

CARRAMERICA REALTY CORP

Form 10-K

February 28, 2003

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For fiscal year ended December 31, 2002

OR

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

For the transition period from _____ to _____

Commission File Number 1-11706

CARRAMERICA REALTY CORPORATION

(Exact name of registrant as specified in its charter)

Maryland
(State of Incorporation)

52-1796339
(I.R.S. Employer Identification No.)

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1850 K Street, N.W.

Washington, D.C.
(Address of principal executive offices)

20006
(Zip Code)

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

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

| <u>Title of each class</u> | <u>Name of each exchange on which registered</u> |
|--|--|
| Common Stock, \$0.01 Par Value | New York Stock Exchange |
| Series B Cumulative Redeemable Preferred Stock, \$0.01 Par Value | New York Stock Exchange |
| Series C Depositary Cumulative Redeemable Preferred Stock, \$0.001 Par Value | New York Stock Exchange |
| Series D Depositary Cumulative Redeemable Preferred Stock, \$0.001 Par Value | New York Stock Exchange |

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

None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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. x

Indicate by a check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes x No "

As of June 28, 2002, the aggregate market value of Common Stock held by non-affiliates of the registrant was approximately \$1,536.8 million, based upon the closing price of \$30.85 on the New York Stock Exchange composite tape on such date.

Number of shares of Common Stock outstanding as of February 24, 2003: 51,737,323

DOCUMENTS INCORPORATED BY REFERENCE: Portions of the proxy statement for the Annual Stockholders Meeting to be held in 2003 are incorporated by reference into Part III.

PART 1

Item 1. Business

THE COMPANY

General

CarrAmerica Realty Corporation is a fully integrated, self-administered and self-managed publicly traded real estate investment trust (REIT). We focus on the acquisition, development, ownership and operation of office properties, located primarily in selected markets across the United States. As of December 31, 2002, we owned greater than 50% interests in 260 operating office buildings and two office buildings and one residential property under construction. The 260 operating office buildings contain a total of approximately 20.3 million square feet of net rentable area. The two office buildings under construction will contain approximately 70,000 square feet of net rentable area. The stabilized operating buildings (those in operation more than one year) in which we owned a controlling interest as of December 31, 2002 were 92.3% leased. These properties had approximately 1,050 tenants. As of December 31, 2002, we also owned minority interests (ranging from 15% to 50%) in 36 operating office buildings and two buildings under construction. The 36 operating office buildings contain a total of approximately 4.9 million square feet of net rentable area. The two office buildings under construction will contain approximately 608,000 square feet of net rentable area. The stabilized operating buildings in which we owned a minority interest as of December 31, 2002 were 92.3% leased.

We were organized as a Maryland corporation on July 9, 1992. We or our predecessor, The Oliver Carr Company (OCCO), have developed, owned and operated office buildings in the Washington, D.C. metropolitan area for more than 40 years. Our experienced staff of approximately 780 employees, including about 470 on-site building employees, provides a broad range of real estate services. Our principal executive offices are located at 1850 K Street, NW, Washington, DC 20006. Our telephone number is 202-729-1700. Our web site can be found at www.carramerica.com.

Business Strategy

Our primary business objectives are to achieve long-term sustainable per share earnings and cash flow growth and to maximize stockholder value by acquiring, developing, owning and operating office properties primarily in markets throughout the United States that we believe exhibit strong, long-term growth characteristics. We believe we utilize our knowledge of our core markets to evaluate market conditions in order to maintain strategic flexibility and determine whether those conditions favor acquisition, development or disposition of assets. During the last five years, we have actively deployed capital between acquisitions and development in order to create a portfolio with strong long-term growth prospects.

Our principal segment of operations is real estate property operations, which consist primarily of commercial property ownership. Approximately 95.4% of our operating revenues for the year ended December 31, 2002 were associated with our real estate property operations. Other business activities, including development and property management services, are included in other operations.

Local Market Focus

We focus our acquisition and development activity in U.S. markets that possess favorable long-term growth characteristics.

We have established a local presence in each of our existing markets by acquiring and/or developing a critical mass of properties. This local presence is maintained through continuing investment and development activity and relationships established by our Market Managing Directors.

Activities in each of the markets in which we own property are overseen by a Market Managing Director. Our Market Managing Directors are responsible for maximizing the performance of our properties in their respective markets, ensuring that we are consistently meeting the needs of our customers, identifying new growth opportunities and maintaining active relationships with real estate brokers. Because they meet with our customers and local brokers on a regular basis, the Market Managing Directors have extensive knowledge of local conditions in their respective markets and are invaluable in building our local operations and investment strategies.

