ARDEN REALTY INC
Form 10-K
March 14, 2005

Table of Contents

Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2004

OR

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

For the transition period from to

Commission File Number 1-12193

ARDEN REALTY, INC.

(Exact name of registrant as specified in its charter)

Maryland	**95-4578533**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

11601 Wilshire Boulevard, 4th Floor

Los Angeles, California 90025-1740
(Address and zip code of principal executive offices)

Registrant s telephone number, including area code: (310) 966-2600

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

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 par value	**New York Stock Exchange**
Preferred Stock Purchase Rights	**New York Stock Exchange**

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

Indicate by checkmark 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 o

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 the 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 an accelerated filer (as defined in Rule 12b-2 of the Act). Yes x No o

The aggregate market value of the shares of common stock held by non-affiliates was approximately $1.9 billion based on the closing price on the New York Stock Exchange for such shares on June 30, 2004.

The number of the Registrant s shares of common stock outstanding was 66,364,703 as of March 10, 2005.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this report incorporates information by reference from the definitive Proxy Statement for the 2005 Annual Meeting of Stockholders.

ARDEN REALTY, INC.

TABLE OF CONTENTS

Table of Contents

PART I

Forward-Looking Statements

This Form 10-K, including the documents incorporated herein by reference, contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act pertaining to, among other things, our future results of operations, cash available for distribution, acquisitions, lease renewals, property development, property renovation, capital requirements and general business, industry and economic conditions applicable to us. Also, documents we subsequently file with the SEC and incorporated herein by reference will contain forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements as a result of the risk factors set forth below and the matters set forth or incorporated in this Form 10-K generally. We caution you, however, that this list of factors may not be exhaustive, particularly with respect to future filings.

ITEM 1. *Business*

(a) GENERAL

The terms Arden Realty , us , we and our as used in this report refer to Arden Realty, Inc. We were incorporated in Maryland in May 1996 and completed our initial public offering in October 1996. Commencing with our taxable year ended December 31, 1996, we have operated and qualified as a real estate investment trust, or REIT, for federal income tax purposes. We are a self-administered and self-managed REIT that owns, manages, leases, develops, renovates and acquires commercial properties located in Southern California. We are the sole general partner of Arden Realty Limited Partnership, or the Operating Partnership, and as of December 31, 2004, we owned approximately 97.5% of the Operating Partnership s common partnership units. We conduct substantially all of our operations through the Operating Partnership and its consolidated subsidiaries.

(b) INDUSTRY SEGMENTS

We are currently involved primarily in one industry segment, the operation of commercial real estate located in Southern California. The financial information contained in this report relates primarily to this industry segment.

(c) DESCRIPTION OF BUSINESS

We are a full-service real estate organization managed by 6 senior executive officers who have experience in the real estate industry ranging from 14 to 35 years and who collectively have an average of 20 years of experience. We perform all property management, construction management, accounting, finance and acquisition and disposition activities and a majority of our leasing transactions for our portfolio with our staff of approximately 300 employees.

As of December 31, 2004, we were Southern California s largest publicly traded office landlord as measured by total net rentable square feet owned. As of December 31, 2004, our portfolio of primarily suburban office properties consisted of 120 properties and 197 buildings containing approximately 18.2 million net rentable square feet and our operating portfolio was 91.2% occupied.

Portfolio Management

We perform all portfolio management activities, including on-site property management, management of all lease negotiations, construction management of tenant improvements or tenant build-outs, property renovations and capital expenditures for our portfolio. We directly manage these activities from approximately 40 management offices located throughout our portfolio. The activities of these management offices are supervised by four regional offices with oversight by our corporate office to ensure consistent application of our operating policies and procedures. Each regional office is strategically located within the Southern California submarkets where our properties are located and is managed by a regional First Vice President who is

Table of Contents

responsible for supervising the day-to-day activities of our management offices. Each regional office is staffed with leasing, property management, building engineering, construction and information systems specialists, referred to as our Regional Service Teams. By maintaining a regionally focused organizational structure led by seasoned managers, we are able to quickly respond to our tenants needs and market opportunities.

All of our management and regional offices are networked with our corporate office and have access to the Internet and our e-mail, accounting and lease management systems. Our accounting and lease management systems employ the latest technology and allow both corporate and field personnel access to tenant and prospective tenant-related information to enhance responsiveness and communication of marketing and leasing activity for each property.

We currently lease approximately 59% of our portfolio s net rentable space using our in-house staff. We employ outside brokers who are monitored by our Regional Service Teams for the remainder of our net rentable space. Our in-house leasing program allows us to closely monitor rental rates and lease terms for new and renewal leases and reduce third-party leasing commissions.

Business Strategies

Our primary business strategy is to actively manage our portfolio to achieve gains in rental rates and occupancy, control operating expenses and maximize income from ancillary operations and services. When market conditions permit, we may also selectively develop, renovate or acquire new properties in submarkets that add value and fit strategically into our portfolio. We may also sell existing properties and use the net proceeds to repay outstanding indebtedness or place into investments that we believe will generate higher long-term value.

Through our corporate office and regional offices, we implement our business strategies by:

- using integrated decision making to provide proactive solutions to the space needs of tenants in the markets where we have extensive real estate expertise and relationships;
- emphasizing quality service, tenant satisfaction and retention;
- employing intensive property marketing and leasing programs; and
- implementing cost control management techniques and systems that capitalize on economies of scale and concentration arising from the size and geographic focus of our portfolio and our technical expertise in reducing energy consumption expenses.

We believe the implementation of these operating practices has been instrumental in maximizing the operating results of our portfolio.

Integrated Decision Making

We use a multidisciplinary approach to our decision making by having our regional management, leasing, construction management, acquisition, disposition and finance teams coordinate their activities to enhance responsiveness to market opportunities and to provide proactive solutions to the space needs of tenants in the submarkets where we have extensive real estate and technical expertise. This integrated approach permits us to analyze the specific requirements of existing and prospective tenants and the economic terms and costs for each transaction on a timely and efficient basis. We are therefore able to commit to leasing, development, acquisition or disposition terms quickly, which facilitates an efficient completion of lease negotiation and tenant build-out, shorter vacancy periods after lease expirations and the timely completion of development, acquisition or disposition transactions.

Quality Service and Tenant Satisfaction

We strive to provide quality service through our multidisciplinary operating approach resulting in timely responses to our tenants needs. Our seasoned Regional Service Teams interact and resolve issues relating to tenant satisfaction and day-to-day operations. For portfolio-wide operational and administrative functions, our corporate office provides support to all regional offices and provides immediate response for critical operational issues. We believe providing quality service leads to enhanced tenant retention.

Proactive Marketing and Leasing

The concentration of many of our properties within particular office submarkets and our relationships with a broad array of businesses and outside brokers enables us to pursue proactive marketing and leasing strategies, to effectively monitor the demand for office space in our existing submarkets, to efficiently identify the office space requirements of existing and prospective tenants and to offer tenants a variety of space alternatives across our portfolio.

Cost Control and Operating Efficiencies

The size and geographic focus of our portfolio provides us with the opportunity to enhance portfolio value by controlling operating costs. We seek to capitalize on the economies of scale and concentration which result from the geographic focus of our portfolio through the ownership and management of multiple properties within particular submarkets and the maintenance of standardized processes and systems for cost control at each of our properties. These cost controls and operating efficiencies allowed us to achieve a 67.3% ratio of property operating results to total property revenues in 2004.

Operating Strategies

Based on our geographic focus in Southern California, experience in the local real estate markets and our evaluation of current market conditions, we believe the following key factors provide us with opportunities to maximize returns:

- the broad diversification and balance of the Southern California economy and our tenant base minimizes our dependence on any one industry segment or limited group of tenants;
- the relative resiliency of the Southern California real estate market, as measured by lower vacancy rates compared to the national average and a lower decline in rental rates in our key submarkets than the average decreases in rates reported for the nation since the beginning of the office real estate sector downturn in 2001; and
- the limited construction of new office properties in the Southern California region due to substantial building construction limitations and a minimal amount of developable land in many key submarkets.

Internal Operating Strategy

We believe that opportunities exist to increase cash flow from our existing portfolio. We intend to pursue this internal growth by:

- stabilizing occupancy throughout our portfolio and increasing rental rates, as market conditions permit;
- maintaining or increasing the retention rate of expiring leases;
- capitalizing on economies of scale and concentration due to the size and geographic focus of our portfolio;
- controlling operating expenses through active cost control management techniques and systems; and
- sourcing new and innovative revenue streams while providing high quality services to our tenants.

Stabilizing Occupancy and Increasing Rental Rates

Various published reports noted that Southern California achieved approximately 6.7 million square feet of positive net absorption in 2004 with average rental rates increasing approximately 3-4%. Our in-house leasing teams, working with outside leasing brokers, continuously monitor each market to identify strong prospective tenants who are in need of new or additional space. We also strive to be responsive to the needs of existing tenants through our on-site management staff and by providing alternatives within our portfolio to

accommodate their changing space requirements. We strive to achieve growth in rental revenues by negotiating annual or mid-term increases in rental rates in a majority of our leases.

Retaining Existing Tenants

We also seek to retain our existing tenants when leases expire. Retention of existing tenants reduces the costs of lease rollover by eliminating the down-time required to find a replacement tenant and reducing build-out costs required for new tenants. We believe that we have been successful in attracting and retaining a diverse tenant base by actively managing our properties with an emphasis on tenant satisfaction and retention. During 2004, we retained approximately 64% of our leases that were scheduled to expire.

Capitalizing on Economies of Scale and Concentration

In order to capitalize on economies of scale and concentration arising from the size and geographic focus of our portfolio, each of our Regional Service Teams is responsible for several properties, which spreads administrative and maintenance costs over those properties and reduces per square foot expenses. In addition, contracting in bulk for parking operations, construction materials, building services and supplies on a portfolio-wide basis also reduces our overall operating expenses.

Cost Control Management Techniques and Systems

We plan to continue controlling our operating expenses through active management at all of our properties. We focus on cost control in various areas of our operations. We continuously monitor the operating performance of our properties and employ energy-enhancing purchasing and expense recovery technologies when appropriate. These system enhancements include:

lighting retrofits;

replacement of inefficient heating, ventilation and air conditioning systems;

computer-driven energy management systems that monitor and react to the climatic requirements of individual properties;

automated and roving security systems that allow us to provide security services to our tenants at a lower cost;

online competitive bid purchasing of supplies, building materials and construction services;

enhancement of billing systems, which enables us to more efficiently recover operating expenses from our tenants; and

on-going preventive maintenance programs to operate our building systems efficiently, thereby reducing operating costs.

Sourcing Additional Revenue While Providing High Quality Services to Tenants

We operate one of the most energy efficient office portfolios in the country. We have invested in energy enhancement programs within our portfolio with the aim of reducing energy consumption, enhancing efficiency and lowering operating costs. We also participate annually in the Environmental Protection Agency s, or the EPA, Energy Star Program. This program involves top commercial real estate landlords throughout the United States and rigorous bench-marking procedures that track individual building energy efficiency. Currently, of the 906 total Energy Star designated office buildings awarded nationally during 2004, 125 were awarded in California; of those, we had 62 EPA Energy Star Certified buildings in our portfolio.

We have formed a taxable REIT subsidiary, Next>edge, to market our expertise in energy solutions and facilities management. Next>edge has begun to assist companies in increasing their energy efficiency and reducing costs by employing the latest technologies and the most energy-efficient operational strategies developed to date. These technologies include lighting, heating, ventilation and air conditioning retrofits, energy management system installations, on-site distributed generation and cogeneration projects and solar energy systems.

External Operating Strategy

We believe in the diversity and balance of the Southern California economy and commercial real estate market, and we intend to continue to focus our resources primarily in this region. We have assembled a management team that has extensive experience and knowledge in this market which we believe provides us with a competitive advantage in identifying and capitalizing on selective development, renovation and acquisition opportunities.

