properties, a portion of the acquisition value of such properties is generally allocated to assets with depreciable lives that are based on the lives of the underlying leases. Compared to other acquisitions completed by us in the past, the Nottingham Acquisition had a considerably larger portion of the value of the operating properties allocated to assets with lives that are based on the lives of the underlying leases; due to that fact and the fact that a large number of the leases in these properties had lives of four years or less, much of the depreciation and amortization associated with these properties was front-loaded to the four years following the completion of the acquisition. This is resulting in increased depreciation and amortization expense from 2007 to 2010. The net increase in depreciation and other amortization expense from 2006 to 2007 also included a decrease of $2.9 million attributable to one of the Same-Office Properties that had significant depreciation and amortization expense in 2006 associated with a lease that terminated in 2006.

Our depreciation and other amortization expense from continuing operations decreased from 2007 to 2008 by $2.0 million, or 1.9%, due primarily to a number of shorter lived assets becoming fully amortized during or prior to the current periods, including assets associated with the Nottingham Acquisition. The effect of these decreases more than offset additional depreciation and amortization associated with new assets placed into service.

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General and Administrative Expenses

Our general and administrative expense increased by $3.6 million, or 16.7%, from 2007 to 2008, and by $3.7 million, or 20.3%, from 2006 to 2007. Much of this increase was attributable to an increase in the size of our employee base in response to the continued growth of the Company. A portion of the increase from 2007 to 2008 can also be attributed to costs associated with a number of information technology initiatives pursued during the year, the largest of which was for the implementation of an Enterprise Resource Planning software package.

General and administrative expenses increased as a percentage of operating income from 16.9% in 2006 to 18.4% in 2007 and to 18.8% in 2008. Much of this trend can be attributed to the increase in the size of our employee base in response to the continued growth of the Company. We believe in 2008 that we substantially completed the right-sizing of our employee base that was required in response to our growth and, therefore, expect only modest growth in general and administrative expense in 2009 and 2010.

Interest Expense

Our interest expense included in continuing operations decreased from 2007 to 2008 by $1.9 million, or 2.3%. This decrease included the effects of the following:

- a decrease in the weighted average interest rates of our debt from 5.8% to 5.2%, much of which can be attributed to decreases in the one-month LIBOR rate in the latter portion of 2007 and in 2008; partially offset by
- an increase in our average outstanding debt balance by 7.4% due primarily to debt incurred to fund our 2007 and 2008 construction activities.

Our interest expense included in continuing operations increased from 2006 to 2007 by $12.6 million, or 17.3%. This increase included the effects of the following:

- a 26.1% increase in our average outstanding debt balance, resulting primarily from our 2006 and 2007 acquisition and construction activities; offset in part by the effects of
- an increase in interest capitalized to construction, development and redevelopment projects of $4.7 million, or 32.4%, due to increased construction, development and redevelopment activity; and
- a decrease in our weighted average interest rates from 6.2% to 5.8%.

Gain on Early Extinguishment of Debt

In November 2008, we repurchased a $37.5 million aggregate principal amount of our 3.5% Exchangeable Senior Notes for $26.7 million. We recognized a gain of $10.4 million in connection with this repurchase.

Interest and Other Income

Included in interest and other income for 2008 was $1.4 million in interest income associated with a mortgage loan receivable into which we entered in August 2008, which is discussed in further detail in the section below entitled Investing and Financing Activities During 2008.

Included as interest and other income for 2007 was a $1.0 million gain recognized on the disposition of most of our investment in TractManager, Inc., an investment that we account for using the cost method of accounting. TractManager, Inc. is an entity that developed an Internet-based contract imaging system for sale to real estate owners and healthcare providers.

Minority Interests

Interests in our Operating Partnership are in the form of preferred and common units. The line entitled minority interests in income from continuing operations includes primarily income from continuing operations allocated to preferred and common units not owned by us. Income is allocated to minority interest preferred unitholders in an amount equal to the priority return from the Operating Partnership to which they are entitled. Income is allocated to minority interest common unitholders based on the income earned by the Operating Partnership, after allocation to preferred unitholders, multiplied by the percentage of the common units in the Operating Partnership owned by those common unitholders.