Our property net operating income by market for the year ended December 31, 2002 was as follows:

| Market | Percent of Property Operating Income for the Year Ended 12/31/2002 |
|------------------------|--|
| San Francisco Bay Area | 33.6 |
| Washington, D.C. Metro | 21.4 |
| Southern California | 14.2 |
| Seattle/Portland | 7.8 |
| Dallas | 3.6 |
| Atlanta | 5.0 |
| Chicago | 4.9 |
| Phoenix | 3.0 |
| Denver | 2.9 |
| Salt Lake City | 2.3 |
| Austin | 1.3 |
| | 100.0 |

As a result of the ongoing weak economic climate, the real estate markets have been materially affected. The sustained lack of job growth has reduced demand for office space and overall vacancy rates for office properties have increased in most of our markets. In reviewing various outlooks for the economy, we believe that the vacancy rates will not improve in any material fashion until at least 2004. During 2002, our markets weakened significantly and our operations in those markets were adversely impacted. The occupancy in our portfolio of stabilized operating properties decreased to 92.3% at December 31, 2002 compared to 95.3% at December 31, 2001 and 97.4% at December 31, 2000. Market rental rates have declined in most markets from peak levels and we believe there will be additional declines in some markets in 2003. Rental rates on space that was re-leased in 2002 decreased an average of 12.1% in comparison to rates that were in effect under expiring leases.

Flexible Investment Strategy

We have established a set of general guidelines and physical criteria to evaluate how we allocate our capital resources among investments, including acquisition, disposition and development opportunities. Our capital allocation decisions are driven by real estate research, which focuses on variables such as the economic growth rate, the composition of job growth and the office space supply and demand fundamentals of a particular market.

Acquisitions

From time to time, we have been very active in acquiring office properties. During 2002, we acquired five operating properties totaling almost 900,000 rentable square feet for approximately \$216.1 million, including assumed debt. We will continue to selectively pursue acquisitions in our markets where attractive opportunities exist, particularly when pricing yields make acquisitions of existing properties attractive in comparison to new property development. However, competition for available properties and unattractive yields may limit our acquisition

activities in 2003.

Dispositions

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

Development

Development of office properties is a component of our growth strategy. We believe that long-term investment returns resulting from properties we develop should generally exceed those from properties we acquire, without the assumption of significantly increased investment risks inherent in development properties. We seek to control development risks by:

- * Employing extensively trained and experienced development personnel;
- * Avoiding the assumption of entitlement risk in conjunction with land acquisitions;
- * Entering into guaranteed maximum price construction contracts with seasoned and credible contractors;
- * Focusing on pre-leasing space and build-to-suit opportunities with our customer network; and
- * Analyzing the supply and demand characteristics of a market before commencing inventory development in that market.

In the current environment, we have reduced our speculative development activities significantly and we are now primarily focused on the development of build-to-suit, substantially pre-leased projects and managing projects for third parties. Our research-driven development program enables us to tailor our development activities in each market, from inventory development, build-to-suit projects and acquiring and holding land for future development.

Financing

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

Stock Repurchases

Our Board of Directors has authorized us to spend up to \$400.0 million to repurchase our common stock, preferred stock and debt securities, excluding the 9.2 million shares repurchased from Security Capital Group, Incorporated (Security Capital) in November 2001 and our preferred stock redemption of 4.0 million shares in September 2002, which were separately approved. Since the start of this program in mid-2000 through December 31, 2002, we have acquired approximately 10.1 million of our common shares for an aggregate purchase price of approximately \$289.0 million. Additionally, during 2002, we repurchased 1.8 million shares of our preferred stock for approximately \$45.5 million, in addition to the 4.0 million shares we redeemed in September 2002 for \$100.0 million. We continue to monitor market conditions and other alternative

investments in order to evaluate whether repurchase of our securities represents an appropriate investment.

Joint Ventures

Joint venture arrangements provide us with opportunities to reduce investment risk by diversifying capital deployment and enhancing returns on invested capital from fee arrangements. We principally utilize these arrangements on projects characterized by large dollar-per-square foot costs and/or when we desire to limit capital deployment in certain of our markets. For example, in August 2000, we consummated a joint venture with the New York State Teachers' Retirement System. The transaction allowed us to further our business strategy of increasing returns on our invested capital and to recycle capital into and out of markets based on market dynamics. We

received approximately \$249.6 million in cash from the transaction at closing. In June 2001, the joint venture obtained third-party financing, and we received \$77.9 million of the financing proceeds.

2002 Activities

Acquisition Activity

During 2002, we acquired five operating properties totaling almost 900,000 rentable square feet for approximately \$216.1 million including assumed debt. The table below details our 2002 acquisitions.

| Property Name | Market | Month Acquired | Number of Buildings | Rentable Square Footage | Purchase Price (000) |
|------------------------|------------------------|-------------------|------------------------|-------------------------------|----------------------------|
| | | | | | |
| 11119 Torrey Pines Rd. | Southern California | May-02 | 1 | 76,701 | \$ 19,000 |
| Canal Center | Washington, DC Metro | Aug-02 | 4 | 492,001 | 121,779 |
| TransPotomac V Plaza | Washington, DC Metro | Aug-02 | 1 | 96,960 | 19,721 |
| Carroll Vista I & II | Southern California | Sep-02 | 3 | 107,579 | 24,600 |
| Stanford Research Park | San Francisco Bay Area | Oct-02 | 2 | 89,595 | 31,000 |
| | | | 11 | 862,836 | \$ 216,100 |