Subject to capital availability and market conditions, our approach is to seek development, renovation and acquisition opportunities in markets where we have an existing presence and where the following conditions exist:

- low vacancy rates;
- opportunities for rising rents due to employment growth and population movements;
- a minimal amount of developable land; and
- significant barriers to entry due to constraints on new development, including strict entitlement processes, height and density restrictions or other governmental requirements.

Competition

We compete with other owners of office properties to attract tenants to our properties, to acquire new properties and to obtain suitable land for development. Ownership of competing properties is currently diversified among many different types, from publicly traded companies and institutional investors, including other REITs, to small enterprises and individual owners. No one owner or group of owners currently dominate or significantly influence the markets in which we operate. See Risk Factors Competition affects occupancy levels, rents and the cost of land which could adversely affect our revenues.

California Electric Utility Deregulation

Problems associated with deregulation of the electric industry in California have resulted in significantly higher costs in some areas over the past few seasons. All of our properties are currently located in areas served by utilities that either produce their own electricity, or that have procured long-term, fixed-rate contracts with commercial electrical providers. While we have no information suggesting that any future service interruptions are expected, we believe that higher utility costs may continue as price increases are allowed by the California Public Utility Commission or other regulatory agencies.

Approximately 26% of our properties and 19% of the total rentable square footage of our portfolio are subject to leases that require our tenants to pay all utility costs and the remainder provide that our tenants will reimburse us for utility costs in excess of a base year amount. See Risk Factors Rising energy costs and power outages in California may have an adverse effect on our operations and revenue.

We are also working with other companies to provide our properties with new applications of distributed generation, or on-site energy systems, such as solar photovoltaic panels, micro-turbine units, natural gas reciprocating engines, fuel cells and other green power alternatives. Lastly, we maintain ongoing communication with our tenants to assist them in ways to lower consumption in their workplace.

Employees

As of December 31, 2004, we had approximately 300 full-time employees that perform all of our property and construction management, accounting, finance, acquisition and disposition activities and a majority of our leasing transactions.

Available Information

We file with the Securities and Exchange Commission, or SEC, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports, proxy

Table of Contents

statements and registration statements. The public may read and copy any materials we file with the SEC at the SEC s Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. The public may also obtain public information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an internet site at www.sec.gov that contains reports, proxy and information regarding registrants, including us, that file electronically. This annual report on Form 10-K and other periodic and current reports, and amendments to those reports, filed or furnished with the SEC, are also available, free of charge, by viewing the SEC filings available in the Investor Information section of our website at www.ardenrealty.com as soon as reasonably practicable after we file or furnish them with the SEC.

(d) FOREIGN OPERATIONS

We do not engage in any foreign operations or derive any revenue from foreign sources.

Table of Contents

ITEM 2. ***Properties***

Existing Portfolio

Our portfolio consists of 120 primarily office properties, containing approximately 18.2 million net rentable square feet that individually range from approximately 12,000 to 600,000 net rentable square feet. Of the 120 properties currently in service in our portfolio, 119, or 99%, are office properties. All of our properties are located in Southern California and most are in suburban areas in close proximity to main thoroughfares. We believe that our properties are located within desirable and established business communities and are well maintained. Our properties offer an array of amenities including high-speed internet access, security, parking, conference facilities, on-site management, food services and health clubs.

Following is a summary of our property portfolio as of December 31, 2004:

	Number of Properties(1)		Number of Buildings(1)		Approximate Net Rentable Square Feet(1)		Property Operating Results(2),(3) For the Year Ended December 31, 2004	
Location	**Total**	**% of Total**	**Total**	**% of Total**	**Total**	**% of Total**	**Total**	**% of Total**
							($000 s and unaudited)	
Los Angeles County								
West(4)	30	25%	32	16%	5,044,621	28%	$107,688	39%
North	28	23%	44	22%	3,468,768	19%	44,962	16%
South	13	11%	17	9%	2,851,215	15%	37,052	14%
Subtotal	71	59%	93	47%	11,364,604	62%	189,702	69%
Orange County	20	17%	51	26%	3,255,079	18%	39,602	14%
San Diego County	23	19%	35	18%	2,695,678	15%	36,418	13%
Ventura/ Kern Counties	6	5%	17	9%	795,299	4%	9,831	4%
Subtotal	120	100%	196	100%	18,110,660	99%	$275,553	100%
Renovation Building(5)			1		99,119	1%	5	
Total	120	100%	197	100%	18,209,779	100%	$275,558	100%

(1) Includes one property with approximately 167,000 net rentable square feet held for disposition.

(2) Property Operating Results is a non-GAAP measure of performance. Property Operating Results is used by investors and our management to evaluate and compare the performance of our office properties and to determine trends in earnings and to compute the fair value of our properties as it is not affected by (1) the cost of funds of the property owner, (2) the impact of depreciation and amortization expenses as well as gains or losses from the sale of operating real estate assets that are included in net income computed in accordance with Generally Accepted Accounting Principles, or GAAP, or (3) general and administrative expenses and other specific costs such as permanent impairments to carrying costs. The cost of funds is eliminated from net income because it is specific to the particular financing capabilities and constraints of the owner. The cost of funds is also eliminated because it is dependent on historical interest rates and other costs of capital as well as past decisions made by us regarding the appropriate mix of capital which may have changed or may change in the future. Depreciation and amortization expenses as well as gains or losses from the sale of operating real estate assets are eliminated because they may not accurately represent the actual change in value in our office properties that result from use of the properties or changes in market

conditions. While certain aspects of real property do decline in value over time in a manner that is reasonably captured by depreciation and amortization, the value of the properties as a whole have historically increased or decreased in value as a result of changes in overall economic conditions instead of from actual use of the property or the passage of time. Gains and losses from the sale of real property vary from property to property and are affected by market conditions at the time of sale which will usually change from period to period. These gains and losses can create distortions when comparing one period to another or when comparing our operating results to the operating results of other real estate companies that have not made similarly timed purchases or sales. We believe that eliminating these costs from net income is useful because the resulting measure captures the actual revenue generated and actual expenses incurred in operating our office properties as well as trends in occupancy rates, rental rates and operating costs.

However, the usefulness of Property Operating Results is limited because it excludes general and administrative costs, interest expense, interest income, depreciation and amortization expense and gains or losses from the sale of properties, changes in value in our real estate properties that result from use or permanent impairment to carrying costs as stipulated by GAAP, the level of capital expenditures and leasing costs necessary to maintain the operating performance of our properties, all of which are significant economic costs. Property Operating Results may fail to capture significant trends in these components of net income which further limits its usefulness.

Property Operating Results is a measure of the operating performance of our office properties but does not measure our performance as a whole. Property Operating Results is therefore not a substitute for net income as computed in accordance with GAAP. This measure should be analyzed in conjunction with net income computed in accordance with GAAP and discussions elsewhere in Management s Discussion and Analysis of Financial Condition and Results of Operations regarding the components of net income that are eliminated in the calculation of Property Operating Results. Other companies may use different methods for calculating Property Operating Results or similarly entitled measures and, accordingly, our Property Operating Results may not be comparable to similarly entitled measures reported by other companies that do not define the measure exactly as we do.

The following is a reconciliation of Property Operating Results to net income computed in accordance with GAAP (in thousands):

	Year Ended December 31,		
	2004	**2003**	**2002**
Net Income	$ 73,775	$ 58,509	$ 70,175
Add:			
General and administrative expense	19,503	16,931	12,581
Interest expense	88,856	93,093	87,827
Depreciation and amortization	121,687	111,952	100,317
Minority interest	5,255	5,375	5,816
Interest and other loss	508	401	
Impairment on investment in securities	2,700		
Less:			
Interest and other income			(2,063)
Gain on sale of discontinued properties	(30,473)	(5,937)	
Discontinued operations, net of minority interest	(6,253)	(12,538)	(15,570)
Gain on sale of operating properties			(1,967)
Property Operating Results	$275,558	$267,786	$257,116

(3) Excludes the operating results of two properties sold during the first quarter of 2004, one property sold during the third quarter of 2004, nine properties sold during the fourth quarter of 2004 and one property classified as held for disposition. The operating results for these properties are reported as part of discontinued operations in our consolidated statements of income.

(4) Includes a retail property with approximately 37,000 net rentable square feet.

(5) Comprised of one building in a business park containing a total of four buildings. After completion of the renovation, the total square footage of this building will expand to 130,000 square feet.

The following is a summary of our occupancy and in-place rents as of December 31, 2004:

			Annualized Base Rent Per Leased Square Foot(1)	
Location	**Percent Occupied**	**Percent Leased**	**Portfolio Total**	**Full Service Gross Leases(2)**
Los Angeles County				
West	93.5%	94.8%	$27.80	$27.81
North	91.9%	94.7%	22.26	22.96
South	89.5%	91.0%	19.03	20.15
Subtotal/ Weighted Average	92.0%	93.8%	23.96	24.67
Orange County	90.0%	91.3%	18.69	22.31
San Diego County	87.8%	88.5%	19.87	24.26
Ventura/ Kern Counties	95.0%	96.1%	18.84	19.61

Subtotal/ Weighted Average	91.2%	92.7%	22.21	24.08
Renovation Building		100.0%	17.40	
Total/ Weighted Average	90.5%	92.7%	$22.18	$24.08

(1) Based on monthly contractual base rent under existing leases as of December 31, 2004, multiplied by 12 and divided by leased net rentable square feet; for those leases where rent has not yet commenced or which are in a free rent period, the first month in which rent is to be received is used to determine annualized base rent.

(2) Excludes 31 properties and approximately 3.5 million square feet under triple net and modified gross leases.

Table of Contents

Renovation Summary

The following table summarizes information about the building under renovation as of December 31, 2004:

Building	Square Feet	Costs Incurred To Date	Estimated Total Cost(1)	Percent Leased	Estimated Construction Completion Date	Estimated Year 1 Stabilized Cash Property Operating Results(2)	Estimated Year 1 Annual Cash Yield	Estimated Year 1 Annual GAAP Yield(3)
		(in thousands)	(in thousands)			(in thousands)		
22745 Savi Ranch Parkway	130,000	$ 7,659	$ 9,705	100%	1st Qtr 2005	$ 1,881	9.6%	11.2%

(1) Estimated total cost includes capital expenditures, tenant improvements, leasing commissions and carrying costs during renovation.

(2) We consider stabilized Cash Property Operating Results to be the rental revenues from the property less the operating expenses of the property on a cash basis before deducting financing costs (interest and principal payments) after the property is at least 95% leased. Property Operating Results are discussed in greater detail in Note (2) to the Existing Portfolio summary table above.

(3) Estimated Year 1 Annual GAAP Yield includes an adjustment for straight-line rents.

This renovation was completed on February 15, 2005.

In addition to the renovation building above, we have preliminary architectural designs completed for an additional 475,000 net rentable square feet of office space at the Howard Hughes Center in Los Angeles, California. We also have construction entitlements at the Howard Hughes Center for up to 600 hotel rooms. Build-to-suit projects consist of properties constructed to the tenant s specifications in return for the tenant s long-term commitment to the property. We do not intend to commence construction on any additional build-to-suit or multi-tenant projects at the Howard Hughes Center until development plans and budgets are finalized with terms allowing us to achieve yields commensurate with the project s development risk.

In addition to our development at the Howard Hughes Center, we have completed preliminary designs and are marketing an approximately 170,000 net rentable square foot build-to-suit office building at our Long Beach Airport Business Park. We also have a 5-acre developable land parcel in Torrance, California that we intend to market for a build-to-suit building. We currently do not intend to commence construction on these projects until build-to-suit tenant leases are signed with terms allowing us to achieve yields commensurate with the project s development risk.

We expect to finance our development/renovation activities over the next 24 months through net cash provided by operating activities, proceeds from asset sales, proceeds from our lines of credit or other secured borrowings.