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As of December 31, 2008, we owned 86.2% of the outstanding common units and 95.8% of the outstanding preferred units. The percentage of the Operating Partnership owned by minority interests during the last three years decreased in the aggregate due primarily to the effect of the following transactions:

- the issuance of additional units to us as we issued new preferred shares and common shares during 2006 through 2008 due to the fact that we receive preferred units and common units in the Operating Partnership each time we issue preferred shares and common shares; and
- the exchange of common units for our common shares by certain minority interest holders of common units; offset in part by
- our issuance of common units to third parties totaling 262,165 in 2007 and 181,097 in 2006 in connection with acquisitions; and
- the redemption by us of the Series E and Series F Cumulative Redeemable Preferred Shares of beneficial interest, and the corresponding Series E and Series F Preferred Units, in 2006.

Our income from continuing operations allocated to minority interests increased by $4.2 million, or 124.8%, from 2007 to 2008 and decreased by $411,000, or 11.0%, from 2006 to 2007. These changes are due primarily to: (1) the changes in the income available to allocate to minority interests holders of common units attributable primarily to the reasons set forth above for changes in revenue and expense items; and (2) the decreasing effect of our increasing ownership of common units (from 81.6% at December 31, 2005 to 86.2% at December 31, 2008).

Discontinued Operations, Net of Minority Interests

Our discontinued operations decreased $16.2 million, or 88.0%, from 2006 to 2007 due primarily to changes in gain from sales of real estate included in discontinued operations. See Note 17 to the Consolidated Financial Statements for a summary of the components of income from discontinued operations.

Adjustments to Net Income to Arrive at Net Income Available to Common Shareholders

In 2006, we recognized a $3.9 million decrease to net income available to common shareholders pertaining to the original issuance costs incurred on the Series E and Series F Preferred Shares of beneficial interest that were redeemed in 2006.

Liquidity and Capital Resources

Our primary cash requirements are for operating expenses, debt service, development of new properties, improvements to existing properties and acquisitions. While we may experience increasing challenges discussed elsewhere herein due to the current economic environment, we believe that our liquidity and capital resources are adequate for our near-term and longer-term requirements. We had cash and cash equivalents of $6.8 million and $24.6 million at December 31, 2008 and 2007, respectively. We maintain sufficient cash and cash equivalents to meet our operating cash requirements and short term investing and financing cash requirements. When we determine that the amount of cash and cash equivalents on hand is more than we need to meet such requirements, we may pay down our Revolving Credit Facility (defined below) or forgo borrowing under construction loan credit facilities to fund development activities.

We rely primarily on fixed-rate, non-recourse mortgage loans from banks and institutional lenders to finance most of our operating properties. We have also made use of the public equity and debt markets to meet our capital needs, principally to repay or refinance corporate and property secured debt and to provide funds for project development and acquisition costs. We have an unsecured revolving credit facility (the Revolving Credit Facility) with a group of lenders that provides for borrowings of up to $600 million, $191.3 million of which was available at December 31, 2008; this facility is available through September 2011 and may be extended by one year at our option, subject to certain conditions. In addition, as discussed in greater detail below, we entered into our Revolving Construction Facility, which provides for borrowings of up to $225.0 million, $143.7 million of which was available at December 31, 2008 to fund future construction costs; this facility is available until May 2011 and may be extended by one year at our option, subject to certain conditions. Selective dispositions of operating and other properties may also provide capital resources in 2009 and in future years. We are continually evaluating sources of capital and believe that there are satisfactory sources available for meeting our capital requirements without necessitating property sales.

In our discussions of liquidity and capital resources, we describe certain of the risks and uncertainties relating to our business. Additional risks are described in Item 1A of our Annual Report on Form 10-K.