Disposition Activity

During 2002, we sold three operating properties totaling almost 900,000 square feet for approximately \$169.3 million in cash recognizing a total gain on the sales of \$29.8 million. The table below details our 2002 dispositions.

| 2002 | | | | | |
|------------------------|----------------|------------|---------------------|-------------------------------|--|
| Property Name | Market | Month Sold | Number of Buildings | Rentable Square Footage | |
| | | | | | |
| Wasatch 17 | Salt Lake City | May-02 | 1 | 72,088 | |
| Commons at Las Colinas | Dallas | Aug-02 | 3 | 604,234 | |
| Braker Point | Austin | Aug-02 | 1 | 195,230 | |

| | | |
|--|---|---------|
| | | |
| | 5 | 871,552 |

Development Activity

During 2002, we placed in service projects with approximately 114,000 rentable square feet of office space that were previously under development. The total cost of these projects was approximately \$15.8 million. We expect that the first year stabilized unleveraged return on this square footage will be approximately 8.5%. As of December 31, 2002, we had approximately 70,000 square feet of office space under construction in two projects that we wholly owned. Our total investment in these projects is expected to be \$9.5 million. Through December 31, 2002, we had expended \$7.4 million or 77.9% of the total expected investment for these projects. In conjunction with an office property development project through a joint venture, we are also developing a residential property. Total project costs for the residential property are expected to be \$19.9 million of which \$5.4 million had been expended as of December 31, 2002.

Development of properties for others has become a more significant part of this segment of our business. This includes development of properties for joint ventures in which we are partners and for unaffiliated parties.

As of December 31, 2002, we also had approximately 608,000 rentable square feet of office space under construction in two projects in which we own minority interests. These projects are expected to cost approximately \$188.3 million. Our total investment in these projects is expected to be approximately \$57.7 million. Through December 31, 2002, approximately 53.7% or \$101.2 million of the total project costs had been expended, of which our portion was \$31.3 million.

HQ Global Workplaces, Inc.

In 1997, we began making investments in HQ Global Workplaces, Inc. (HQ Global), a provider of executive office suites. On June 1, 2000, we, along with HQ Global, VANTAS Incorporated (VANTAS) and FrontLine Capital Group (FrontLine), consummated several transactions including (i) the merger of VANTAS with and into HQ Global, (ii) the acquisition by FrontLine of shares of HQ Global common stock from us and other stockholders of HQ Global, and (iii) the acquisition by VANTAS of our debt and equity interests in OmniOffices (UK) Limited and OmniOffices LUX 1929 Holding Company S.A. We received \$377.3 million in cash in connection with these transactions. In addition, \$140.5 million of debt which we had guaranteed was repaid with a portion of the cash proceeds. Following the transaction, we owned approximately 16% of the equity of HQ Global on a diluted basis and our investment had a carrying value of \$42.2 million.

FrontLine, the majority stockholder of HQ Global, announced in October 2001 that HQ Global was in default with respect to certain covenant and payment obligations under its senior and mezzanine term indebtedness, was in a forbearance period with HQ Global lenders and was actively negotiating with those lenders. In November 2001, FrontLine disclosed that it had recognized an impairment in the value of intangible assets relating to HQ Global due to HQ Global's trend of operating losses and its inability to remain in compliance with the terms of its debt arrangements. Based on these factors, our analysis of the financial condition and operating results of HQ Global (which deteriorated significantly during 2001 as the economic slowdown reduced the demand for temporary office space, particularly from technology-related tenants) and the losses of key board members and executives by HQ Global, particularly in the last half of 2001, we determined in the fourth quarter of 2001, that our investment in HQ Global was impaired. We recorded a \$42.2 million impairment charge, reducing the carrying value of our remaining investment in HQ Global to zero.

On March 13, 2002, HQ Global filed for bankruptcy protection under Chapter 11 of the federal bankruptcy laws. During 1997 and 1998, to assist HQ Global as it grew its business, we provided guarantees of HQ Global's performance under four office leases. To our knowledge, all monthly rental payments were made by HQ Global under two of these leases through January 2002, and rental payments under the other two leases were made through February 2002. In connection with the June 2000 merger transaction, FrontLine agreed to indemnify us against any losses incurred with respect to guarantees of the four office leases. However, on June 12, 2002, FrontLine also filed for bankruptcy protection under Chapter 11 of the federal bankruptcy laws, and therefore it is unlikely that we will recover any resulting losses from FrontLine under this indemnity.

In the course of its bankruptcy proceedings, HQ Global has filed motions to reject two of these four leases. One lease is for space in San Jose, California. This lease is for approximately 22,000 square feet of space at two adjacent buildings and runs through October 2008. Total aggregate remaining lease payments under this lease as of February 1, 2002 were approximately \$6.2 million (approximately \$0.7 million of which was payable in 2002); however, our liability under this guarantee was limited to approximately \$2.0 million. We reached an agreement with the landlord of this lease under which we paid \$1.75 million in full satisfaction of the guarantee in January 2003. We recognized this expense in 2002.