Table of Contents

Dispositions

The following table summarizes our disposition activity during 2004:

Property	County	Submarket	Date of Sale	Property Type	Square Feet	Gross Sales Price
						($000 s)
Tower Plaza Retail	Riverside	Temecula	February 4, 2004	Retail	133,481	$ 17,050
Univision 5999 Center Drive	Los Angeles	Culver City/Fox Hills	March 16, 2004	Office	161,650	52,500
10251 Vista Sorrento	San Diego	Sorrento Mesa	August 24, 2004	Office	69,386	9,250
Waples Tech Center	San Diego	Sorrento Mesa	December 29, 2004	Office	28,119	(A)
Morehouse Center	San Diego	Sorrento Mesa	December 29, 2004	Office	181,207	(A)
91 Freeway Center	Los Angeles	Artesia	December 29, 2004	Office	93,277	(A)
Norwalk	Los Angeles	Norwalk	December 29, 2004	Office	122,175	(A)
1501 Hughes Way	Los Angeles	Suburban Long Beach	December 29, 2004	Office	77,060	(A)
3901 Via Oro	Los Angeles	Suburban Long Beach	December 29, 2004	Office	53,195	(A)
Glendale Corporate Center	Los Angeles	Glendale	December 29, 2004	Office	108,209	(A)
Whittier	Los Angeles	Whittier	December 29, 2004	Office	135,415	(A)
South Bay Tech	Los Angeles	190th Corridor	December 29, 2004	Office	104,815	(A)
Sub-total					1,267,989	78,800
(A) Portfolio sale						126,000
					1,267,989	$ 204,800

Acquisitions

The following table summarizes our acquisition activity during 2004:

Property	County	Submarket	Date of Purchase	Property Type	Square Feet	Gross Purchase Price
						($000 s)
Homestore	Los Angeles	Westlake Village	October 4, 2004	Office	137,762	$ 32,300
Warner Corporate Center	Los Angeles	Woodland Hills	October 11, 2004	Office	253,000	64,500

390,762	$96,800

Table of Contents

The following table presents specific information regarding our 120 properties as of December 31, 2004:

Property Name	Major Area	Submarket	Year(s) Built/ Renovated	Approximate Net Rentable Square Feet	Percentage of Total Portfolio Net Rentable Square Feet	Percent Leased	Annualized Base Rent ($000s)	Number of Leases	Annualized Base Rent per Leased Net Rentable Square Feet(1)
Los Angeles County									
Los Angeles West									
145 South Fairfax	Hollywood/Wilshire Corridor	Miracle Mile	1984	54,398	0.3%	95.5%	$ 1,032	13	$ 19.86
6100 Wilshire	Hollywood/Wilshire Corridor	Miracle Mile	1986	202,675	1.1	100.0	5,051	57	24.43
120 S. Spalding	West Los Angeles	Beverly Hills Triangle	1984	64,877	0.4	97.5	2,700	15	42.67
8383 Wilshire	West Los Angeles	Beverly Hills	1971/93	424,588	2.3	91.7	10,100	134	25.93
9100 Wilshire	West Los Angeles	Beverly Hills	1971/90	328,697	1.8	92.7	8,300	76	27.25
9665 Wilshire	West Los Angeles	Beverly Hills Triangle	1972/92-93	159,645	0.9	100.0	6,140	24	38.34
Beverly Atrium	West Los Angeles	Beverly Hills	1989	59,582	0.3	96.6	1,718	15	29.85
Wilshire Pacific Plaza	West Los Angeles	Brentwood	1976/87	101,229	0.6	99.6	2,561	43	25.39
World Savings Center(2)	West Los Angeles	Brentwood	1983	473,581	2.6	86.4	12,440	54	30.41
10350 Santa Monica	West Los Angeles	West Los Angeles	1979	42,696	0.2	92.5	902	17	22.84
10351 Santa Monica	West Los Angeles	West Los Angeles	1984	96,899	0.5	87.3	1,998	14	23.63
Century Park Center	West Los Angeles	West Los Angeles	1972/94	235,178	1.3	100.0	5,606	98	23.33
400 Corporate Pointe	West Los Angeles	Culver City/Fox Hills	1987	165,487	0.9	85.9	2,732	19	19.23
600 Corporate Pointe	West Los Angeles	Culver City/Fox Hills	1989	275,113	1.5	95.1	5,523	19	21.10
6060 Center Drive	West Los Angeles	Culver City/Fox Hills	1999	256,665	1.4	99.1	8,280	8	32.55
6080 Center Drive	West Los Angeles	Culver City/Fox Hills	2001	286,568	1.6	93.2	9,643	15	36.11
6100 Center Drive	West Los Angeles	Culver City/Fox Hills	2002	284,798	1.6	99.4	7,278	24	25.72
Bristol Plaza	West Los Angeles	Culver City/Fox Hills	1982	84,033	0.5	95.3	1,640	28	20.47
Howard Hughes Spectrum Club	West Los Angeles	Culver City/Fox Hills	1993	36,959	0.2	100.0	967	1	26.16
Howard Hughes Tower	West Los Angeles	Culver City/Fox Hills	1987	316,014	1.7	87.0	7,541	33	27.44
Northpoint	West Los Angeles	Culver City/Fox Hills	1991	105,145	0.6	94.1	2,638	7	26.67
1919 Santa Monica	West Los Angeles	Santa Monica	1991	43,766	0.2	85.2	947	7	25.41
2001 Wilshire Blvd.	West Los Angeles	Santa Monica	1980	99,565	0.5	100.0	2,805	23	27.47
2730 Wilshire	West Los Angeles	Santa Monica	1985	55,531	0.3	100.0	1,553	26	27.57
2800 28th Street	West Los Angeles	Santa Monica	1979	106,481	0.6	95.9	2,456	42	24.06
10780 Santa Monica	West Los Angeles	West Los Angeles	1984	93,211	0.5	97.0	2,193	33	24.26
1950 Sawtelle	West Los Angeles	West Los Angeles	1988/95	104,171	0.6	98.0	2,367	42	23.17
11075 Santa Monica	West Los Angeles		1983	35,996	0.2	99.1	877	8	24.57

		West Los Angeles							
Westwood Center	West Los Angeles	Westwood	1965/2000	314,366	1.7	99.6	11,366	45	36.30
Westwood Terrace	West Los Angeles	West Los Angeles	1988	136,707	0.8	98.3	3,549	22	26.41

Table of Contents

Property Name	Major Area	Submarket	Year(s) Built/ Renovated	Approximate Net Rentable Square Feet	Percentage of Total Portfolio Net Rentable Square Feet	Percent Leased	Annualized Base Rent ($000s)	Number of Leases	Annualized Base Rent per Leased Net Rentable Square Feet(1)
Subtotal/Weighted Average Los Angeles West				5,044,621	27.7%	94.8%	$ 132,903	962	$ 27.80
Los Angeles North									
303 Glenoaks	Glendale/Tri-Cities	Burbank	1983/96	177,898	1.0%	99.4%	$ 4,028	28	$ 22.78
333 N. Glenoaks	Glendale/Tri-Cities	Burbank	1978	82,939	0.5	98.0	1,921	17	23.62
601 S. Glenoaks	Glendale/Tri-Cities	Burbank	1990	74,745	0.4	87.4	1,206	18	18.45
Burbank Executive Plaza	Glendale/Tri-Cities	Burbank	1983	63,320	0.3	99.0	1,437	19	22.92
425 West Broadway	Glendale/Tri-Cities	Glendale	1984	72,317	0.4	94.9	1,456	14	21.21
535 N. Brand Blvd.	Glendale/Tri-Cities	Glendale	1973/92/99	109,104	0.6	96.6	2,233	44	21.19
5161 Lankershim	Glendale/Tri-Cities	North Hollywood	1985/97	180,940	1.0	99.4	3,964	9	22.05
70 South Lake	Glendale/Tri-Cities	Pasadena	1982/94	101,236	0.5	99.9	2,627	19	25.97
150 East Colorado Boulevard	Glendale/Tri-Cities	Pasadena	1979/97	61,657	0.3	100.0	1,447	20	23.47
299 N. Euclid	Glendale/Tri-Cities	Pasadena	1983	74,573	0.4	100.0	1,890	4	25.30
Calabasas Commerce Center	San Fernando Valley	Calabasas	1990	126,771	0.7	100.0	2,323	12	18.32
Calabasas Tech	San Fernando Valley	Calabasas	1990/2001	283,692	1.5	90.3	4,837	17	18.89
16000 Ventura	San Fernando Valley	Encino	1980/96	175,275	1.0	93.2	3,628	45	22.21
15250 Ventura	San Fernando Valley	Sherman Oaks	1970/90-91	112,142	0.6	93.1	2,438	41	23.35
Noble Professional Center	San Fernando Valley	Sherman Oaks	1985/93	52,599	0.3	92.8	1,129	18	23.11
Sunset Pointe Plaza	San Fernando Valley	Valencia	1988	59,186	0.3	99.7	1,500	27	25.42
Tourney Pointe	San Fernando Valley	Valencia	1985/98-2000	219,673	1.2	92.1	4,196	38	20.74
Homestore	San Fernando Valley	Westlake Village	2000	137,762	0.8	100.0	3,036	1	22.04
Westlake 5601 Lindero	San Fernando Valley	Westlake Village	1989	106,144	0.6	95.3	1,894	5	18.73
Clarendon Crest	San Fernando Valley	Woodland Hills	1990	43,222	0.2	97.9	887	18	20.95
Warner Corporate Center	San Fernando Valley	Woodland Hills	1988	253,000	1.4	98.9	6,433	34	25.71
Woodland Hills	San Fernando Valley	Woodland Hills	1972/95	229,616	1.3	93.0	4,874	73	22.82
Los Angeles Corporate Center	San Gabriel Valley	Monterey Park	1984/86	389,615	2.1	90.6	7,552	45	21.40
Conejo Business Center	Ventura	Newbury Park/Thousand Oaks	1991	69,425	0.4	92.9	1,375	29	21.32
	Ventura		1998	61,000	0.3	97.3	1,564	10	26.36

Hillside Corporate Center		Newbury Park/Thousand Oaks							
Marin Corporate Center	Ventura	Newbury Park/Thousand Oaks	1986	51,776	0.3	64.9	778	27	23.14
Westlake Gardens	Ventura	Westlake Village	1998	50,267	0.3	94.0	1,288	19	27.27
Westlake Gardens II	Ventura	Westlake Village	1999	48,874	0.3	93.1	1,229	4	27.02
Subtotal/ Weighted Average Los Angeles North				3,468,768	19.0%	94.7%	$ 73,170	655	$ 22.26
Los Angeles South									
South Bay Centre	South Bay	190th Corridor	1984	204,197	1.1%	100.0%	$ 4,150	36	$ 20.30
Pacific Gateway	South Bay	190th Corridor	1982/90	225,805	1.2	97.4	4,617	40	20.99
Gateway Towers	South Bay	190th Corridor	1984/86	433,545	2.4	95.3	9,448	74	22.88