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Contractual Obligations

The following table summarizes our contractual obligations as of December 31, 2008 (in thousands):

	For the Years Ended December 31, 2009	2010	2011	2012	2013	Thereafter	Total
Contractual obligations (1)							
Debt (2)							
Balloon payments due upon maturity	$ 93,567	$ 64,658	$ 738,531	$ 257,524	$ 134,843	$ 536,587	$ 1,825,710
Scheduled principal payments	10,415	9,375	7,550	6,076	2,875	4,121	40,412
Interest on debt (3)	76,957	73,348	64,391	46,752	34,317	81,815	377,580
Acquisitions of properties						4,000	4,000
New construction and development contracts and obligations (4)(5)	79,062						79,062
Third-party construction and development contracts (5)(6)	171,520						171,520
Capital expenditures for operating properties (5)(7)	3,532						3,532
Operating leases (8)	604	339	126	15			1,084
Other purchase obligations (9)	2,500	2,500	2,451	2,396	2,309	5,232	17,388
Total contractual cash obligations	$ 438,157	$ 150,220	$ 813,049	$ 312,763	$ 174,344	$ 631,755	$ 2,520,288

(1) The contractual obligations set forth in this table generally exclude individual contracts that had a value of less than $20,000. Also excluded are contracts associated with the operations of our properties that may be terminated with notice of one month or less, which is the arrangement that applies to most of our property operations contracts.

(2) Represents scheduled principal amortization payments and maturities only and therefore excludes a net premium of $501,000. We expect to refinance the balloon payments that are due in 2009 and 2010 using primarily a combination of borrowings from our Revolving Credit Facility and proceeds from debt refinancings. The principal maturities occurring in 2011 include $473.8 million that may be extended for one-year, subject to certain conditions.

(3) Represents interest costs for debt at December 31, 2008 for the terms of such debt. For variable rate debt, the amounts reflected above used December 31, 2008 interest rates on variable rate debt in computing interest costs for the terms of such debt.

(4) Represents contractual obligations pertaining to new construction, development and redevelopment activities. We expect to finance these costs primarily using proceeds from our Revolving Construction Facility and Revolving Credit Facility.

(5) Because of the long-term nature of certain construction and development contracts, some of these costs will be incurred beyond 2009.

(6) Represents contractual obligations pertaining to projects for which we are acting as construction manager on behalf of unrelated parties who are our clients. We expect to be reimbursed in full for these costs by our clients.

(7) Represents contractual obligations pertaining to capital expenditures for our operating properties. We expect to finance all of these costs using cash flow from operations.

(8) We expect to pay these items using cash flow from operations.

(9) Primarily represents contractual obligations pertaining to managed-energy service contracts in place for certain of our operating properties. We expect to pay these items using cash flow from operations.

Certain of our debt instruments require that we comply with a number of restrictive financial covenants, including leverage ratio, minimum net worth, minimum fixed charge coverage, minimum debt service and maximum secured indebtedness. As of December 31, 2008, we were in compliance with these financial covenants.

Other Future Cash Requirements for Investing and Financing Activities

As of December 31, 2008, we had construction activities underway on ten office properties totaling 1.2 million square feet that were 43.3% leased, or considered committed to lease (including three properties owned through joint ventures). We estimate remaining costs to be incurred will total approximately $82.4 million upon completion of these properties; we expect to incur these costs through 2010. We expect to fund these costs using primarily borrowings from our Revolving Construction Facility and Revolving Credit Facility.

As of December 31, 2008, we had development activities underway on seven new office properties estimated to total 767,000 square feet. We estimate that costs for these properties will total approximately $165.0 million. As of December 31, 2008, costs incurred on these properties totaled $17.7 million and the balance is expected to be incurred through 2012. We expect to fund most of these costs using borrowings from our Revolving Construction Facility.

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We had redevelopment activities underway on one property at December 31, 2008 and expect to commence redevelopment on an additional property in 2009. We expect to incur an aggregate of approximately $40.0 million in costs in connection with these projects from 2009 to 2010.

In September 2007, the City of Colorado Springs announced that it had selected us to be the master developer for the 277-acre site located in the Colorado Springs Airport Business Park, known as Cresterra, which is located at the entrance of the Colorado Springs Airport and adjacent to Peterson Air Force Base. We are currently in the process of negotiating the development agreement and long-term ground lease with the City of Colorado Springs regarding the details of this arrangement; we expect that the terms of these agreements will be finalized in 2009. We expect that this business park can support potential development of approximately 3.5 million square feet, including office, retail, industrial, hospitality and flex space. For this project, we expect to oversee development, construction, leasing and management and have a leasehold interest in buildings.

