

RESULTS OF OPERATIONS

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

Rental revenue increased by \$14.7 million, or 13%, to \$126.4 million for 2003 compared to \$111.7 million for 2002. The increase resulted primarily from the 2002 Properties being owned for a full year and the addition of the 2003 Properties. Rental revenue from properties operating for a full year during 2003 and 2002 (the "2003 Same Properties") increased by \$1.7 million, or 2.1%, due to increases in rental rates and offset by a slight decrease in occupancy. The average occupancy level of the 2003 Same Properties was 96.7% as of December 31, 2003, compared to 97.2% as of December 31, 2002.

Tenant recoveries increased by \$3.1 million, or 11%, to \$32.1 million for 2003 compared to \$29.0 million for 2002. The increase resulted primarily from the 2002 Properties being owned for a full year and the addition of the 2003 Properties. Tenant recoveries for the 2003 Same Properties increased by \$659,000, or 2.9%, primarily due to increases in certain recoverable operating expenses.

Other income increased by \$511,000, or 33%, to \$2.1 million for 2003 compared to \$1.6 million for 2002, primarily due to an increase in realized gains on investments and from a general increase in miscellaneous sources of income.

Rental operating expenses increased by \$3.7 million, or 13%, to \$32.8 million for 2003 compared to \$29.1 million for 2002. The increase resulted primarily from the 2002 Properties being owned for a full year and the addition of the 2003 Properties. Operating expenses for the 2003 Same Properties increased by \$871,000, or 4.1%, 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 \$775,000, or 6%, to \$14.2 million for 2003 compared to \$13.4 million for 2002, mainly due to general increases in administrative costs, primarily payroll and related expenses.

Interest expense increased by \$1.4 million, or 6%, to \$26.4 million for 2003 compared to \$25.0 million for 2002. The increase resulted primarily from an increase in indebtedness on our unsecured line of credit, unsecured term loan and secured notes payable. These borrowings were utilized to finance the acquisition of the 2002 and 2003 Properties and the development and redevelopment of properties. The increase in interest expense was partially offset by a decrease in the floating interest rate on our unsecured line of credit and unsecured term loan. The weighted average effective interest rate on our borrowings (not including the effect of swap agreements) decreased from 3.07% as of December 31, 2002 to 2.64% as of December 31, 2003. We have entered into certain swap agreements to hedge a portion of exposure to variable interest rates with our unsecured line of credit and unsecured term loan (see "Liquidity and Capital Resources – Unsecured Line of Credit and Unsecured Term Loan").

Depreciation and amortization increased by \$5.7 million, or 17%, to \$38.6 million for 2003 compared to \$32.9 million for 2002. The increase resulted primarily from depreciation associated with the 2002 Properties being owned for a full year and the addition of the 2003 Properties.

Income from discontinued operations of \$11.1 million for 2003 reflects the results of operations of one property that was designated as "held for sale" as of December 31, 2003 and three properties that were sold during 2003. In the fourth quarter of 2003, we sold one property in the Suburban Washington D.C. market. In the third quarter of 2003, we sold one property in the Eastern Massachusetts market. In the first quarter of 2003, we sold one property in the San Francisco Bay market. In connection with these sales, we recorded a net gain of approximately \$8.3 million during 2003.

Comparison of the Year Ended December 31, 2002 to the Year Ended December 31, 2001

Rental revenue increased by \$18.1 million, or 19%, to \$111.7 million for 2002 compared to \$93.6 million for 2001. The increase resulted primarily from the 2001 Properties being owned for a full year and the addition of the 2002 Properties. Rental revenue from properties operating for a full year during 2002 and 2001 (the "2002 Same Properties") increased by \$2.7 million, or 3.7%, due to increases in rental rates and offset by a slight decrease in occupancy. The average occupancy level of the 2002 Same Properties was 97.6% as of December 31, 2002, compared to 98.2% as of December 31, 2001.

Tenant recoveries increased by \$4.9 million, or 20%, to \$29.0 million for 2002 compared to \$24.1 million for 2001. The increase resulted primarily from the 2001 Properties being owned for a full year and the addition of the 2002 Properties. Tenant recoveries for the 2002 Same Properties increased by \$915,000, or 4.6%, generally due to an increase in certain recoverable operating expenses.

Other income decreased by \$1.6 million, or 50%, to \$1.6 million for 2002 compared to \$3.1 million for 2001, primarily due to a decrease in interest income resulting from a decline in interest rates, the repayment of a \$6 million secured note receivable in 2002 and a decrease in realized gains on investments.

Rental operating expenses increased by \$4.5 million, or 18%, to \$29.1 million for 2002 compared to \$24.7 million for 2001. The