Property Name	Major Area	Submarket	Year(s) Built/ Renovated	Approximate Net Rentable Square Feet	Percentage of Total Portfolio Net Rentable Square Feet	Percent Leased	Annualized Base Rent ($000s)	Number of Leases	Annualized Base Rent per Leased Net Rentable Square Feet(1)
100 West Broadway	South Bay	Downtown Long Beach	1987/96	191,371	1.1	68.8	2,537	39	19.26
Oceangate Tower	South Bay	Downtown Long Beach	1971/93-94	218,554	1.2	79.7	3,067	40	17.62
Continental Grand Plaza	South Bay	El Segundo	1986	237,494	1.3	93.6	5,310	37	23.90
Grand Avenue Plaza	South Bay	El Segundo	1980	82,872	0.5	88.2	1,334	16	18.26
5200 West Century	South Bay	LAX	1982/98-99	312,700	1.7	93.0	5,325	30	18.30
Skyview Center	South Bay	LAX	1981/87/95	398,261	2.2	81.6	5,175	53	15.92
Long Beach Airport Bldg D(2)	South Bay	Suburban Long Beach	1987/95	121,610	0.7	100.0	1,211	1	9.96
Long Beach Airport Bldg F & G(2)	South Bay	Suburban Long Beach	1987/95	150,403	0.8	100.0	1,354	1	9.00
5000 East Spring(2)	South Bay	Suburban Long Beach	1989/95	168,967	0.9	96.9	3,693	44	22.55
Mariner Court	South Bay	Torrance	1989	105,436	0.6	98.7	2,150	38	20.67
Subtotal/ Weighted Average Los Angeles South				2,851,215	15.7%	91.0%	$ 49,371	449	$ 19.03
Orange County									
1370 Valley Vista	LA Central	Diamond Bar	1988	81,962	0.4%	100.0%	$ 1,814	13	$ 21.39
Anaheim City Centre(2)	Orange County	Central County	1986/91	177,266	1.0	100.0	3,569	27	19.72
City Centre I	Orange County	Central County	1985/97	141,903	0.8	100.0	2,849	33	19.85
Orange Financial Center	Orange County	Central County	1985/95	307,920	1.7	94.4	6,522	38	22.43
Fountain Valley City Centre	Orange County	Greater Airport	1982	303,267	1.7	63.4	4,591	18	23.86
Fountain Valley Plaza	Orange County	Greater Airport	1982	107,313	0.6	37.9	843	4	20.73
Irvine Corporate Center	Orange County	Greater Airport	1980/88	126,781	0.7	100.0	1,446	5	11.34
Newport Irvine Center	Orange County	Greater Airport	1981/97	75,184	0.4	88.6	1,642	28	24.65
South Coast Executive Center	Orange County	Greater Airport	1979/97	61,292	0.3	94.3	1,068	25	18.48
Von Karman Corporate Center	Orange County	Greater Airport	1981/84	452,378	2.5	86.8	8,419	31	21.44
Centerpointe La Palma	Orange County	North County	1986/88/90	603,582	3.3	97.8	11,074	98	18.76
Savi Tech Center	Orange County	North County	1989	242,327	1.3	100.0	2,538	3	10.47
Yorba Linda Business Park	Orange County	North County	1988	165,710	0.9	98.3	1,483	60	9.10
Crown Cabot Financial Center	Orange County	South County	1989	174,222	1.0	97.4	4,829	41	28.46
5632 Bolsa	Orange County	West County	1987	21,568	0.1	100.0	184	1	8.52
5672 Bolsa	Orange County	West County	1987	12,110	0.1	100.0	103	1	8.52
5702 Bolsa	Orange County	West County	1987/97	27,731	0.1	100.0	227	2	8.17
5832 Bolsa	Orange County	West County	1985	49,355	0.3	100.0	829	1	16.80
		West 53,459	0.3	89.6	850	18	17.75		

Huntington Beach Plaza County	Orange County 1984/96

Property Name	Major Area	Submarket	Year(s) Built/ Renovated	Approximate Net Rentable Square Feet	Percentage of Total Portfolio Net Rentable Square Feet	Percent Leased	Annualized Base Rent ($000s)	Number of Leases	Annualized Base Rent per Leased Net Rentable Square Feet(1)
Huntington Commerce Center	Orange County	West County	1987	69,749	0.4	98.4	638	23	9.29
Subtotal/ Weighted Average Orange County				3,255,079	17.9%	91.3%	$ 55,518	470	$ 18.69
San Diego County									
Carlsbad Corporate Center	San Diego County	Carlsbad	1996	129,000	0.7%	100.0%	$ 445	1	$ 3.45
Carmel Valley Center	San Diego County	Del Mar Heights	1987/89	109,518	0.6	93.8	3,410	17	33.20
701 B Street(2)	San Diego County	Downtown	1982/96	548,310	3.0	87.3	11,023	70	23.04
5120 Shoreham	San Diego County	Governor Park	1984	37,813	0.2	100.0	842	7	22.24
Governor Executive Centre	San Diego County	Governor Park	1988	52,828	0.3	85.1	1,175	10	26.12
Governor Executive Centre II	San Diego County	Governor Park	1989	101,433	0.6	100.0	3,006	17	29.64
Governor Park Plaza	San Diego County	Governor Park	1986	104,441	0.6	94.0	2,485	19	25.31
10180 Scripps Ranch	San Diego County	Scripps Ranch	1978/96	43,560	0.2	0	0	0	0
Activity Business Center	San Diego County	Miramar	1987	167,170	0.9	72.3	1,652	41	13.66
Balboa Corporate Center	San Diego County	Kearney Mesa	1990	70,987	0.4	75.8	777	2	14.44
Panorama Corporate Center	San Diego County	Kearney Mesa	1991	130,396	0.7	99.6	2,392	3	18.42
Ruffin Corporate Center	San Diego County	Kearney Mesa	1990	45,059	0.2	100.0	378	1	8.40
Skypark Office Plaza	San Diego County	Kearney Mesa	1986	203,946	1.1	96.9	4,423	24	22.39
Crossroads	San Diego County	Mission Valley	1979	134,477	0.7	65.8	2,093	8	23.64
Poway Industrial	San Diego County	Rancho Bernardo/Poway	1991/96	112,000	0.6	100.0	672	1	6.00
Bernardo Regency	San Diego County	Rancho Bernardo/Poway	1986	48,052	0.3	93.3	1,145	16	25.54
Carmel View Office Plaza	San Diego County	Rancho Bernardo/Poway	1985	77,672	0.4	84.1	1,497	16	22.92
Cymer Technology Center	San Diego County	Rancho Bernardo/Poway	1986	155,612	0.9	100.0	1,923	2	12.36
Foremost Professional Plaza	San Diego County	Rancho Bernardo/Poway	1992	60,311	0.3	73.6	1,113	29	25.06
Via Frontera	San Diego County	Rancho Bernardo/Poway	1982/97	77,920	0.4	100.0	914	6	11.60
Westridge	San Diego County	Sorrento Mesa	1984/96	48,955	0.3	82.4	551	3	13.65
Torreyana Science Park	San Diego County	Torrey Pines	1980/97	81,204	0.5	100.0	2,008	1	24.72
			1984	155,014	0.9	87.5	3,493	23	25.75

Genesee Executive Plaza	San Diego County	University Towne Centre						
Subtotal/ Weighted Average San Diego County			2,695,678	14.8%	88.5%	$ 47,417	317	$ 19.87

14

Table of Contents

Property Name	Submarket	Location	Year(s) Built/ Renovated	Approximate Net Rentable Square Feet	Percentage of Total Portfolio Net Rentable Square Feet	Percent Leased	Annualized Base Rent ($000s)	Number of Leases	Annualized Base Rent per Leased Net Rentable Square Feet(1)
Ventura & Kern Counties									
4900 California	Kern County	Bakersfield	1983	155,791	0.9%	95.6%	$ 2,385	23	$ 16.01
Parkway Center I	Kern County	Bakersfield	1992/95	61,289	0.3	90.8	1,038	11	18.64
Camarillo Business Park	Ventura	Camarillo	1984/97	154,298	0.8	97.5	3,134	29	20.83
1000 Town Center	Ventura	Oxnard	1989	108,508	0.6	99.8	2,379	10	21.96
Solar Drive Business Center	Ventura	Oxnard	1982	138,341	0.8	98.0	2,494	36	18.39
Center Promenade	Ventura	Ventura	1988	177,072	1.0	93.4	2,969	61	17.96
Subtotal/ Weighted Average Ventura & Kern Counties				795,299	4.4%	96.1%	$ 14,399	170	$ 18.84
Renovation Building									
Savi Tech Center(3)	Orange County	North County	1989	99,119	0.5%	100.0%	$ 2,262	1	$ 17.40
Portfolio Total/ Weighted Average				18,209,779	100.0%	92.7%	$ 375,040	3,024	$ 22.18

(1) Calculated as monthly contractual base rent under existing leases as of December 31, 2004, multiplied by 12 and divided by leased net rentable square feet, for those leases where rent has not yet commenced or which are in a free rent period, the first month in which rent is to be received is used to determine annualized base rent.

(2) We lease the land underlying these properties or their parking structures pursuant to long term ground leases.

(3) Comprised of one building in a business park containing a total of four buildings. After completion of the renovation, the total square footage of this building will expand to 130,000 square feet. The annualized base rent and the annualized base rent per leased net rentable square feet amounts are calculated based on the expanded square footage of 130,000 square feet.

Table of Contents

Tenant Information

As of December 31, 2004, we had approximately 3,000 tenants with no one tenant representing more than 2.2% of the aggregate annualized base rent of our properties and only 2 tenants individually representing more than 1.0% of our aggregate annualized base rent. Our properties are leased to local, national and international companies engaged in a variety of businesses including financial services, entertainment, health care services, accounting, law, education, publishing and local, state and federal government entities.

Our leases are typically structured for terms of three to ten years. Leases typically contain provisions permitting tenants to renew expiring leases at prevailing market rates. Approximately 81% of our total rentable square footage is under full service gross leases under which tenants typically pay for all real estate taxes and operating expenses above those for an established base year or expense stop. Our remaining square footage is under triple net and modified gross leases. Triple net and modified gross leases are those where tenants pay not only base rent, but also some or all of real estate taxes and operating expenses of the leased property. Tenants generally reimburse us the full direct cost, without regard to a base year or expense stop, for use of lighting, heating and air conditioning during non-business hours, and for on-site monthly employee and visitor parking. We are generally responsible for structural repairs to our buildings.

The following table presents information as of December 31, 2004 derived from our ten largest tenants based on the percentage of aggregate portfolio annualized base rent:

Tenant	Number of Locations	Weighted Average Remaining Lease Term in Months	Percentage of Aggregate Portfolio Leased Square Feet	Percentage of Aggregate Portfolio Annualized Base Rent(1)	Net Rentable Square Feet	Annualized Base Rent (in thousands)
Vivendi Universal	2	64	1.38%	2.14%	231,681	$ 7,980
State of California	18	51	1.63	1.61	274,065	5,992
University of Phoenix	6	52	0.99	1.00	166,195	3,733
Ceridian Corporation	2	64	0.91	0.99	152,612	3,706
Atlantic Richfield	1	21	0.86	0.93	143,885	3,465
Pepperdine University	1	167	0.68	0.87	113,488	3,251
Homestore.com, Inc.	1	37	0.82	0.82	137,762	3,036
Walt Disney Pictures and Television	1	43	0.76	0.78	128,258	2,894
Haight, Brown & Bonesteel, LLP	2	77	0.38	0.73	63,262	2,736
Westfield Corporation	1	100	0.58	0.73	96,876	2,725
Total/ Weighted Average(2)	35	63	8.99%	10.60%	1,508,084	$ 39,518

(1) Annualized base rent is calculated as monthly contractual base rent under existing leases as of December 31, 2004, multiplied by 12; for those leases where rent has not yet commenced or which are in a free rent period, the first month in which rent is to be received is used to determine annualized base rent.

(2) The weighted average calculation is based on net rentable square footage leased by each tenant.