The second lease that was rejected by HQ Global is a sublease for space in downtown Manhattan. This lease is for approximately 26,000 square feet of space and runs through March 2008, with total aggregate remaining lease payments as of February 1, 2002 of approximately \$5.4 million (approximately \$0.8 million of which was payable in 2002). In June 2002, we received a demand for payment of the full amount of the guarantee. However, we believe that we have defenses to payment under this guarantee available to us and joined with HQ Global in filing suit on July 24, 2002 in HQ Global's bankruptcy proceedings asking the bankruptcy court to declare that the lease was terminated by the landlord of the sublease not later than February 28, 2002. On July 26, 2002, the landlord under the sublease filed suit in federal court in New York seeking payment from us under this guarantee. In light of our defenses and these proceedings, we have not accrued any expense relating to this guarantee; however, there can be no assurance as to the outcome of the pending litigation or that we will not incur expense or be required to make cash payments relating to this guarantee up to the full amount of the guarantee. As of December 31, 2002, we had not made any payments under this guarantee.

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HQ Global has not filed a motion seeking to reject the remaining two leases that we have guaranteed, although it could do so in the future. Even if the leases are not rejected, we may ultimately be liable to the lessors for payments due under the leases. In one case, the lease is for approximately 25,000 square feet of space in midtown Manhattan, and our liability is currently capped at approximately \$0.5 million, which liability reduces over

the life of the lease until its expiration in September 2007. As of December 31, 2002, we have not accrued any expense related to or made any payments under this guarantee.

The remaining lease is for space in San Mateo, California. This lease is for approximately 19,000 square feet of space and runs through January 2013, with total aggregate remaining lease payments as of March 1, 2002 of approximately \$10.4 million (approximately \$0.6 million of which was payable in 2002). We initially recognized an expense of \$0.4 million under this guarantee in the first quarter of 2002 based on a tentative agreement with HQ Global under which HQ Global would not reject this lease obligation and we would fund HQ Global's operating losses at this location for a limited period of time. Due to deteriorating conditions in the local commercial real estate market, HQ Global subsequently determined that the tentative agreement was not in its best interest. HQ Global indicated to us that it intended to reject this lease unless its rent was reduced to current market rates. As an interim measure, we entered into an agreement with HQ Global as of June 30, 2002 to fund operating losses at this location up to an aggregate amount of \$130,000 in exchange for HQ Global forbearing from rejecting this lease until September 15, 2002, or if it obtained from the bankruptcy court an extension of time within which to reject leases, November 1, 2002. Because the bankruptcy court has since twice extended the time period within which HQ Global may reject this lease to May 9, 2003, we have twice extended the existing forbearance agreement in exchange for funding operating losses up to an additional aggregate amount of \$245,000. As a result of our efforts to mitigate our exposure under this guarantee, we entered into agreements with HQ Global in January 2003 under which HQ Global assigned its interest as a tenant in this lease to us and we in turn subleased the space back to HQ Global at current market rates. These agreements remain subject to approval by both the bankruptcy court and the landlord under the lease. In addition, these agreements will not be enforceable if HQ Global fails to successfully reorganize and emerge from the bankruptcy proceedings. There can be no assurance that the necessary approvals will be granted, that material changes to the agreements will not be required to gain approvals, or that HQ Global will successfully reorganize and emerge from the bankruptcy proceedings. We increased our provision for loss under this guarantee to \$6.9 million in the second quarter of 2002 and this continues to represent the amount we have determined to be our likely exposure under this guarantee as of December 31, 2002. However, there can be no assurance that we will not be required to further increase our provision or make cash payments related to this guarantee in future periods up to, in the aggregate, the full amount of the guarantee. As of December 31, 2002, we had not made any payments under this guarantee.

Financing Activity

In January 2002, we issued \$400.0 million of senior unsecured notes. The notes bear interest at 7.125% per annum payable semi-annually beginning on July 15, 2002. The notes mature on January 15, 2012. The notes are unconditionally guaranteed by CarrAmerica Realty, L.P., one of our subsidiaries.

On May 8, 2002, we entered into interest rate swap agreements with JP Morgan Chase and Bank of America, N.A. (both rated A+ by Standard & Poors), hedging \$150.0 million of senior unsecured notes due July 2004. We receive interest at a fixed rate of 7.2% and pay interest at a variable rate of six-month LIBOR in arrears plus 2.72%. The interest rate swaps mature at the same time the notes are due and qualify for accounting purposes as fair value hedges.

In November 2002, we issued \$50.0 million of 5.261% and \$175.0 million of 5.25% senior unsecured notes. The notes mature on November 30, 2007. The interest on the notes is payable semi-annually beginning May 30, 2003. All the notes are unconditionally guaranteed by CarrAmerica Realty, L.P.

In conjunction with the issuance of the \$175.0 million of 5.25% senior unsecured notes, in November 2002, we entered into interest rate swap agreements with JP Morgan Chase, Bank of America, N.A. and Goldman Sachs & Co. (all rated A+ by Standard & Poors). We receive interest at a fixed rate of 5.25% and pay interest at a variable rate of six-month LIBOR in arrears plus 1.405%. The interest rate swaps mature at the same time the notes are due and qualify as fair value hedges for accounting purposes.