We often use our Revolving Credit Facility initially to finance much of our investing and financing activities. We then pay down our Revolving Credit Facility using proceeds from long-term borrowings as attractive financing conditions arise and equity issuances as attractive equity market conditions arise. Amounts available under the facility are computed based on 65% of our unencumbered asset value, as defined in the agreement. As discussed above, as of December 31, 2008, the borrowing capacity under the Revolving Credit Facility was $600.0 million, of which $191.3 million was available.

As previously discussed, the United States financial markets are experiencing extreme volatility, and credit markets have tightened considerably. As a result, the level of risk that we may not be able to obtain new financing for acquisitions, development activities or other capital requirements at reasonable terms, if at all, in the near future has increased. Actions taken by us to reduce this level of risk include the following:

- we entered into the $225.0 million Revolving Construction Facility in May 2008, which we expect to use in funding much of our future development activities;
- we managed our debt to avoid significant concentrations of maturities in any particular year and have what we believe to be limited and manageable maturities over the next two years;
- we raised $139.2 million in net proceeds from the issuance of common shares in September 2008, which we used to pay down our Revolving Credit Facility in order to create borrowing capacity; and
- we entered into three new interest rate swaps to manage our exposure to increases in interest rates.

We believe that we have sufficient capacity under our Revolving Credit Facility to satisfy our 2009 debt maturities. We also believe that we have sufficient capacity under our Revolving Construction Facility to fund the construction of properties that were under construction by year end, as well as properties expected to be started in 2009. We do expect to pursue a certain amount of new permanent and medium-term debt in 2009; if we are successful in obtaining this debt, we expect to use the proceeds to pay down our Revolving Credit Facility to create additional borrowing capacity to enable us to fund future investment opportunities.

We found it increasingly difficult in 2008 to locate attractive acquisition opportunities due to a significant spread between seller expectations and prices that met our investment criteria. We are optimistic that that there will be more opportunities for acquisitions in 2009. Given the current economic climate, we are expecting that it could be more challenging in 2009 to raise capital through offerings of common and preferred shares at favorable terms than it has been historically. We also expect it to be challenging to raise capital through the sale of properties due to a lack of credit availability for potential buyers. As a result, we expect that we would likely fund any future acquisition opportunities using capacity created under our Revolving Credit Facility from new debt.

Operating Activities

Our cash flow from operations increased $44.2 million, or 32.1%, from 2007 to 2008; this increase is attributable in large part to: (1) the additional cash flow from operations generated by our property additions; and (2) the timing of cash flow associated with third-party construction projects in the current period. We expect to continue to use cash flow provided by operations to meet our short-term capital needs, including all property operating expenses, general

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and administrative expenses, interest expense, scheduled principal amortization of debt, dividends to our shareholders, distributions to our minority interest holders of preferred and common units in the Operating Partnership and capital improvements and leasing costs. We do not anticipate borrowing to meet these requirements.

As described previously, we expect that the effects of the global downturn on our real estate operations will make our leasing activities increasingly challenging in 2009, 2010 and perhaps beyond. As a result, there could be an increasing likelihood as leases expire of our being unsuccessful in renewing tenants or renewing on terms less favorable to us than the terms of the original leases. If a tenant leaves, we can expect to experience a vacancy for some period of time as well as higher tenant improvement and leasing costs than if a tenant renews. As a result, our cash flow of operations would be adversely affected if we experience a high volume of tenant departures at the end of their lease terms. While we believe that our largest tenants represent favorable credit risk, we believe that there may be an increased likelihood in the current economic climate of tenants encountering financial hardships; if one of our major tenants or a number of our smaller tenants were to experience financial difficulties, including bankruptcy, insolvency or general downturn of business, and as a result default in their lease obligations to us, our cash flow from operations would be adversely affected. During 2008, our cash flow from operations benefitted from a decrease in short-term interest rates; if short-term interest rates were to increase, the interest payments on our variable-rate debt would increase, which would have a decreasing effect on our cash flow from operations. These and other factors that could negatively affect our ability to generate cash flow from operations in the future are discussed in further detail in Item 1A of our 2008 Annual Report on Form 10-K.