16

Table of Contents

The following table presents the diversification of the tenants occupying space in our portfolio by industry as of December 31, 2004:

North American Industrial Classification System Description (NAICS)	NAICS Code	Occupied Square Feet	Percentage of Total Occupied Portfolio
Professional, Scientific, and Technical Services	541	4,278,468	25.91%
Finance and Insurance	521-525	2,838,317	17.19
Information	511-519	1,625,403	9.84
Manufacturing	311-339	1,282,143	7.77
Health Care and Social Assistance	621-624	1,107,178	6.71
Educational Services	611	750,882	4.55
Administrative and Support and Waste Management and Remediation Services	561-562	742,831	4.50
Real Estate, Rental and Leasing	531-533	709,020	4.29
Public Administration	921-928	638,857	3.87
Wholesale Trade	423-425	564,150	3.42
Construction	236-238	334,098	2.02
Transportation and Warehousing	481-493	319,070	1.93
Other Services (except Public Administration)	811-814	295,987	1.79
Arts, Entertainment, and Recreation	711-713	287,027	1.74
Accommodation and Food Services	721-722	180,608	1.09
Retail Trade	441-454	112,738	0.68
Mining	211-213	41,291	0.25
Management of Companies and Enterprises	551	34,410	0.21
Utilities	221	8,975	0.05
Agriculture, Forestry, Fishing and Hunting	111-115	6,261	0.04
Other Uncategorized		352,346	2.15
Total Square Feet Occupied		16,510,060	100.00%

Lease Distribution

The following table presents information relating to the distribution of the leases for our 120 properties, based on leased net rentable square feet, as of December 31, 2004:

Square Feet Under Lease	Number of Leases	Percent of All Leases	Total Leased Square Feet	Percent of Aggregate Portfolio Leased Square Feet	Annualized Base Rent of Leases(1) (000 s)	Avg. Base Rent per Leased Square Foot	Percent of Aggregate Portfolio Annualized Base Rent
2,500 and under	1,490	49.29%	2,114,663	12.60%	$ 50,567	$ 23.91	12.42%
2,501 - 5,000	704	23.29	2,447,176	14.58	60,844	24.86	14.95
5,001 - 7,500	299	9.89	1,813,171	10.80	46,939	25.89	11.53
7,501 - 10,000	164	5.43	1,432,241	8.54	36,027	25.15	8.85
10,001 - 20,000	241	7.97	3,405,929	20.30	85,663	25.15	21.04
20,001 - 40,000	78	2.58	2,118,322	12.62	51,036	24.09	12.54
40,001 and over	47	1.55	3,451,173	20.56	76,002	22.02	18.67
Total/ Weighted Average	3,023	100.00%	16,782,675	100.00%	$ 407,078	$ 24.26	100.00%

(1) Base rent is determined as of the date of lease expiration, including all fixed contractual base rent increases; increases tied to indices such as the Consumer Price Index are not included.

Table of Contents

Lease Expirations

The following table presents a summary schedule of the total lease expirations for our 120 properties for leases in place at December 31, 2004. This table assumes that none of the tenants exercise renewal options or termination rights, if any, at or prior to the scheduled expirations:

Year of Lease Expiration	Number of Leases Expiring	Square Footage of Expiring Leases	Percentage of Aggregate Leased Square Feet	Annualized Base Rent of Expiring Leases(1) ($000s)	Average Annualized Base Rent per Square Foot of Expiring Leases	Percentage of Aggregate Portfolio Annualized Base Rent
Month-to-Month	113	499,517	2.98%	$ 8,878	$17.77	2.18%
Q1 2005	136	465,009	2.77	9,421	20.26	2.31
Q2 2005	160	623,578	3.72	13,792	22.12	3.39
Q3 2005	167	624,148	3.72	14,522	23.27	3.57
Q4 2005	188	802,859	4.78	17,347	21.61	4.26
2005 Sub-Total(2)	651	2,515,594	14.99	55,082	21.90	13.53
2006	596	2,513,849	14.98	59,551	23.69	14.63
2007	529	2,416,185	14.40	56,854	23.53	13.97
2008	392	2,355,397	14.03	58,662	24.91	14.41
2009	344	2,139,029	12.74	51,137	23.91	12.56
2010	159	1,615,217	9.62	39,338	24.35	9.66
2011	53	704,942	4.20	22,102	31.35	5.43
2012	54	855,313	5.10	20,291	23.72	4.98
2013	34	411,142	2.45	12,195	29.66	3.00
2014+	98	756,490	4.51	22,988	30.39	5.65
Total/ Weighted Average	3,023	16,782,675	100.00%	$407,078	$24.26	100.00%

(1) Base rent is determined as of the date of lease expiration, including all fixed contractual base rent increases; increases tied to indices such as the Consumer Price Index are not included.

(2) Excludes month-to-month leases.

ITEM 3. ***Legal Proceedings***

We are presently subject to various lawsuits, claims and proceedings arising in the ordinary course of business none of which if determined unfavorably to us is expected to have a material adverse effect on our cash flows, financial condition or results of operations during the year ended December 31, 2004.

ITEM 4. ***Submission of Matters to a Vote of Security Holders***

No matters were submitted to a vote of our stockholders during the fourth quarter of the year ended December 31, 2004.

Table of Contents

PART II

ITEM 5. ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Our common stock is traded on the New York Stock Exchange, or NYSE, under the symbol ARI. On March 10, 2005, the last reported sales price per share of common stock on the NYSE was $35.41 and there were approximately 226 registered holders of record of our common stock. The table below sets forth the quarterly high and low closing sales price per share of our common stock as reported on the NYSE and the cash dividends per share we declared with respect to each period.

	High	Low	Per Share Common Stock Dividends Declared
2003			
First Quarter	$23.69	$20.18	$0.505
Second Quarter	$26.23	$22.68	$0.505
Third Quarter	$27.92	$26.15	$0.505
Fourth Quarter	$30.34	$27.49	$0.505
2004			
First Quarter	$32.75	$29.30	$0.505
Second Quarter	$32.86	$26.89	$0.505
Third Quarter	$33.15	$29.54	$0.505
Fourth Quarter	$37.72	$32.66	$0.505

We pay quarterly cash dividends to common stockholders at the discretion of our Board of Directors. The amount of each quarterly cash dividend depends on our funds from operations, financial condition, capital requirements and annual distribution requirements under the REIT provisions of the Internal Revenue Code and such other factors our Board of Directors deem relevant.

Table of Contents

ITEM 6. ***Selected Financial Data***

You should read the following consolidated financial and operating data for Arden Realty together with our Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements included elsewhere in this Form 10-K.

	Year Ended December 31,				
	2004	2003	2002	2001	2000
	(in thousands, except ratio and per share amounts)				
Operating Data:					
Property revenues	$ 409,193	$ 393,765	$ 374,135	$ 382,839	$ 351,924
Interest and other (loss) income	(508)	(401)	2,063	2,135	3,290
Property operating expenses	(133,635)	(125,979)	(117,019)	(110,421)	(100,574)
General and administrative expense	(19,503)	(16,931)	(12,581)	(11,496)	(9,103)
Depreciation and amortization	(121,687)	(111,952)	(100,317)	(92,613)	(78,672)
Interest expense	(88,856)	(93,093)	(87,827)	(85,949)	(78,495)
Income from continuing operations before gain on sale of operating properties, impairment on investment in securities, and minority interest	45,004	45,409	58,454	84,495	88,370
Gain on sale of operating properties(1)			1,967	4,591	2,132
Income from continuing operations before impairment on investment securities and minority interest	45,004	45,409	60,421	89,086	90,502
Impairment on investment in securities	(2,700)				
Minority interest	(5,255)	(5,375)	(5,816)	(7,046)	(7,158)
Income from continuing operations	37,049	40,034	54,605	82,040	83,344
Discontinued operations, net of minority interest	6,253	12,538	15,570	15,719	13,366
Gain on sale of discontinued properties	30,473	5,937			
Net income	$ 73,775	$ 58,509	$ 70,175	$ 97,759	$ 96,710
Basic net income per common share:					
Income from continuing operations	$ 0.57	$ 0.63	$ 0.85	$ 1.28	$ 1.32
Income from discontinued operations	0.56	0.29	0.24	0.25	0.21
Net income per common share-basic	$ 1.13	$ 0.92	$ 1.09	$ 1.53	$ 1.53
Weighed average number of common shares-basic	65,372	63,553	64,151	63,754	63,408
Diluted net income per common share:					
Income from continuing operations	$ 0.56	$ 0.63	$ 0.85	$ 1.28	$ 1.31
Income from discontinued operations	0.56	0.29	0.24	0.25	0.21

Net income per common share-diluted	$ 1.12	$ 0.92	$ 1.09	$ 1.53	$ 1.52
Weighed average number of common shares- diluted	$ 65,740	$ 63,815	$ 64,351	$ 64,014	$ 63,598
Cash dividends declared per common share	$ 2.02	$ 2.02	$ 2.02	$ 1.96	$ 1.86
Other Data:					
Cash provided by operating activities	$ 184,907	$ 181,482	$ 199,922	$ 204,667	$ 192,152
Cash used in investing activities	$ (11,241)	$ (20,355)	$(213,002)	$(115,854)	$(216,024)
Cash (used in) provided by financing activities	$(165,333)	$(160,483)	$ (19,898)	$ (57,204)	$ 22,248
Funds from Operations(2)	$ 171,777	$ 174,458	$ 181,549	$ 198,240	$ 185,146

Selected financial data continues on next page.

Table of Contents

	Year Ended December 31,				
	2004	**2003**	**2002**	**2001**	**2000**
Balance Sheet Data:					
Net investment in real estate	$2,551,981	$2,646,699	$2,741,624	$2,622,980	$2,603,566
Total assets	$2,659,997	$2,741,433	$2,832,409	$2,761,443	$2,705,597
Total indebtedness	$1,326,084	$1,349,781	$1,402,304	$1,251,483	$1,177,769
Other liabilities(3)	$ 83,713	$ 76,638	$ 76,350	$ 62,685	$ 56,885
Minority interests	$ 20,414	$ 72,194	$ 74,571	$ 78,661	$ 86,176
Total stockholders equity	$1,196,292	$1,210,285	$1,247,377	$1,337,206	$1,355,171

(1) Beginning with the adoption of the Statement of Financial Accounting Standard No. 144 in 2002, the operating results and gains and losses of real estate properties classified as held for disposition are included in discontinued operations.

(2) We believe that funds from operations, or FFO, is a useful supplemental measure of our operating performance. We compute FFO in accordance with standards established by the White Paper on FFO approved by the Board of Governors of the National Association of Real Estate Investment Trusts, or NAREIT, in April 2002. The white paper defines FFO as net income or loss computed in accordance with generally accepted accounting principles, or GAAP, excluding extraordinary items, as defined by GAAP, and gains and losses from sales of depreciable operating property plus real estate-related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures.

We believe that FFO, by excluding depreciation costs, the gains or losses from the sale of operating real estate properties and extraordinary items as defined by GAAP, provides an additional perspective on our operating results. However, because these items have real economic effect, FFO is a limited measure of performance.

FFO captures trends in occupancy rates, rental rates and operating costs. FFO excludes depreciation and amortization costs and it does not capture the changes in value in our properties that result from use or changes in market conditions or the level of capital expenditures and leasing costs necessary to maintain the operating performance of our properties, all of which are significant economic costs. Therefore, its ability to measure performance is limited.

Because FFO excludes significant economic components of net income determined in accordance with GAAP, FFO should be used as an adjunct to net income and not as an alternative to net income. FFO should also not be used as an indicator of our financial performance, or as a substitute for cash flow from operating activities determined in accordance with GAAP or as a measure of our liquidity. FFO is not by itself indicative of funds available to fund our cash needs, including our ability to pay dividends or service our debt. Therefore, FFO only provides investors with an additional performance measure that when combined with measures computed in accordance with GAAP such as net income, cash flow from operating activities, investing activities and financing activities provides investors with an indication of our ability to service debt and to fund acquisitions and other expenditures.

FFO is used by investors to compare our performance with other REITs. Other REITs may use different methodologies for calculating FFO and, accordingly, our FFO may not be comparable to other REITs. See a reconciliation of FFO to Net income in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations of this report.

(3) Excludes dividends payable.

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

Overview

The following discussion should be read in conjunction with Item 6, Selected Financial Data, and our historical consolidated financial statements and related notes thereto included elsewhere in this Form 10-K.

We are a self-administered and self-managed real estate investment trust that owns, manages, leases, develops, renovates and acquires commercial properties located in Southern California. We are a full-service real estate organization managed by 6 senior executive officers who have experience in the real estate industry ranging from 14 to 35 years and who collectively have an average of 20 years of experience. We perform all property management, construction management, accounting, finance, acquisition and disposition activities and a majority of our leasing transactions with our staff of approximately 300 employees.

As of December 31, 2004, we were Southern California s largest publicly traded office landlord as measured by total net rentable square feet owned. As of that date, our portfolio consisted of 120 primarily suburban office properties and 197 buildings containing approximately 18.2 million net rentable square feet. As of December 31, 2004, our operating portfolio was 91.2% occupied.