As of December 31, 2002, 74.3% of our debt carried a fixed rate of interest and 25.7% is subject to a variable rate of interest, including the debt effectively converted to a variable rate through the use of interest rate swap agreements.

During 2002, we repurchased 1.8 million shares of our preferred stock for approximately \$45.5 million, redeemed 4.0 million shares of our preferred stock for \$100.0 million. We also repurchased 1.4 million shares of our common stock for approximately \$35.9 million.

Forward-Looking Statements

Certain statements contained herein constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the Reform Act). Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our, and our affiliates, or the industry's actual results, performance, achievements or transactions to be materially different from any future results, performance, achievements or transactions expressed or implied by such forward-looking statements. Such factors include, among others, the following:

- * National and local economic, business and real estate conditions that will, among other things, affect:
 - * Demand for office properties,
 - * The ability of the general economy to recover timely from the current economic downturn,
 - * Availability and creditworthiness of tenants,
 - * The level of lease rents, and
 - * The availability of financing for both tenants and us;
- * Adverse changes in the real estate markets, including, among other things:
 - * Competition with other companies, and
 - * Risks of real estate acquisition and development (including the failure of pending developments to be completed on time and within budget);
- * Possible charges or payments resulting from our guarantees of certain leases of HQ Global Workplaces, Inc.;
- * Actions, strategies and performance of affiliates that we may not control or companies in which we have made investments;
- * Ability to obtain insurance at a reasonable cost;
- * Ability to maintain our status as a REIT for federal and state income tax purposes;
- * Governmental actions and initiatives; and
- * Environmental/safety requirements.

Available Information

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

Our Directors

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

- * *Thomas A. Carr*, 44, has been our Chairman of the Board of Directors since May 2000 and a director since 1993 and Chief Executive Officer since 1997. Mr. Carr was our President from 1993 until March 2002, our Chief Operating Officer from April 1995 to May 1997 and our Chief Financial Officer from February 1993 to April 1995. Mr. Carr holds a Master of Business Administration degree from Harvard Business School and a Bachelor of Arts degree from Brown University. Mr. Carr is a member of the Board of Governors of the National Association of Real Estate Investment Trusts, the Young Presidents Organization and Federal City Council. He is a member of the Board of Directors of The Oliver Carr Company and V Technologies International Corp. (d/b/a AgilQuest). Mr. Carr is the son of Oliver T. Carr, Jr. and the brother of Robert O. Carr. Mr. Carr is chairman of the Executive Committee and a member of the Investment Committee of the Board of Directors. In addition, Mr. Carr is a member of management's Operating and Investment Committees.
- * *Oliver T. Carr, Jr.*, 77, was Chairman of our Board of Directors from February 1993 until May 2000. He also served as our Chief Executive Officer from 1993 to 1997. Mr. Carr founded The Oliver Carr Company in 1962 and since that time he has been its Chairman of the Board and a director as well as President from 1962 to 2000. He also is Chairman Emeritus of the Board of Trustees of The George Washington University. Mr. Carr is the father of both our current Chairman, President and Chief Executive Officer, Thomas A. Carr, and Robert O. Carr, the President of Carr Urban Development, LLC. Mr. Carr is chairman of the Investment Committee of the Board of Directors.

- * *Andrew F. Brimmer*, 76, has been a director since February 1993. He has been President of Brimmer & Company, Inc., an economic and financial consulting firm, since 1976. Dr. Brimmer is the Wilmer D. Barrett Professor of Economics at the University of Massachusetts, Amherst. He also serves as a director of BlackRock Investment Income Trust, Inc. (and other funds) and Borg-Warner Automotive, Inc. From June 1995 through August 1998, Dr. Brimmer served as chairman of the District of Columbia Financial Control Board. He was a member of the Board of Governors of the Federal Reserve System from March 1966 through August 1974. Dr. Brimmer received a B.A. degree and a master's degree in economics from the University of Washington and a Ph.D. in economics from Harvard University. Dr. Brimmer is chairman of the Audit Committee and a member of the Conflicts Committee, the Executive Compensation Committee and the Nominating and Corporate Governance Committee of the Board of Directors.

- * *A. James Clark*, 75, has been a director since February 1993. He is Chairman of the Board and CEO of Clark Enterprises, Inc. (CEI), a Bethesda, Maryland-based holding company. CEI has been involved in real estate and commercial and residential construction since 1972. CEI includes the Clark Construction Group, one of the United States largest general contractors. Mr. Clark is on the Board of Trustees of the University of Maryland College Park Foundation, and is a Trustee Emeritus of the Johns Hopkins University and the Johns Hopkins Board of Medicine. He is also a member of the PGA Tour Golf Course Properties Advisory Board. Mr. Clark is a graduate of the University of Maryland. He is a member of the Investment Committee of the Board of Directors.

