increase resulted primarily from the 2001 Properties being owned for a full year and the addition of the 2002 Properties. Operating expenses for the 2002 Same Properties increased by $1.2 million, or 6.4%, primarily due to an increase in property insurance and property taxes (substantially all of which are recoverable from our tenants through tenant recoveries).

General and administrative expenses increased by $1.7 million, or 15%, to $13.4 million for 2002 compared to $11.7 million for 2001 due to the continued increase in the scope of our operations. From January 1, 2001 to December 31, 2002, we expanded our scope of operations to include an additional 13 properties containing approximately 880,000 rentable square feet for a total of 89 properties located in nine states with approximately 5.7 million rentable square feet as of December 31, 2002. To assist in managing this increase in the size of the operating portfolio, we added personnel and offices in certain of the markets where we have properties.

Interest expense decreased by $2.7 million, or 10%, to $25.0 million for 2002 compared to $27.7 million for 2001. The decrease resulted primarily from a reduction in the floating interest rate on our unsecured line of credit. The weighted average interest rate on our borrowings (not including the effect of swap agreements) decreased from 3.92% as of December 31, 2001 to 3.07% as of December 31, 2002. We have entered into certain swap agreements to hedge a portion of our borrowings at variable interest rates (see "Liquidity and Capital Resources – Unsecured Line of Credit and Unsecured Term Loan"). The decrease in interest expense caused by this factor was partially offset by an increase in indebtedness incurred to acquire the 2001 and 2002 Properties and indebtedness incurred to finance the development and redevelopment of properties.

Depreciation and amortization increased by $3.6 million, or 12%, to $32.9 million for 2002 compared to $29.3 million for 2001. The increase resulted primarily from depreciation associated with the 2001 Properties being owned for a full year and the addition of the 2002 Properties.

During 2002, we recognized a non-cash impairment charge of $2.5 million associated with a decline in the value of certain investments below their carrying value determined to be other than temporary.

Loss on early extinguishment of debt of $1.0 million was incurred as the result of the early retirement of a $7.2 million secured loan in connection with a refinancing of an asset. This loss is related to prepayment penalties and the write-off of loan costs. In 2002, this loss was classified as an extraordinary item as previously required under SFAS 4, "Reporting Gains and Losses from Extinguishment of Debt". In 2003, pursuant to SFAS 145, "Rescission of FASB Statement No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections", we reclassified the 2002 loss on early extinguishment of debt to continuing operations.

Income from discontinued operations decreased by $934,000, or 35%, to $1.8 million for 2002 compared to $2.7 million for 2001. Income from discontinued operations reflects the results of operations of four properties that have been designated as "held for sale". In connection with these prospective sales, we recorded a non-cash impairment charge of $1,150,000 related to a property in the San Francisco Bay market which cannot be redeveloped pursuant to its original strategic objectives. This charge has been included in income from discontinued operations for 2002.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Net cash provided by operating activities for 2003 increased by $7.8 million to $74.8 million compared to $67.1 million for 2002. The increase resulted primarily from increases in cash flows from our portfolio of operating properties, partially offset by the net gain on sales of property.

Net cash used in investing activities decreased by $88.0 million to $139.8 million for 2003 compared to $227.8 million for 2002. This decrease was primarily due to proceeds from the sales of rental properties and a lower level of property acquisitions in 2003.

Net cash provided by financing activities decreased by $96.0 million to $66.2 million for 2003 compared to $162.2 million for 2002. Cash provided by financing activities decreased primarily due to the net proceeds from our common stock and preferred stock offerings in 2002, partially offset by net proceeds from our unsecured line of credit and unsecured term loan and from secured notes payable.

Off-Balance Sheet Arrangements

As of December 31, 2003, we have no off-balance sheet arrangements.