Our primary business strategy is to actively manage our portfolio to achieve gains in rental rates and occupancy, control operating expenses and maximize income from ancillary operations and services. When market conditions permit, we may also selectively develop or acquire new properties that add value and fit strategically into our portfolio. We may also sell existing properties and use the net proceeds to repay outstanding indebtedness or place into investments that we believe will generate higher long-term value.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the reporting periods. Certain accounting policies are considered to be critical accounting estimates, as they require management to make assumptions about matters that are highly uncertain at the time the estimate is made and changes in the accounting estimate are reasonably likely to occur from period to period. Management believes the following critical accounting policies reflect the Company s more significant judgments and estimates used in the preparation of the consolidated financial statements. For a summary of all the Company s significant accounting policies see note 2 to the Company s consolidated financial statements included elsewhere in this report. We periodically evaluate our estimates and assumptions used in the preparation of our financial statements including our reported operating results. Because over 97% of our assets as of December 31, 2004 and 2003, respectively, consists of investments in real estate and amounts due from tenants, our primary evaluations consist of recoverability of amounts invested in real estate properties and collectability of amounts due from tenants.

Revenue Recognition

We recognize minimum rent, including rental abatements and contractual fixed increases attributable to operating leases, on a straight-line basis over the term of the related lease. The amount by which straight-line rental income differs from cash rents billed under the lease is included in deferred rents.

Allowance for Rents and Other Receivables

We periodically evaluate the collectability of amounts due from particular tenants based on a variety of factors including the tenant s payment history, our observation of space utilization, periodic discussions with the tenants regarding the tenant s short and long-term business plan for the space under contract, the overall financial health of the business and/or parent company, available financial and other information regarding the tenant or its parent company and the amount of lease security on hand. Based on these factors, unless collection is reasonably assured, we fully reserve amounts due that are in excess of the lease security we hold. All of our allowances are tenant specific.

As of December 31, 2004 and 2003 we had a total of $5.7 million and $6.3 million in our allowance for doubtful accounts and other reserves, respectively, representing approximately 10% and 12% of the total rent and deferred rent balance outstanding at each respective balance sheet date. Including security deposits and existing letters of credit, as of December 31, 2004 and 2003, we had a total of $39.3 million and $33.5 million of total lease security available, respectively. For the years ended December 31, 2004, 2003 and 2002 our bad debt expense related to losses for uncollected rents, deferred rents, tenants reimbursements and other uncollectible charges were approximately 0.3%, 0.6% and 1.4% of total gross revenue, respectively, for each of those years. Our allowances have historically proved to be adequate; however, due to the uncertainty inherent in the tenant specific evaluation process, our allowance for doubtful accounts may not prove to be sufficient in all future periods.

Commercial Properties

Impairment of Assets

The recoverability of amounts invested in real estate properties is highly dependent on the assumptions we use. For properties we intend to hold and operate, we recognize a write-down to estimated fair value whenever a property s estimated undiscounted future cash flows are less than its depreciated cost. For properties we intend to sell, we recognize a write-down to estimated fair value whenever a property s estimated sales price less costs to sell are less than its depreciated costs.

We determine fair value of our properties using methods similar to those used by independent appraisers, including comparison of carrying costs on a per square foot basis to sales price on a per square foot basis on recently transacted properties that are similar in quality and location and also by comparing carrying costs to acquisition offers from prospective buyers. Based on our assessment, no write-downs to estimated fair value were necessary as of December 31, 2004 and 2003.

Due to the availability of comparable sales information in most of our sub-markets, historically our fair value estimates have proven to be accurate. However, our estimates may vary from actual values, especially for real estate assets located in sub-markets where quoted per square foot market prices for comparable properties may not be readily available or real estate assets that become impaired due to non-recurring circumstances such as previously unknown environmental issues or casualty losses that result in damages in excess of our insurance coverage amount.

Property Acquisitions

The amounts paid for properties acquired are allocated between the tangible and intangible assets. Tangible assets include land, building and tenant improvements. Intangible assets include the value of in place leases. To arrive at the value of in place leases, we compare estimates of current market rents to the in place rents. We also make assumptions regarding the amount of time that currently occupied space would remain vacant if we had to replace the existing tenants under current market conditions. We also reduce the value of each lease using a discount rate that we deem to be commensurate with each tenant s credit profile. The assumptions we use are based on available market information, from independent sources and our own market knowledge and experience.

The fair market value that we assign to acquired leases is amortized over the remaining lease terms. The tangible assets assigned to building improvements are depreciated over a much longer period of time, normally forty years. Consequently, the assumptions we use in this allocation have a significant impact on the operating results that we will report in future periods. We cannot guarantee that the initial assumptions that we use to any property s purchase price will prove to be accurate. We also would not revise these estimates in future periods if our initial amounts were proven to be inaccurate.

Qualification as a REIT

Since our taxable year ended December 31, 1996, we have been organized and operated, and intend to continue to operate, so as to qualify for taxation as a REIT under the Internal Revenue Code. Our qualification and taxation as a REIT depends on our ability to meet, through actual annual operating results,

Table of Contents

asset diversification, distribution levels and diversity of stock ownership, numerous requirements established under highly technical and complex Internal Revenue Code provisions subject to interpretation.

If we failed to qualify as a REIT in any taxable year, we would be subject to federal income tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates. Moreover, unless entitled to relief under specific statutory provisions, we also would be disqualified as a REIT for the four taxable years following the year during which qualification was lost. For additional information see Risk Factors We may suffer adverse tax consequences and be unable to attract capital if we fail to qualify as a REIT, and Our operating partnership intends to qualify as a partnership, but we cannot guarantee that it will qualify, elsewhere in this Form 10-K.

Off-Balance Sheet Arrangements

There are no off-balance sheet transactions, arrangements or obligations (including contingent obligations) that have, or are reasonably likely to have a current or future material effect on our financial condition, changes in the financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Results Of Operations

Our financial position and operating results are primarily comprised of our portfolio of properties and income derived from those properties. Therefore, the comparability of financial data from period to period will be affected by the timing of significant property development, acquisitions and dispositions.

Comparison of the year ended December 31, 2004 to the year ended December 31, 2003

(in thousands, except number of properties and percentages)

	Year Ended December 31, 2004	Year Ended December 31, 2003	Change	Percent Change
Revenue from rental operations:				
Scheduled cash rents	$351,465	$339,009	$12,456	4%
Straight-line rents	2,020	915	1,105	121
Tenant reimbursements	20,129	23,355	(3,226)	(14)
Parking, net of expense	23,816	21,635	2,181	10
Other rental operations	11,763	8,851	2,912	33
Total revenue from rental operations	409,193	393,765	15,428	4
Property expenses:				
Repairs and maintenance	44,281	40,738	3,543	9
Utilities	32,835	32,497	338	1
Real estate taxes	30,569	28,156	2,413	9
Insurance	7,506	7,909	(403)	(5)
Ground rent	746	961	(215)	(22)
Administrative	17,698	15,718	1,980	13
Total property expenses	133,635	125,979	7,656	6
Property operating results(1)	275,558	267,786	7,772	3
General and administrative	19,503	16,931	2,572	15
Interest	88,856	93,093	(4,237)	(5)
Depreciation and amortization	121,687	111,952	9,735	9
Interest and other loss	508	401	107	27
Income from continuing operations before gain on sale of properties and minority interest	$ 45,004	$ 45,409	$ (405)	(1)%
Discontinued operations, net of minority interest	$ 6,253	$ 12,538	$ (6,285)	(50)%
Number of properties:				
Acquired during period	2	1		
Completed and placed in service during period	1			
Disposed of during period	(12)	(8)		
Owned at end of period	120	129		
Net rentable square feet:				
Acquired during period	391	101		
Completed and placed in service during period	283			
Expansion space placed in service	168			
Disposed of during period	(1,268)	(598)		

Owned at end of period	18,210	18,636		
Same Property Portfolio(2):				
Revenue from rental operations	$397,842	$394,449	$ 3,393	1%
Property expenses	129,822	125,953	3,869	3
	$268,020	$268,496	$ (476)	%
Straight-line rents	$ 315	$ 592		
Number of properties	116			
Number of buildings	192			
Average occupancy	90.0%	89.3%		
Net rentable square feet	17,334			

25

Table of Contents

(1) The components outlined above comprise our Property Operating Results. Property Operating Results is a non-GAAP measure of performance. Property Operating Results is used by investors and our management to evaluate and compare the performance of our office properties and to determine trends in earnings. Property Operating Results is also employed by investors as one of the components used to estimate the value of our properties. Property Operating Results is used for the purposes noted above because it is not affected by (1) the cost of funds of the property owner, (2) the impact of depreciation and amortization expense as well as gains or losses from the sale of operating real estate assets that are included in net income computed in accordance with Generally Accepted Accounting Principles, or GAAP or (3) general and administrative expenses and other specific costs such as permanent impairments to carrying costs. The cost of funds is eliminated from net income because it is specific to the particular financing capabilities and constraints of the owner. The cost of funds is also eliminated because it is dependent on historical interest rates and other costs of capital as well as past decisions made by us regarding the appropriate mix of capital, which may have changed or may change in the future. Depreciation and amortization expenses as well as gains or losses from the sale of operating real estate assets are eliminated because they may not accurately represent the actual change in value in our office properties that result from use of the properties or changes in market conditions. While certain aspects of real property do decline in value over time in a manner that is reasonably captured by depreciation and amortization, the value of the properties as a whole have historically increased or decreased in value as a result of changes in overall economic conditions as well as the actual use of the property or the passage of time. Gains and losses from the sale of real property vary from property to property and are affected by market conditions at the time of sale which will usually change from period to period. These gains and losses can create distortions when comparing one period to another or when comparing our operating results to the operating results of other real estate companies that have not made similarly timed purchases and subsequent sales. General and administrative expenses and other owner specific costs such as impairment losses are eliminated because these costs are also in large part specific to the ownership structure and timing of purchases of the owner. We believe that eliminating these costs from net income is useful because the resulting measure captures the actual revenue generated and actual expenses incurred in operating our office properties as well as trends in occupancy rates, rental rates and operating costs.

However, the usefulness of Property Operating Results is limited because it excludes general and administrative costs, interest expense, interest income, depreciation and amortization expense and gains or losses from the sale of properties, changes in value in our real estate properties that result from use or permanent impairment to carrying costs as stipulated by GAAP, the level of capital expenditures and leasing costs necessary to maintain the operating performance of our properties, all of which are significant economic costs. Property Operating Results may fail to capture significant trends in these components of net income which further limits its usefulness.

Property Operating Results is a measure of the operating performance of our office properties but does not measure our performance as a whole. Property Operating Results is therefore not a substitute for net income as computed in accordance with GAAP. This measure should be analyzed in conjunction with net income computed in accordance with GAAP and discussions elsewhere in Management s Discussion and Analysis of Financial Condition and Results of Operations regarding the components of net income that are eliminated in the calculation of Property Operating Results. Other companies may use different methods for calculating Property Operating Results or similarly entitled measures and, accordingly, our Property Operating Results may not be comparable to similarly entitled measures reported by other companies that do not define the measure exactly as we do.

The following is a reconciliation of Property Operating Results to net income computed in accordance with GAAP (in thousands):

	Year Ended December 31,		
	2004	**2003**	**2002**
Net Income	$ 73,775	$ 58,509	$ 70,175
Add:			
General and administrative expense	19,503	16,931	12,581
Interest expense	88,856	93,093	87,827
Depreciation and amortization	121,687	111,952	100,317
Minority interest	5,255	5,375	5,816
Interest and other loss	508	401	
Impairment on investment in securities	2,700		
Less:			
Interest and other income			(2,063)
Gain on sale of discontinued properties	(30,473)	(5,937)	
Discontinued operations, net of minority interest	(6,253)	(12,538)	(15,570)
Gain on sale of operating properties			(1,967)
Property Operating Results	$275,558	$267,786	$257,116

(2) Consists of non-development/renovation properties classified as part of continuing and discontinued operations that were owned for the entirety of the periods presented.

