ARDEN REALTY INC
Form 10-K
March 16, 2006

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

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

For the fiscal year ended December 31, 2005

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OR 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 check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. þ Yes o No

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

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. þ Yes o No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained to the best of 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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

The aggregate market value of the shares of common stock held by non-affiliates was approximately $2.4 billion based on the closing price on the New York Stock Exchange for such shares on June 30, 2005.

The number of the Registrant s shares of common stock outstanding was 67,331,215 as of March 15, 2006.

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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 of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or 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 Securities and Exchange Commission, or 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 i 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, 2005, 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 15 to 36 years and who collectively have an average of 21 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, 2005, we were Southern California s largest publicly traded office landlord as measured by total net rentable square feet owned. As of December 31, 2005, our portfolio of primarily suburban office properties consisted of 116 properties and 192 buildings containing approximately 18.5 million net rentable square feet and our operating portfolio was 91.9% occupied.

Proposed Merger

On December 21, 2005, we, along with Arden Realty Limited Partnership, our operating partnership, and Atlas Partnership Merger Sub, Inc., referred to throughout as the partnership merger sub, a wholly-owned subsidiary of ours, entered into a definitive Agreement and Plan of Merger, referred to throughout as the merger agreement, with General Electric Capital Corporation, also referred to as GECC, Atlas Merger Sub, Inc., referred to as REIT merger sub, a wholly-owned subsidiary of GECC, Trizec Properties, Inc., and Trizec Holdings Operating LLC. Pursuant to the merger agreement, GECC will acquire us and our subsidiaries through a series of transactions including the merger of our company into the REIT Merger Sub, referred to as the REIT merger, as well as a merger of the Partnership Merger Sub into our operating partnership, referred to as the partnership merger.

In the REIT merger, we will be merged with and into REIT merger sub, with REIT merger sub surviving, and shares of our common stock converted into the right to receive merger consideration of $45.25, plus an amount equal to a prorated portion of our normal $0.505 quarterly dividend. In the partnership merger, partnership merger sub will be merged with and into our operating partnership, and holders of our OP units, subject to certain eligibility requirements, may elect to either participate in the redemption and exchange of OP units for class B units of Trizec Holdings Operating LLC, plus an amount equal to a prorated portion of our $0.505 quarterly distribution, or have their

OP units converted into the right to receive merger consideration of $45.25, plus an amount equal to a prorated portion of our $0.505 quarterly distribution.

In connection with the mergers, we will sell to Trizec Operating Company a portfolio of certain of our properties, comprised of 13 office properties totaling 4.1 million square feet, certain undeveloped land parcels and other assets. Following the

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consummation of the transactions, GECC or its affiliates will own or control the entity or entities which will succeed to the ownership of the remaining properties owned by us.

Our board has unanimously approved the merger agreement and has recommended it for approval by our common stockholders. The parties expect to close the transaction in the second quarter of 2006. The closing of the merger is subject to, among other things, a number of customary conditions, including the approval by the affirmative vote of two-thirds of the holders of shares of our common stock. The transaction is not subject to any financing condition.

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 48 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 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 such proceeds into investments that we believe will generate higher long-term value.

Through our corporate 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.

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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 compared to 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 66.4% ratio of property operating results to total property revenues in 2005.

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 flat or increasing rental rates in our key submarkets compared to 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

Our internal operating strategy seeks growth by:

- stabilizing occupancy throughout our portfolio and by 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 10.5 million square feet of positive net absorption in 2005 with average rental rates increasing approximately 6.5%. Our in-house leasing teams, working with outside leasing brokers, continuously monitor each submarket to identify prospective tenants who are in need of new or additional space and to obtain the most favorable lease terms. We also strive to achieve growth in rental revenues by negotiating annual or mid-term increases in rental rates in a majority of our leases.

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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 2005, we retained approximately 67% of our leases prior to lease expiration.

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 strive to control our operating expenses through active management at all of our properties. We continuously monitor the operating performance of our properties and employ bulk or competitive purchasing techniques, energy-enhancing 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 have invested in energy enhancement programs within our portfolio with the aim of reducing energy consumption, enhancing efficiency and lowering operating costs. We have also participated 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 efficiencies. Currently, of the 881 total Energy Star designated office buildings awarded nationally during 2005, 291were awarded in California; of those, we had 58 EPA Energy Star Certified buildings in our portfolio.

We have a taxable REIT subsidiary, next>edge, that markets our expertise in energy solutions and facilities management. next>edge now assists companies outside of our portfolio 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, and on-site power generation such as cogeneration projects and solar photovoltaic systems.