- * *Philip L. Hawkins*, 47, has been a director since March 2002. Mr. Hawkins has been President since March 2002 and Chief Operating Officer since October 1998. From February 1996 to October 1998, Mr. Hawkins served as Managing Director Asset Management. Prior to that time Mr. Hawkins was employed by Jones Lang LaSalle, a real estate services company, since 1982. He holds a Masters in Business Administration from the University of Chicago Graduate School of Business and a Bachelors of Arts degree from Hamilton College. Mr. Hawkins is a member of the Investment Committee of the Board of Directors. In addition, Mr. Hawkins is a member of management's Operating and Investment Committees.

- * *Timothy Howard*, 54, has been a director since August 1998. Mr. Howard has been the Executive Vice President and Chief Financial Officer of Fannie Mae since 1990 and a member of Fannie Mae's Office of the Chairman since November 2000. Mr. Howard has been proposed for election to Fannie Mae's Board of Directors as Vice Chairman in May 2003. From 1988 to 1990, Mr. Howard was Executive Vice President Asset Management of Fannie Mae. Mr. Howard has held positions of increasing responsibility with Fannie Mae since beginning with the company in 1982. Mr. Howard received a Masters degree in economics and Bachelors in economics, magna cum laude, from the University of California, Los Angeles. Mr. Howard chairs the Executive Compensation Committee and is a member of the Audit Committee and the Conflicts Committee of the Board of Directors.

- * *Robert E. Torray*, 65, has been a director since February 2002. Mr. Torray is the founder and has been Chairman of Robert E. Torray & Co., Inc., an institutional investment firm since 1972. Mr. Torray is also the founder and President of Torray Corporation, a mutual fund manager and is founder and Chairman of Birmingham Capital Management Company, an investment management company. Mr. Torray received his B.A. from Duke University. Mr. Torray is chairman of the Conflicts Committee and a member of the Nominating and Corporate Governance Committee, the Investment Committee and the Executive Compensation Committee of the Board of Directors.

- * *Wesley S. Williams, Jr.*, 60, has been a director since February 1993. Mr. Williams has been a partner of the law firm of Covington & Burling since 1975. After serving as a junior member of the Faculty of Law of Columbia University, Mr. Williams was adjunct professor of real estate finance law at Georgetown University Law Center from 1971 to 1973. In addition, he is an author or contributing author of several texts on banking law and on real estate investment and finance, and served for more than a decade on the Editorial Advisory Board of the District of Columbia Real Estate Reporter. Mr. Williams is currently Chairman of the Board of Directors of the Federal Reserve Bank of Richmond. Mr. Williams is Co-Chairman of the Board of Directors of Lockhart Companies, Inc. and of its real estate, insurance, consumer finance and miscellaneous Internet and venture subsidiaries. Mr. Williams is a member of the Executive Committee of the Board of Trustees of Penn Mutual Life Insurance Company, of which he is the Senior Trustee. He is also Chairman of the Executive Committee of the Board of Regents of the Smithsonian Institution. Mr. Williams received B.A. and J.D.

degrees from Harvard University, an M.A. degree from the Fletcher School of Law and Diplomacy and an LL.M. degree from Columbia University. Mr. Williams is chairman of the Nominating and Corporate Governance Committee and a member of the Audit Committee, Executive Committee and the Conflicts Committee of the Board of Directors.

Our Executive Officers and Certain Key Employees

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

- * Karen B. Dorigan, 38, has been Chief Investment Officer since November 2000. Prior to that time, she was Managing Director Capital Markets and Investments since April 1999. Prior to that time, Ms. Dorigan served as a Senior Vice President since May 1997. Prior to that, Ms. Dorigan served as one of our Vice Presidents since January 1996. Prior to that, Ms. Dorigan served for more than nine years in a variety of capacities in the development business of The Oliver Carr Company, including from February 1993 to January 1996 as a Vice President. Ms. Dorigan holds a Bachelor of Science degree in Economics from the University of Pennsylvania, Wharton School. Ms. Dorigan is a member of management's Operating and Investment Committees.
- * Linda A. Madrid, 43, has been Managing Director, General Counsel and Corporate Secretary since November 1998. Prior to that time Ms. Madrid served as Senior Vice President and General Counsel since March 1998. Prior to that time, Ms. Madrid had been Senior Vice President, Managing Director of Legal Affairs and Corporate Secretary of Riggs National Corporation/Riggs Bank N.A. since February 1996 and Vice President and Litigation Manager from September 1993 to January 1996. Before joining Riggs, Ms. Madrid practiced law in several law firms in Washington, D.C. and served as Assistant General Counsel for Amtrak. Ms. Madrid is a member of the Executive Committee of the American Corporate Counsel Association. Ms. Madrid holds a J.D. from Georgetown University Law Center and a Bachelor of Arts degree from Arizona State University. Ms. Madrid is a member of management's Operating Committee.
- * Stephen E. Riffie, 45, has been Chief Financial Officer since April 1, 2002. Prior to that time, he served as Senior Vice President, Controller and Treasurer since July 1999. Prior to that time, Mr. Riffie served as Vice President Finance and Chief Accounting Officer of Marriott International, Inc. for three years. Prior to joining Marriott International, Inc., Mr. Riffie served as Assistant Vice President at Burlington Northern Railroad after having previously worked in the National Transportation Practice of KPMG Peat Marwick. Mr. Riffie holds a Bachelor of Science in Commerce degree from the McIntire School of Commerce of the University of Virginia. Mr. Riffie is a member of management's Operating and Investment Committees.
- * Paul R. Adkins, 44, was appointed President, Carr Real Estate Services, Inc. in 2002. From 1999 to 2002, he was Managing Director Private Capital. From 1996 to 1999, Mr. Adkins served as the Company's Senior Vice President, Market Managing Director for Washington, D.C. Mr. Adkins has been with the Company for over 17 years, including serving as Vice President of Acquisitions from May 1994 to August 1996. Prior to that, Mr. Adkins served in a variety of other capacities with the Company, with over 12 years in commercial real estate leasing. Mr. Adkins is a member of the District of Columbia's Building Industry Association and Northern Virginia's National Association of Industrial and Office Parks. Mr. Adkins holds a Bachelor of Arts degree in Economics from Bucknell University. Mr. Adkins is a member of management's Operating and Investment Committees.
- * Steven N. Bralower, 54, has been Executive Vice President of Carr Real Estate Services, Inc., an affiliate that conducts management and leasing operations, since January 1999, and Senior Vice President of Carr Realty, L.P., a subsidiary, since May 1996. Mr. Bralower was Senior Vice President of Carr Real Estate Services, Inc. from 1993 to May 1996. Mr. Bralower is a member of the Greater Washington Commercial Association of Realtors. Mr. Bralower has been a member of the Georgetown University Law Center adjunct faculty since 1987. Mr. Bralower holds a Bachelor of Arts degree from Kenyon College.
- * Robert O. Carr, 53, has been President of CarrAmerica Urban Development, LLC, a subsidiary of CarrAmerica Development, since June 1998, and Chairman of the Board of Directors of Carr Real Estate Services, Inc., since February 1993. Mr. Carr served as President of Carr Real Estate Services, Inc. from 1993 to 1998. Mr. Carr is a director of The Oliver Carr Company. From 1987 until February 1993, he served as President and Chief