Investing and Financing Activities During 2008

In 2008, we acquired three office properties totaling 247,000 square feet and three parcels of land that we believe can support 1.8 million developable square feet for $59.8 million. These acquisitions were financed using primarily borrowings from our Revolving Credit Facility.

We had seven newly-constructed buildings totaling 528,000 square feet (three located in Colorado Springs and two each in the Baltimore/Washington Corridor and San Antonio) become fully operational in 2008 (89,000 of these square feet were placed into service in 2007). These properties were 85.6% leased or committed as of December 31, 2008. Costs incurred on these properties through December 31, 2008 totaled $84.6 million, $13.5 million of which was incurred in 2008. We financed the 2008 costs using primarily borrowings from our Revolving Credit Facility.

During 2008, we also placed into service 59,000 square feet that were redeveloped in a property located in Northern Virginia. Most of the costs for this space, which became 100% leased subsequent to December 31, 2008, were incurred in prior years.

As discussed above, at December 31, 2008, we had construction activities underway on ten office properties totaling 1.2 million square feet that were 43.3% leased, or considered committed to lease (including 85,000 square feet already placed into service). Three of these properties are owned through consolidated joint ventures. Costs incurred on these properties through December 31, 2008 totaled approximately $174.0 million, of which approximately $121.3 million was incurred in 2008. The costs incurred in 2008 were funded using borrowings from our Revolving Credit Facility and Revolving Construction Facility and cash reserves.

In 2008, we completed the formation of M Square, a consolidated joint venture in which we hold a 50% equity interest through Enterprise Campus Developer, LLC, another consolidated joint venture in which we own a 90% interest. M Square was formed to develop and own office properties, approved for up to approximately 750,000 square feet, located in M Square Research Park in College Park, Maryland.

The table below sets forth the major components of our additions to the line entitled Total Commercial Real Estate Properties on our Consolidated Balance Sheet for 2008 (in thousands):

Construction, development and redevelopment	$	188,460
Acquisitions		55,286
Tenant improvements on operating properties		20,280(1)
Capital improvements on operating properties		11,261
	$	275,287

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(1) Tenant improvement costs incurred on newly-constructed properties are classified in this table as construction, development and redevelopment.

In 2008, we sold three operating properties totaling 223,000 square feet for a total of $25.3 million, resulting in a gain of $2.6 million. The net proceeds from these sales after transaction costs totaled approximately $25.0 million. Our approximate application of the proceeds from these sales follows: $16.9 million to pay down borrowings under our Revolving Credit Facility; $5.1 million to fund an escrow that was used to fund a subsequent acquisition; and $3.0 million to fund cash reserves.

In 2008, we also completed the sale of six recently constructed office condominiums located in Northern Virginia for sale prices totaling $8.4 million in the aggregate, resulting in net proceeds of $7.8 million. We applied these proceeds to our cash operating reserves. We recognized an aggregate gain before minority interests and income taxes of $1.4 million on these sales.

On August 26, 2008, we loaned $24.8 million to the owner of a 17-story Class A+ rental office property containing 471,000 square feet in Baltimore, Maryland. We have a secured interest in the ownership of the entity that owns the property and adjacent land parcels that is subordinate to that of a first mortgage on the property. The loan, which matures on August 26, 2011, carries a primary interest rate of 16.0%, although certain additional principal fundings available under the loan agreement carry an interest rate of 20.0%. While interest is payable to us under the loan on a monthly basis, to the extent that the borrower does not have sufficient net operating cash flow (as defined in the agreement) to pay all or a portion of the interest due under the loan in a given month, such unpaid portion of the interest shall be added to the loan principal amount used to compute interest in the following month. We are obligated to fund an aggregate of up to $26.6 million under this loan, excluding any future compounding of unpaid interest. The balance of this mortgage loan receivable was $25.8 million at December 31, 2008. The first mortgage loan, which had a balance of $75.0 million at December 31, 2008, matures on August 9, 2009 and may be extended for two six-month periods, subject to certain conditions. If a default occurs under the terms of the loan with us or under the first mortgage loan, in order to protect our investment, we may need either to (1) purchase the first mortgage loan on the property or (2) foreclose on the ownership interest in the property and repay the first mortgage loan. For 2008, most of the interest that was payable under the loan due to us was not paid due to the borrower having insufficient net operating cash flow. Due to the commencement of a lease in the borrower s property in the later portion of 2008, we are expecting an improvement in the borrower s net operating cash flow that will enable them to pay the majority of interest payable under the loan for the 2009 period.