External Operating Strategy

We believe in the diversity and balance of the Southern California economy and the commercial real estate market. We have 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, acquisition and disposition opportunities.

Subject to capital availability and market conditions, our approach has been 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;

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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.

Approximately 22% of our properties and 16% 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.

Employees

As of December 31, 2005, 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 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 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.

ITEM 1A. *RISK FACTORS*

In addition to the other information contained or incorporated by reference in this Form 10-K, readers should carefully consider the following risk factors.

Risks Related to the Proposed Merger

On December 21, 2005, we, entered into a merger agreement with GECC and Trizec pursuant to which GECC will acquire us through the process set forth under the heading Proposed Merger in Item 1 above. In connection with the proposed merger, we have filed a definitive proxy statement with the SEC. The proxy statement contains important information about us, the proposed merger and other related matters. We urge all of our stockholders to read the proxy statement. In relation to the proposed merger, we are subject to certain risks including, but not limited to, those set forth below.

Failure to complete the merger could negatively impact our stock price and our future business and financial results.

Completion of the proposed merger is subject to the satisfaction or waiver of various conditions, including the receipt of approval from our stockholders, receipt of various approvals and authorizations, and the absence of any order, injunction or decree preventing the completion of the proposed merger. There is no assurance that all of the various conditions will be satisfied or waived.

If the proposed merger is not completed for any reason, we will be subject to several risks, including the following:

- being required, under certain circumstances, including if we sign a definitive agreement with respect to a superior proposal from another potential buyer, to pay a termination fee of $100.0 million;

- being required, under certain circumstances, including if we breach the merger agreement, to reimburse GECC for up to $10.0 million of its costs and expenses in connection with the merger agreement;

- having incurred certain costs relating to the proposed merger that are payable whether or not the merger is completed, including legal, accounting, financial advisor and printing fees; and

- having had the focus of management directed toward the proposed merger and integration planning instead of on our core business and other opportunities that could have been beneficial to us.

In addition, we would not realize any of the expected benefits of having completed the proposed merger. If the proposed merger is not completed, we cannot assure our stockholders that these risks will not materialize or materially adversely affect our business, financial results, financial condition and stock price.

Provisions of the merger agreement may deter alternative business combinations and could negatively impact our stock price if the merger agreement is terminated in certain circumstances.

Restrictions in the merger agreement on solicitation generally prohibit us from soliciting any acquisition proposal or offer for a merger or business combination with any other party, including a proposal that might be advantageous to our stockholders when compared to the terms and conditions of the proposed merger. If the merger is not completed, we may not be able to conclude another merger, sale or combination on as favorable terms, in a timely manner, or at all. If the merger agreement is terminated, we, in certain specified circumstances, may be required to pay a termination fee of up to $100.0 million to GECC. In addition, under certain circumstances, we may be required to pay GECC an expense fee of $10.0 million. These provisions may deter third parties from proposing or pursuing alternative business combinations that might result in greater value to our stockholders than the merger.

Our stock price and businesses may be adversely affected if the merger is not completed.

If the merger is not completed, the trading price of our common stock may decline, to the extent that the current market prices reflect a market assumption that the merger will be completed. In addition, our businesses and operations may be harmed to the extent that tenants, vendors and others believe that we cannot effectively operate in the marketplace on a stand-alone basis, or there is tenant or employee uncertainty surrounding the future direction of the strategy of our company on a stand-alone basis.

Uncertainty regarding the merger may cause tenants, vendors and others to delay or defer decisions concerning their business with our company, which may harm our results of operations going forward if the merger is not completed.

Because the merger is subject to several closing conditions, including the approval of the merger by our stockholders, uncertainty exists regarding the completion of the merger. This uncertainty may cause tenants, vendors and others to delay or defer decisions concerning their business with our company, which could negatively affect our business and results of operations.

If the planned merger were not completed, we could suffer a number of consequences that may adversely affect our business, results of operations and stock price, including the following:

- activities relating to the merger and related uncertainties may lead to a loss of revenue that we may not be able to regain if the merger does not occur;

- the market price of our common stock could decline following an announcement that the merger has been abandoned, to the extent that the current market price reflects a market assumption that the merger will be completed;

- we would remain liable for our costs related to the merger, such as legal fees and a portion of the investment banking fees;

we may not be able to continue our present level of operations and therefore would have to scale back our present level of business and consider additional reductions; and

we may not be able to take advantage of alternative business opportunities or effectively respond to competitive pressures.

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Real Estate Investment Risks

An inability to retain tenants or rent space upon lease expirations may adversely affect our revenues and our ability to service our debt.