Executive Officer of The Oliver Carr Company. Mr. Carr is a member of the Boards of Directors of the Greater Washington Research Center, the Corcoran School of Art and the National Cathedral School for Girls. Mr. Carr is also a member of the Greater Washington Board of Trade, the Urban Land Institute and the D.C. Chamber of Commerce. Mr. Carr holds a Bachelor of Arts degree from Trinity College. Mr. Carr is the son of Oliver T. Carr, Jr. and the brother of Thomas A. Carr.

- * Clete Casper, 43, has been Market Managing Director – Seattle since July 1999. Prior to that time Mr. Casper served as the Company's Vice President, Market Managing Director for Seattle since July 1996. Mr. Casper has over 10 years of experience in real estate and marketing. Mr. Casper's most recent experience includes one year as a Senior Associate with CB Commercial Real Estate Group Inc., Seattle, Washington. Prior to that, Mr. Casper was with Sabey Corporation in Seattle, Washington, serving as Development Manager for four years and as a Marketing Associate for five years. Mr. Casper is a graduate of Washington State University. Mr. Casper is a member of management's Operating Committee.
- * John J. Donovan, Jr., 59, has been a Market Managing Director since July 1999 and was President of Carr Real Estate Services, Inc., from 1999 to 2002. Prior to that time, Mr. Donovan served as Senior Vice President of Carr Real Estate Services, Inc. from 1993 to 1998. He is a member of the Advisory Board for Jubilee Enterprise of Greater Washington, the Economic Club of Washington, the Greater Washington Board of Trade and the Greater Washington Commercial Association of Realtors. Mr. Donovan holds a Bachelor of Arts degree from Georgetown University. Mr. Donovan is a member of management's Operating Committee.
- * J. Thad Ellis, 42, has been Market Managing Director – Atlanta since July 1999. Prior to that time Mr. Ellis served as the Company's Vice President, Market Managing Director for Atlanta since November 1996. Mr. Ellis has over 15 years of experience in real estate. Mr. Ellis most recent experience includes 10 years with Peterson Properties. At Peterson Properties, his primary responsibility was to oversee and coordinate leasing and property management for the management services portfolio. Mr. Ellis is a graduate of Washington & Lee University and is a member of the National Association of Industrial and Office Parks and Atlanta's Chamber of Commerce and is on the Advisory Board of Black's Guide. Mr. Ellis is a member of management's Operating and Investment Committees.
- * Richard W. Greninger, 51, has been Managing Director – Property Operations since May 1999. Prior to that time Mr. Greninger served as Senior Vice President – Operations since January 1998. Prior to that, Mr. Greninger had been the Senior Vice President of Carr Real Estate Services, Inc., since March 1995. Prior to that time, he had been Vice President of Carr Real Estate Services, Inc. since February 1993. During 1994, Mr. Greninger served as President of the Greater Washington Apartment and Office Building Association. Mr. Greninger has served as a director of both the Institute of Real Estate Management and the Building Owners and Managers Association and a former Chairman of its National Advisory Council. Mr. Greninger holds a Masters in Business Administration from the University of Cincinnati and a Bachelor of Science degree from Ohio State University. Mr. Greninger is a member of management's Operating Committee.
- * Kurt A. Heister, 33, joined CarrAmerica in August 2002 as Controller. Prior to joining the Company, he worked for Arthur Andersen LLP for eleven years, most recently as a Senior Manager in their Real Estate and Hospitality practice. Mr. Heister holds a Bachelor of Science degree in Accounting from Pennsylvania State University. Mr. Heister is a member of management's Operating Committee.
- * Thomas Levy, 38, has been Senior Vice President – Investments since April 2001. He joined CarrAmerica in 1996 as Associate Due Diligence Officer after which he was promoted to Investments Director. He was promoted to Vice President of Special Projects in April 1999 and then promoted to Vice President – Investments in April 2000. Prior to joining CarrAmerica, Mr. Levy was an Associate in the Investment Advisory Group at J.E. Roberts Companies for five years. Before joining J.E. Roberts, Mr. Levy was a Senior Consultant with Arthur Andersen & Company. He holds a Master of Business Administration from American University and a Bachelor of Arts in Economics from the University of Wisconsin. Mr. Levy is a member of management's Operating Committee.
- * Joel A. Manfredo, 48, became Chief Technology Officer and Managing Director of e-business solutions in November 2000. Prior to joining us, Mr. Manfredo was Vice President and Director of Information Strategies with The Rouse Company from 1988. Mr. Manfredo served as Director of Investment Assets for a subsidiary of McCormick and Company from 1981 to 1988. Mr. Manfredo holds a Masters of Science in Finance and a