On May 2, 2008, we entered into a construction loan agreement with a group of lenders for which KeyBanc Capital Markets, Inc. acted as arranger, KeyBank National Association acted as administrative agent, Bank of America, N.A. acted as syndication agent and Manufacturers and Traders Trust Company acted as documentation agent; we refer to this loan as the Revolving Construction Facility. The construction loan agreement provides for an aggregate commitment by the lenders of $225.0 million, with a right for us to further increase the lenders aggregate commitment during the term to a maximum of $325.0 million, subject to certain conditions. Ownership interests in the properties for which construction costs are being financed through loans under the agreement are pledged as collateral. Borrowings are generally available for properties included in this construction loan agreement based on 85% of the total budgeted costs of construction of the applicable improvements for such properties as set forth in the properties construction budgets, subject to certain other loan-to-value and debt coverage requirements. As loans for properties under the construction loan agreement are repaid in full and the ownership interests in such properties are no longer pledged as collateral, capacity under the construction loan agreement s aggregate commitment will be restored, giving us the ability to obtain new loans for other construction properties in which we pledge the ownership interests as collateral. The construction loan agreement matures on May 2, 2011 and may be extended by one year at our option, subject to certain conditions. The variable interest rate on each loan is based on one of the following, to be selected by us: (1) subject to certain conditions, the LIBOR rate for the interest period designated by us (customarily the one-month rate) plus 1.6% to 2.0%, as determined by our leverage levels at different points in time; or (2) the greater of (a) the prime rate of the lender then acting as agent or (b) the Federal Funds Rate, as defined in the construction loan agreement, plus 0.50%. Interest is payable at the end of each interest period (as defined in the agreement), and principal outstanding under each loan under the agreement is payable on the maturity date. The construction loan agreement also carries a quarterly fee that is based on the unused amount of the commitment multiplied by a per annum rate of 0.125% to 0.20%. At December 31, 2008, $81.3 million was outstanding under this facility and $143.7 million was available to fund future development costs.

On July 18, 2008, we borrowed $221.4 million under a mortgage loan requiring interest only payments for the term at a variable rate of LIBOR plus 225 basis points (subject to a floor of 4.25%). This loan facility has a four-year

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term with an option to extend by an additional year. We used $63.5 million of the proceeds from this loan to repay construction loan facilities that were due to mature in 2008, $11.8 million to repay borrowings under the Revolving Construction Facility, $142.0 million to repay borrowings under our Revolving Credit Facility and the balance to fund transaction costs.

In September 2008, we issued 3.7 million common shares at a public offering price of $39 per share, for net proceeds of $139.2 million after underwriting discount but before offering expenses. We contributed these net proceeds to our Operating Partnership in exchange for 3.7 million common units. The proceeds were then used to pay down our Revolving Credit Facility.

During 2008, we entered into the following interest rate swap agreements:

- $100.0 million notional amount on October 24, 2008 that fixes the one-month LIBOR base rate at 2.51% effective on November 3, 2008 and expiring on December 31, 2009;
- $120.0 million notional amount on December 17, 2008 that fixes the one-month LIBOR base rate at 1.76% effective on January 2, 2009 and expiring on May 1, 2012; and
- $100.0 million notional amount on December 29, 2008 that fixes the one-month LIBOR base rate at 1.975% effective on January 1, 2010 and expiring on May 1, 2012.

Analysis of Cash Flow Associated With Investing and Financing Activities

Our net cash flow used in investing activities decreased $37.6 million from 2007 to 2008. This decrease was due primarily to the following:

- a $72.5 million decrease in purchases of and additions to commercial real estate due primarily to the completion of the Nottingham Acquisition in 2007; offset in part by
- a $25.3 million mortgage loan receivable discussed above that was funded in 2008.