Variances for Results of Operations

Our Property Operating Results for the year ended December 31, 2004 compared to 2003 were primarily affected by our acquisitions and development activities since January 1, 2003.

Table of Contents

As a result of these changes within our portfolio of properties since January 1, 2003, we do not believe the Property Operating Results presented above are comparable from period to period. Therefore, in the table above, we have also presented the Property Operating Results for our same property portfolio.

Revenue from Rental Operations

Revenue from rental operations increased approximately $15.4 million, or 4%, for the year ended December 31, 2004 compared to 2003. This increase was primarily due to our December 2003 acquisition of a 101,000 square foot office property in San Diego County in December of 2003, revenues from our 6100 Center Drive development property which was placed in service during the second quarter of 2004, two office properties acquired in Los Angeles County in October of 2004 totaling approximately 391,000 square feet, an 0.8% point overall occupancy gain in 2004.

Revenue from rental operations for the same store portfolio increased by approximately $3.4 million, or 1%, in 2004 as compared to 2003. The increase was due to an approximate $2.9 million increase in scheduled cash rents, a $2.9 million increase in other rental operations and a $1.6 million increase in parking income, all of which were partially offset by an approximate $3.7 million decrease in tenant reimbursements. The increase in scheduled cash rents was primarily attributable to scheduled rent increases in existing leases and by the 0.7% increase in average occupancy for these properties. Other rental operations increased primarily due to higher lease termination fees in 2004 and lower bad debt expense as a result of a reduced level of defaults in 2004. Parking income increased in 2004 primarily due to an increase in occupancy in 2004 and higher special event parking. Tenant reimbursements decreased primarily due to the resetting of base years for new leases in 2004.

Property Expenses

Property expenses increased approximately $7.7 million, or 6%, for the year ended December 31, 2004 compared to 2003. This increase was partially due to our acquisition and development activities, gains in occupancy and increases in operating expenses for the same property portfolio described below.

Property expenses for the same store portfolio increased by approximately $3.9 million, or 3%, in 2004 as compared to 2003. The increase was primarily due to an approximate $2.9 million increase in repairs and maintenance, a $1.6 million increase in real estate taxes and a $1.3 million increase in property administrative expenses, all of which were partially offset by a $1.2 million decrease in utilities expense and a $0.5 million decrease in insurance expense. The increase in repairs and maintenance expense was primarily due to higher costs for contracted services and the timing of certain projects. The increase in real estate taxes was primarily due to the timing of reassessments and property tax refunds received in 2003 as well as new property tax measures implemented in Los Angeles County. The increase in property administrative expense was primarily due to higher employee compensation costs and higher property legal expenses. The decrease in utilities expense was primarily due to lower than anticipated usage in 2004 as a result of a mild summer, partially offset by an increase in occupancy. The decrease in insurance expense was primarily due to lower premiums on a new insurance policy which began in March 2004.

General and Administrative

General and administrative expenses increased approximately $2.6 million in 2004 as compared to 2003. This increase was primarily related to higher personnel costs associated with annual merit increases, non-cash compensation expense associated with restricted stock grants issued in 2004 and 2003 and Section 404 implementation costs in 2004.

Interest Expense

Interest expense decreased approximately $4.2 million, or 5%, in 2004 as compared to 2003. This decrease was primarily due to a lower cost of debt in 2004 due to the refinancing of a $175 million, 7.52% secured loan with proceeds from property dispositions and from the issuance of $200 million, 5.20% (5.45% effective rate) unsecured senior notes in August 2004, partially offset by lower capitalized interest in 2004. Capitalized interest was lower in 2004 as we stopped capitalizing interest on our 6100 Center Drive development property in May 2003.

Table of Contents

Depreciation and Amortization

Depreciation and amortization expense increased by approximately $9.7 million, or 9%, in 2004 as compared to 2003. The increase was primarily due to depreciation related to a property acquired in December 2003, two properties acquired in October 2004, a development property place in service in the second quarter of 2004 and depreciation related to capital expenditures, tenant improvements and leasing commissions placed in service in 2003 and 2004.

Discontinued Operations

Financial Accounting Standards No. 144, (SFAS 144), requires, among other things, that the operating results of real estate properties classified as held for disposition subsequent to January 1, 2002 be included in discontinued operations in the statements of income for all periods presented.

The results of operations for the properties disposed of or held for disposition during the years ended December 31, 2004 and 2003 are as follows (in thousands, except number of properties):

	Year Ended December 31,			
	2004	2003	Change	Percent Change
Discontinued Operations:				
Revenues	$20,533	$33,794	$(13,261)	(39)%
Property operating expenses	7,781	11,711	(3,930)	(34)
	12,752	22,083	(9,331)	(42)
Depreciation and amortization	4,895	8,372	(3,477)	(42)
Interest expense	659	674	(15)	(2)
Interest and other income	(2)		(2)	100
Minority interest	947	499	448	90
Discontinued operations, net of minority interest	$ 6,253	$12,538	$ (6,285)	(50)%
Gain on sale of discontinued properties	$30,473	$ 5,937	$ 24,536	413%
Properties sold	12	8		
Properties held for disposition at end of period	1	2		

Comparison of the year ended December 31, 2003 to the year ended December 31, 2002

(in thousands, except number of properties and percentages)

	Year Ended December 31, 2003	Year Ended December 31, 2002	Change	Percent Change
Revenue from rental operations:				
Scheduled cash rents	$339,009	$320,505	$ 18,504	6%
Straight-line rents	915	4,629	(3,714)	(80)
Tenant reimbursements	23,355	21,161	2,194	10
Parking, net of expense	21,635	20,350	1,285	6
Other rental operations	8,851	7,490	1,361	18
Total revenue from rental operations	393,765	374,135	19,630	5
Property expenses:				
Repairs and maintenance	40,738	35,294	5,444	15
Utilities	32,497	32,338	159	0
Real estate taxes	28,156	27,290	866	3
Insurance	7,909	7,291	618	8
Ground rent	961	895	66	7
Administrative	15,718	13,911	1,807	13
Total property expenses	125,979	117,019	8,960	8
Property operating results(1)	267,786	257,116	10,670	4
General and administrative	16,931	12,581	4,350	35
Interest	93,093	87,827	5,266	6
Depreciation and amortization	111,952	100,317	11,635	12
Interest and other loss (income)	401	(2,063)	(2,464)	(119)
Income from continuing operations before gain on sale of properties and minority interest	$ 45,409	$ 58,454	$(13,045)	(22)%
Discontinued operations, net of minority interest	$ 12,538	$ 15,570	$ (3,032)	(19)%
Number of properties:				
Acquired during period	1	5		
Completed and placed in service during period		1		
Disposed of during period	(8)	(3)		
Owned at end of period	129(2)	136		
Net rentable square feet:				
Acquired during period	101	803		
Completed and placed in service during period		287		
Disposed of during period	(597)	(205)		
Owned at end of period	18,636(2)	19,132		
Same Store Portfolio(3):				
Revenue from rental operations	$391,960	$386,826	$ 5,134	1%
Property expenses	126,041	121,112	4,929	4
	$265,919	$265,714	$ 205	%
Straight-line rents	$ 721	$ 4,312		

Number of properties	122	122
Average occupancy	90.2%	91.3%
Net rentable square feet	17,444	17,444

Table of Contents

(1) The components outlined above comprise our Property Operating Results. Property Operating Results is a non-GAAP measure of performance. Property Operating Results is used by investors and our management to evaluate and compare the performance of our office properties and to determine trends in earnings. Property Operating Results is also employed by investors as one of the components used to estimate the value of our properties. Property Operating Results is used for the purposes noted above because it is not affected by (1) the cost of funds of the property owner, (2) the impact of depreciation and amortization expense as well as gains or losses from the sale of operating real estate assets that are included in net income computed in accordance with Generally Accepted Accounting Principles, or GAAP or (3) general and administrative expenses and other specific costs such as permanent impairments to carrying costs. The cost of funds is eliminated from net income because it is specific to the particular financing capabilities and constraints of the owner. The cost of funds is also eliminated because it is dependent on historical interest rates and other costs of capital as well as past decisions made by us regarding the appropriate mix of capital, which may have changed or may change in the future. Depreciation and amortization expenses as well as gains or losses from the sale of operating real estate assets are eliminated because they may not accurately represent the actual change in value in our office properties that result from use of the properties or changes in market conditions. While certain aspects of real property do decline in value over time in a manner that is reasonably captured by depreciation and amortization, the value of the properties as a whole have historically increased or decreased in value as a result of changes in overall economic conditions as well as the actual use of the property or the passage of time. Gains and losses from the sale of real property vary from property to property and are affected by market conditions at the time of sale which will usually change from period to period. These gains and losses can create distortions when comparing one period to another or when comparing our operating results to the operating results of other real estate companies that have not made similarly timed purchases and subsequent sales. General and administrative expenses and other owner specific costs such as impairment losses are eliminated because these costs are also in large part specific to the ownership structure and timing of purchases of the owner. We believe that eliminating these costs from net income is useful because the resulting measure captures the actual revenue generated and actual expenses incurred in operating our office properties as well as trends in occupancy rates, rental rates and operating costs.

However, the usefulness of Property Operating Results is limited because it excludes general and administrative costs, interest expense, interest income, depreciation and amortization expense and gains or losses from the sale of properties, changes in value in our real estate properties that result from use or permanent impairment to carrying costs as stipulated by GAAP, the level of capital expenditures and leasing costs necessary to maintain the operating performance of our properties, all of which are significant economic costs. Property Operating Results may fail to capture significant trends in these components of net income which further limits its usefulness.

Property Operating Results is a measure of the operating performance of our office properties but does not measure our performance as a whole. Property Operating Results is therefore not a substitute for net income as computed in accordance with GAAP. This measure should be analyzed in conjunction with net income computed in accordance with GAAP and discussions elsewhere in Management s Discussion and Analysis of Financial Condition and Results of Operations regarding the components of net income that are eliminated in the calculation of Property Operating Results. Other companies may use different methods for calculating Property Operating Results or similarly entitled measures and, accordingly, our Property Operating Results may not be comparable to similarly entitled measures reported by other companies that do not define the measure exactly as we do.

The following is a reconciliation of Property Operating Results to net income computed in accordance with GAAP (in thousands):

	2003	2002	2001
Net Income	$ 58,509	$ 70,175	$ 97,759
Add:			
General and administrative expense	16,931	12,581	11,496
Interest expense	93,093	87,827	85,949
Depreciation and amortization	111,952	100,317	92,613
Interest and other loss	401		
Minority interest	5,375	5,816	7,046
Less:			
Interest and other income		(2,063)	(2,135)
Discontinued operations, net of minority interest	(12,538)	(15,570)	(15,719)
Gain on sale of discontinued properties	(5,937)		
Gain on sale of operating properties		(1,967)	(4,591)
Property Operating Results	$267,786	$257,116	$272,418

(2) Excludes one development property containing approximately 283,000 net rentable square feet under lease-up.

(3) Consists of non-development/renovation properties classified as part of continuing and discontinued operations that were owned for the entirety of the periods presented.

Table of Contents

Variances for Results of Operations

Our Property Operating Results for the year ended December 31, 2003 compared to 2002 were primarily affected by our acquisitions and development activities since January 1, 2002.

As a result of these changes within our portfolio of properties since January 1, 2002, we do not believe the Property Operating Results presented above are comparable from period to period. Therefore, in the table above, we have also presented the Property Operating Results for our same property portfolio.

Revenue from Rental Operations

Revenue from rental operations increased approximately $19.6 million, or 5%, for the year ended December 31, 2003 compared to 2002. This increase was primarily due to our August 2002 acquisitions of a 430,00 square foot office property in Los Angeles County and four office properties in San Diego County totaling approximately 370,000 square feet and a December 2003 acquisition of a 101,000 square foot office property in San Diego County and the placement in service of our 6080 Center Drive development property in December of 2002.