Masters of Business Administration from Loyola College, as well as, a Bachelors of Science in Business Administration from Lehigh University. He is a member of management's Operating Committee.

- * Robert M. Milkovich, 43, was appointed Managing Director, Carr Real Estate Services, Inc. in 2002. From 1999 to 2002, he was Market Managing Director. Prior to that time Mr. Milkovich served as Vice President, Market Managing Director for Phoenix, Arizona since January 1998. Mr. Milkovich has over 14 years of experience in real estate leasing. Mr. Milkovich's most recent experience includes five years as the Assistant Vice President of leasing for Carr Real Estate Services, Inc. Mr. Milkovich holds a Bachelor of Science in Business Administration from the University of Maryland. Mr. Milkovich is a member of management's Operating Committee.
- * Malcolm O'Donnell, 49, joined us as Vice President and Managing Director for our Southern California region in October 2000. He was previously employed as Principal of Alpine Holding and Keller Equity Group, Inc. overseeing development projects. From March 1997 to December 1997, Mr. O'Donnell was Vice President of Acquisitions for Beacon Properties. Mr. O'Donnell holds a Bachelor of Science degree from the University of Southern California. He is a member of management's Operating Committee.
- * Gerald J. O'Malley, 59, has been Market Managing Director - Chicago since July 1999. Prior to that time Mr. O'Malley served as Vice President, Market Managing Director for Chicago since July 1996. Mr. O'Malley has over 32 years of experience in real estate marketing. Mr. O'Malley's most recent experience includes 10 years as founder and President of G. J. O'Malley & Company, a real estate office leasing company. Mr. O'Malley holds a Bachelors of Business Administration degree from Loyola University. Mr. O'Malley is a member of management's Operating Committee.
- * Jeffrey S. Pace, 40, has been Market Managing Director - Austin since July 1999. Prior to that time Mr. Pace served as Vice President, Market Managing Director for Austin, Texas since May 1997. Mr. Pace has over 14 years of experience in real estate marketing. Mr. Pace's most recent experience was with Trammell Crow Company, where he served as Marketing Director. Prior to that time, Mr. Pace held the position of Marketing Representative in the Dallas and Austin markets for Carlisle Property Company, Stockton, Luedmann, French & West and Trammell Crow Company from 1985 to 1997. Mr. Pace holds a Masters of Business Administration from the University of Texas at Arlington and a Bachelor of Science from the University of Texas at Austin. Mr. Pace is a member of management's Operating Committee.
- * Christopher Peatross, 37, joined us as Market Managing Director - San Francisco in May 2002. Before joining us, Mr. Peatross served as Senior Vice President for DivcoWest Properties. Before DivcoWest, Mr. Peatross was with Catellus Development Corporation for three years, Hunter Properties for two years and Spieker Properties for six years. Mr. Peatross holds a Bachelor of Science Degree in Quantitative Economics from Stanford University.
- * William H. Vanderstraaten, 42, has been Market Managing Director - Dallas since July 1999. Prior to that time Mr. Vanderstraaten served as Vice President, Market Managing Director for Dallas since April 1997. Mr. Vanderstraaten has over 16 years of experience in real estate development and leasing fields. Mr. Vanderstraaten's most recent experience prior to working for the Company includes eight years as Vice President - New Development for Harwood Pacific Corporation in Dallas, Texas, where his primary responsibilities were directing large scale development projects and coordinating leasing efforts for portfolios. Mr. Vanderstraaten holds a Bachelor of Science degree in Business Administration from Southern Methodist University. Mr. Vanderstraaten is a member of manage