Our cash flow provided by financing activities decreased $116.3 million from 2007 to 2008. This decrease was due primarily to the following:

- a $429.5 million increase in balloon payments on debt due in large part to: (1) a higher level of debt refinancing activity in the current period; and (2) additional debt paid down using $139.2 million in proceeds from our issuance of common shares in September 2008; offset in part by
- a $213.2 million increase in proceeds from mortgage and other loans payable due primarily to a higher level of debt refinancing activity in the current period; and
- a $134.3 million increase in net proceeds from our issuance of common shares in September 2008.

Off-Balance Sheet Arrangements

During 2008, we owned an investment in an unconsolidated joint venture, Harrisburg Corporate Gateway Partners, L.P., for which we accounted using the equity method of accounting. This joint venture was entered into in 2005 to enable us to contribute office properties that were previously wholly owned by us into the joint venture in order to partially dispose of our interest in the properties. We managed the joint venture s property operations and any required construction projects and earned fees for these services in 2008. This joint venture has a two-member management committee that is responsible for making major decisions (as defined in the joint venture agreement) and we control one of the management committee positions.

We and our partner receive returns in proportion to our investments in the joint venture. As part of our obligations under the joint venture arrangement, we agreed to indemnify the partnership s lender for 80% of losses under standard nonrecourse loan guarantees (environmental indemnifications and guarantees against fraud and misrepresentation) during the period of time in which we manage the partnership s properties; we do not expect to incur any losses under these loan guarantees.

We have distributions in excess of our investment in this unconsolidated joint venture of $4.8 million at December 31, 2008 due to our not recognizing gain on the contribution of properties into the joint venture; we did not recognize a gain on the contribution since we have contingent obligations, as described above, remaining in effect as long as we continue to manage the joint venture s properties that may exceed our proportionate interest. We recognized a loss on

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our investment in this joint venture of $203,000 in 2008. We also realized a net cash inflow from this joint venture of $338,000 in 2008. In addition, we earned fees totaling $268,000 from the joint venture in 2008 for construction, asset management and property management services.

During 2008, we also owned investments in six joint ventures that we accounted for using the consolidation method of accounting. We enter into joint ventures such as these from time to time for reasons that include the following: (1) they can provide a facility to access new markets and investment opportunities while enabling us to benefit from the expertise and relationships of our partners; (2) they are an alternative source for raising capital to put towards acquisition or development activities; and (3) they can reduce our exposure to risks associated with a property and its activities. Our consolidated and unconsolidated joint ventures are discussed in Note 5 to our Consolidated Financial Statements, and certain commitments and contingencies related to these joint ventures are discussed in Note 18.

We had no other material off-balance sheet arrangements during 2008.

Funds From Operations

Funds from operations (FFO) is defined as net income computed using GAAP, excluding gains (or losses) from sales of real estate, plus real estate-related depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. Gains from sales of newly-developed properties less accumulated depreciation, if any, required under GAAP are included in FFO on the basis that development services are the primary revenue generating activity; we believe that inclusion of these development gains is in accordance with the National Association of Real Estate Investment Trusts (NAREIT) definition of FFO, although others may interpret the definition differently.

Accounting for real estate assets using historical cost accounting under GAAP assumes that the value of real estate assets diminishes predictably over time. NAREIT stated in its April 2002 White Paper on Funds from Operations that since real estate asset values have historically risen or fallen with market conditions, many industry investors have considered presentations of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. As a result, the concept of FFO was created by NAREIT for the REIT industry to address this problem. We agree with the concept of FFO and believe that FFO is useful to management and investors as a supplemental measure of operating performance because, by excluding gains and losses related to sales of previously depreciated operating real estate properties and excluding real estate-related depreciation and amortization, FFO can help one compare our operating performance between periods. In addition, since most equity REITs provide FFO information to the investment community, we believe that FFO is useful to investors as a supplemental measure for comparing our results to those of other equity REITs. We believe that net income is the most directly comparable GAAP measure to FFO.