Revenue from rental operations for the same store portfolio increased by approximately $5.1 million, or 1%, in 2003 as compared to 2002. The increase was due to an approximate $6.0 million increase in scheduled cash rents, a $2.3 million increase in tenant reimbursements and a $0.9 million increased in parking income, all of which were partially offset by an approximate $3.6 million decrease in straight-line rents and a $0.5 million decrease in other rental operations. The increase in scheduled cash rents was primarily attributable to scheduled rent increases in existing leases that were partially offset by the 1.1% decrease in average occupancy for these properties. Tenant reimbursement increased primarily due to recovery billings for higher operating expenses in 2003 as discussed below. Parking income increased primarily due to an increase in demand for monthly parking in 2003 in some of our buildings. Straight-line rents decreased primarily due to the decline in occupancy and the scheduled reversal of straight-line rents for certain older leases. Other rental operations decreased primarily due to decreases in lease termination settlements in 2003.

Property Expenses

Property expenses increased approximately $9.0 million, or 8%, for the year ended December 31, 2003 compared to 2002. This increase was partially due our acquisition and development activities described above.

Property expenses for the same store portfolio increased by approximately $4.9 million, or 4%, in 2003 as compared to 2002. The increase was primarily due to an approximate $3.6 million increase in repairs and maintenance, a $1.6 million increase in property administrative expenses and a $0.4 million increase in insurance expense, partially offset by a $0.8 million decrease in real estate taxes. The increase in repairs and maintenance expense was primarily due to higher contractual costs for janitorial and other contract services as well as the timing of certain projects. The increase in property administrative expense was primarily due to higher employee compensation costs, higher property legal expenses and costs associated with training programs implemented in 2003. The increase in insurance expense was due to increases in industry-wide rates and premiums related to a $100 million terrorism insurance policy entered into in the second quarter of 2002. Real estate taxes decreased due to the timing of final reassessments of some properties in 2002.

General and Administrative

General and administrative expenses increased approximately $4.4 million or, 35% in 2003 as compared to 2002. This increase was primarily due to employee compensation costs, including employee separation costs in the current year and non-cash compensation costs associated with annual restricted stock grants issued in 2003 as well as higher corporate governance costs in 2003.

Interest Expense

Interest expense increased approximately $5.3 million, or 6%, in 2003 as compared to 2002. This increase was primarily due to an increase in borrowings in the last half of 2002 for property acquisitions, lower interest capitalized in 2003 and costs associated with interest rate swaps entered into at the end of 2002 to fix

Table of Contents

approximately $175 million of floating rate debt. Capitalized interest in 2003 was lower as we ceased capitalizing interest on our 6100 Center Drive property in May 2003.

Depreciation and Amortization

Depreciation and amortization expense increased by approximately $11.6 million, or 12%, in 2003 as compared to 2002. The increase was primarily due to depreciation related to five properties acquired in August 2002, the placement in service of our 6080 Center Drive development property in the fourth quarter of 2002 and depreciation related to capital expenditures, tenant improvements and leasing commissions placed in service in 2002 and 2003.

Interest and Other Loss (Income)

Interest and other loss (income) decreased by approximately $2.5 million, or 119%, in 2003 as compared to 2002, primarily due to the repayment by the borrower of a $13.7 million mortgage note receivable in the fourth quarter of 2002 and the reclassification of the operating results for Next>edge, our taxable REIT subsidiary that provides energy consulting services, into interest and other income for the years ended December 31, 2003 and 2002.

Discontinued Operations

SFAS 144, effective January 1, 2002, requires, among other things, that the operating results of real estate properties classified as held for disposition subsequent to January 1, 2002 be included in discontinued operations in the statements of income for all periods presented.

The results of operations for the properties disposed of or held for disposition during the years ended December 31, 2003 and 2002 are as follows (in thousands, except number of properties):

	Year Ended December 31,			
	2003	2002	Change	Percent Change
Discontinued Operations:				
Revenues	$33,794	$41,978	$(8,184)	(19)%
Property operating expenses	11,711	14,199	(2,488)	(18)
	22,083	27,779	(5,696)	(21)
Depreciation and amortization	8,372	11,100	(2,728)	(25)
Interest expense	674	689	(15)	(2)
Minority interest	499	420	79	19
Discontinued operations, net of minority interest	$12,538	$15,570	$(3,032)	(19)%
Gain on sale of discontinued properties	$ 5,937	$	$ 5,937	100%
Properties sold	8	3		
Properties held for disposition at end of period	2	1		

Table of Contents

Liquidity and Capital Resources

Cash Flows

Cash provided by operating activities increased by approximately $3.4 million to $184.9 million in 2004 as compared to $181.5 million in 2003. This increase was primarily due to lower financing costs in 2004 as a result of a $175 million 7.52% loan and a $50 million, 8.675% preferred equity issuance that were refinanced at lower carrying costs. In addition, our cash flow from operations was affected by the timing of our acquisitions and dispositions in 2004. Although during 2004 we had net property sales, $126 million of our $204.8 million in dispositions occurred in December of 2004.

Cash used in investing activities decreased by approximately $9.2 million to $11.2 million in 2004 as compared to $20.4 million in 2003. The decrease was primarily due to higher net selling activities in 2004. In 2004, our cash flow used in investing activities was also affected by a higher level of tenant improvement and leasing commission expenditures as a result of approximately 485,000 square feet of additional leasing completed in 2004 over 2003.

Cash used in financing activities increased by approximately $4.8 million to $165.3 million in 2004 as compared to $160.5 million in 2003. This increase was primarily due to higher net debt repayments in 2004 with proceeds generated from our capital recycling program.

Cash Balances and Available Borrowings

As of December 31, 2004, we had approximately $27.8 million in cash and cash equivalents, including $14.8 million in restricted cash. Restricted cash consisted of $9.7 million in interest bearing cash deposits required by four of our mortgage loans and $5.1 million in cash impound accounts for real estate taxes and insurance as required by several of our mortgage loans.

Through our Operating Partnership, we have access to a total of $330 million under two unsecured lines of credit. As of December 31, 2004, $121.5 million was outstanding and $208.5 million was available under these unsecured lines of credit.

Capital Recycling Program

Under our capital recycling program, we evaluate our existing portfolio of properties and current market opportunities to determine if the sale or purchase of properties would improve the overall quality or return on invested capital of our existing portfolio. Proceeds from sales of properties may be used to pay down our borrowings until we identify attractive properties to purchase, renovate or develop. During 2004, we sold twelve properties totaling approximately 1.3 million square feet for approximately $204.8 million in gross sales proceeds. In October 2004, we acquired two office properties consisting of approximately 391,000 square feet for approximately $96.8 million. For additional information regarding the properties acquired and sold, see the accompanying notes to our financial statements elsewhere in this report.

Debt Summary

Following is a summary of scheduled principal payments for our total outstanding indebtedness as of December 31, 2004 (in thousands):

Year	Amount
2005	$ 216,871
2006	251,101
2007	158,035
2008	230,726
2009	112,291
2010	150,307
2011	200,538
2012	768
2013	845
2014	914
Thereafter	3,688
Total	$1,326,084

Following is other information related to our indebtedness as of December 31, 2004 (in thousands, except percentage and interest rate data):

Unsecured and Secured Debt:

	Balance	Percent	Weighted Average Interest Rate(1)	Weighted Average Maturity (in years)
	(000 s)			
Unsecured Debt	$ 943,445	71%	6.79%	3.2
Secured Debt	382,639	29	7.16	3.8
Total Debt	$1,326,084	100%	6.90	3.4

Floating and Fixed Rate Debt:

	Balance	Percent	Weighted Average Interest Rate(1)	Weighted Average Maturity (in years)
	(000 s)			
Floating Rate Debt(2)	$ 171,500	13%	5.88%	2.1
Fixed Debt(3)	1,154,584	87	7.05	3.5
Total Debt	$1,326,084	100%	6.90%	3.4

(1) Includes amortization of prepaid financing costs.

(2) Includes $100 million of fixed rate debt that has been converted to floating rate through interest rate hedge agreements.

(3) Includes $175 million of floating rate debt that has been fixed through interest rate hedge agreements.

Interest Incurred:

	Year Ended December 31,		
	2004	2003	2002
Total interest incurred(1)	$90,451	$96,263	$94,162
Amount capitalized	(936)	(2,496)	(5,646)
Amount expensed(1)	$89,515	$93,767	$88,516

(1) Includes interest expense for a property currently classified as held for disposition .

Table of Contents

Consolidated Income Available for Debt Service and Compliance with Principal Financial Covenants

Consolidated Income Available for Debt Service is a non-GAAP measurement of our performance and liquidity. Consolidated Income Available for Debt Service is presented below because this data is used by investors and our management as a supplemental measure to (a) evaluate our operating performance and compare it to other real estate companies, (b) determine trends in earnings, (c) determine our ability to service debt and (d) determine our ability to fund future capital expenditure requirements. As discussed more fully below, Consolidated Income Available for Debt Service is also used in several financial covenants we are required to satisfy each quarter under the terms of our principal debt agreements.

Consolidated Income Available for Debt Service permits investors and management to view income from our operations on an unleveraged basis before the effects of non-cash depreciation and amortization expense. By excluding interest expense, Consolidated Income Available for Debt Service measures our operating performance independent of our capital structure and indebtedness and, therefore, allows for a more meaningful comparison of our operating performance between quarters as well as annual periods and to compare our operating performance to that of other companies, and to more readily identify and evaluate trends in earnings.

The usefulness of Consolidated Income Available for Debt Service is limited because it does not reflect interest expense, taxes, gains or losses on sales of property, losses on valuations of derivatives, asset impairment losses, cumulative effect of a change in accounting principle, extraordinary items as defined by GAAP and depreciation and amortization costs. These costs have been or may in the future be incurred by us, each of which affects or could effect our operating performance and ability to finance our investments at competitive borrowing costs, successfully maintain our REIT status, and acquire and dispose of real estate properties at favorable prices to us. Some of these costs also reflect changes in value in our properties that result from use or changes in market conditions and the level of capital expenditures and leasing costs necessary to maintain the operating performance of our properties. Due to the significance of the net income components excluded from Consolidated Income Available for Debt Service, this measure should not be considered an alternative to (and should be considered in conjunction with) net income, cash flow from operations, and other performance or liquidity measures prescribed by GAAP. This measure should also be analyzed in conjunction with discussions elsewhere in Management s Discussion and Analysis of Financial Condition and Results of Operations regarding the items eliminated in the calculation of Consolidated Income Available for Debt Service.

The reader is cautioned that Consolidated Income Available for Debt Service, as calculated by us, may not be comparable to similar measures reported by other companies (under names such as or similar to Consolidated Income Available for Debt Service, EBITDA or adjusted EBITDA) that do not define this measure exactly the same as we do.

Table of Contents

We calculate Consolidated Income Available for Debt Service as follows:

	Year Ended December 31,				
	2004	2003	2002	2001	2000
Net cash provided by operating activities	$184,907	$181,482	$199,922	$204,667	$192,152
Add:					
Interest expense	88,856	93,093	87,827	85,949	78,495
Interest expense from discontinued operations	659	674	689	(1,754)	(89)
Gain on repayment on mortgage note receivable			750		
Less:					
Amortization of loan costs and fees	(3,801)	(3,972)	(3,807)	(3,568)	(3,568)
Straight-line rent	(1,841)	(1,732)	(5,465)	(9,208)	(8,077)
Changes in operating assets and liabilities:					
Rent and other receivables	2,265	771	(6,768)	(3,775)	1,080
Deferred rent	1,015	557	4,657	7,401	7,656
Prepaid financing costs, expenses and other assets	4,783	1,494	2,997	4,366	7,480
Accounts payable and accrued expenses	(3,338)	2,365	(9,729)	(4,388)	(11,359)
Security deposits	(3,285)	(1,676)	(962)	(213)	(3,397)
Consolidated Income Available for Debt Service	$270,220	$273,056	$270,111	$279,477	$260,373

	Year Ended December 31,				
	2004	2003	2002	2001	2000
Net Income	$73,775	$58,509	$70,175	$97,759	$96,710
Add:					