Since FFO excludes certain items includable in net income, reliance on the measure has limitations; management compensates for these limitations by using the measure simply as a supplemental measure that is weighed in the balance with other GAAP and non GAAP measures. FFO is not necessarily an indication of our cash flow available to fund cash needs. Additionally, it should not be used as an alternative to net income when evaluating our financial performance or to cash flow from operating, investing and financing activities when evaluating our liquidity or ability to make cash distributions or pay debt service. The FFO we present may not be comparable to the FFO presented by other REITs since they may interpret the current NAREIT definition of FFO differently or they may not use the current NAREIT definition of FFO.

Basic funds from operations (Basic FFO) is FFO adjusted to (1) subtract (a) preferred share dividends and (b) issuance costs associated with redeemed preferred shares and (2) add back GAAP net income allocated to common units in the Operating Partnership not owned by us. With these adjustments, Basic FFO represents FFO available to common shareholders and common unitholders. Common units in the Operating Partnership are substantially similar to our common shares and are exchangeable into common shares, subject to certain conditions. We believe that Basic FFO is useful to investors due to the close correlation of common units to common shares. We believe that net income is the most directly comparable GAAP measure to Basic FFO. Basic FFO has essentially the same limitations as FFO; management compensates for these limitations in essentially the same manner as described above for FFO.

Diluted funds from operations (Diluted FFO) is Basic FFO adjusted to add back any changes in Basic FFO that would result from the assumed conversion of securities that are convertible or exchangeable into common shares. However, the computation of Diluted FFO does not assume conversion of securities other than common units in the Operating Partnership that are convertible into common shares if the conversion of those securities would increase

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Diluted FFO per share in a given period. We believe that Diluted FFO is useful to investors because it is the numerator used to compute Diluted FFO per share, discussed below. In addition, since most equity REITs provide Diluted FFO information to the investment community, we believe Diluted FFO is a useful supplemental measure for comparing us to other equity REITs. We believe that the numerator for diluted EPS is the most directly comparable GAAP measure to Diluted FFO. Since Diluted FFO excludes certain items includable in the numerator to diluted EPS, reliance on the measure has limitations; management compensates for these limitations by using the measure simply as a supplemental measure that is weighed in the balance with other GAAP and non-GAAP measures. Diluted FFO is not necessarily an indication of our cash flow available to fund cash needs. Additionally, it should not be used as an alternative to net income when evaluating our financial performance or to cash flow from operating, investing and financing activities when evaluating our liquidity or ability to make cash distributions or pay debt service. The Diluted FFO that we present may not be comparable to the Diluted FFO presented by other REITs.

Diluted funds from operations per share (Diluted FFO per share) is (1) Diluted FFO divided by (2) the sum of the (a) weighted average common shares outstanding during a period, (b) weighted average common units outstanding during a period and (c) weighted average number of potential additional common shares that would have been outstanding during a period if other securities that are convertible or exchangeable into common shares were converted or exchanged. However, the computation of Diluted FFO per share does not assume conversion of securities other than common units in the Operating Partnership that are convertible into common shares if the conversion of those securities would increase Diluted FFO per share in a given period. We believe that Diluted FFO per share is useful to investors because it provides investors with a further context for evaluating our FFO results in the same manner that investors use earnings per share (EPS) in evaluating net income available to common shareholders. In addition, since most equity REITs provide Diluted FFO per share information to the investment community, we believe Diluted FFO per share is a useful supplemental measure for comparing us to other equity REITs. We believe that diluted EPS is the most directly comparable GAAP measure to Diluted FFO per share. Diluted FFO per share has most of the same limitations as Diluted FFO (described above); management compensates for these limitations in essentially the same manner as described above for Diluted FFO.

Our Basic FFO, Diluted FFO and Diluted FFO per share for 2004 through 2008 and reconciliations of (1) net income to FFO, (2) the numerator for diluted EPS to diluted FFO and (3) the denominator for diluted EPS to the denominator for diluted FFO per share are set forth in the following table (dollars and shares in thousands, except per share data):

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	For the Years Ended December 31, (in thousands, except per share data)				
	2008	2007	2006	2005	2004
Net income	$ 58,668	$ 34,784	$ 49,227	$ 39,031	$ 37,032
Add: Real estate-related depreciation and amortization	102,772	106,260	78,631	62,850	