Through 2010, 2,667 leases, including month-to-month leases, comprising approximately 75% of our leased net rentable square footage and approximately 72% of our annualized base rents at December 31, 2005 are scheduled to expire as follows:

Year	Number of Leases Expiring	Percentage of Aggregate Portfolio Leased Square Feet	Percentage of Aggregate Portfolio Annualized Base Rent
Month-to-Month	135	2.1%	1.8%
2006	593	14.0%	13.4%
2007	576	14.3%	13.4%
2008	593	17.4%	17.2%
2009	395	13.1%	12.6%
2010	375	14.3%	13.9%

If we are unable to promptly renew or relet leases for all or a substantial portion of this space, or if the rent upon renewal or reletting are significantly lower than expected, our cash flow and business could be adversely affected which would limit our ability to service our debt.

Lack of non-farm job growth in Southern California or a deterioration of the local and national economy will adversely affect our operating results.

All of our properties are located in Southern California. In 2005, the Southern California economy experienced a 1.3% increase in job growth representing approximately 86,000 non-farm jobs. We believe non-farm job growth to be a leading indicator of office demand for the region. During 2006, a total of approximately 2.8 million square feet of occupied space, representing approximately 16.0% of our total net rentable space, including month-to-month leases, will expire. Negative non-farm job growth in our submarkets or a deterioration of the local and/or national economy may result in a decline in occupancy and rental rates and may cause tenant concessions to increase and would most likely negatively affect our operating performance and property values.

Competition affects occupancy levels, rents and cost of land which could adversely affect our revenues.

Many office properties compete with our properties in attracting tenants to lease space. Some of the competing properties may be newer, better located or owned by parties better capitalized than we are. Although ownership of these competing properties is currently diversified among many different types of owners, from publicly traded companies and institutional investors to small enterprises and individual owners, and no one or group of owners currently dominate or significantly influence the market, consolidation of owners could create efficiencies and marketing advantages for the consolidated group that could adversely affect us. These competitive advantages, the number of competitors and the number of competitive commercial properties in a particular area could have a material adverse effect on the rents we can charge, our ability to lease space in our existing properties or at newly acquired or developed properties and the prices we have to pay for developable land.

The financial condition and solvency of our tenants may reduce our cash flow.

Tenants may experience a downturn in their business which may cause them to miss rental payments when due or to seek the protection of bankruptcy laws, which could result in rejection and termination of their leases or a delay in recovering possession of their premises. Although we have not experienced material losses from tenant bankruptcies, we cannot assure you that tenants will not file for bankruptcy protection in the future or, if any tenants file, that they will affirm their leases and continue to make rental payments in a timely manner.

Because real estate investments are illiquid, we may not be able to sell properties when appropriate.

Equity real estate investments are relatively illiquid. That illiquidity may tend to limit our ability to sell properties promptly in response to changes in economic or other conditions. In addition, the Internal Revenue Code of 1986, as amended, may under specified circumstances impose a 100% prohibited transaction tax on the profits derived from our sale of properties held for fewer than four years, which could affect our ability to sell our properties.

Rising energy costs and power outages in California may have an adverse effect on our operations and revenue.

Problems associated with deregulation of the electric industry in California have resulted in significantly higher costs in some areas. 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 22% of our buildings and 16% of the total rentable square footage of our portfolio are subject to leases that require our tenants to pay all utility costs. The remainder of our leases provide that tenants will reimburse us for utility costs in excess of a base year amount.

Although we have not experienced any material losses resulting from electric deregulation, it is possible that some or all of our tenants will not fulfill their lease obligations and reimburse us for their share of any significant electric rate increases and that we will not be able to retain or replace our tenants if energy problems in California continue.

Increases in taxes and regulatory compliance costs may reduce our revenue.

Except for our triple net leases, we may not be able to pass all real estate tax increases through to some or all of our tenants. Therefore, any tax increases may adversely affect our cash flow and our ability to pay or refinance our debt obligations. Our properties are also subject to various federal, California and local regulatory requirements, such as requirements of the Americans with Disabilities Act, and California and local fire and life safety requirements. Failure to comply with these requirements could result in the imposition of fines by governmental authorities or awards of damages to private litigants. We believe that our properties are currently in substantial compliance with these regulatory requirements. We cannot assure you, however, that these requirements will not be changed or that new requirements will not be imposed that would require significant unanticipated expenditures by us and could have an adverse effect on our cash flow, the amounts available for distributions and on our business.

We may acquire properties through partnerships or joint ventures with third parties that could result in financial dependency and management conflicts.

We may participate with other entities in property ownership through joint ventures or partnerships in the future. Depending on the characteristics and business objectives of the joint venture or partnership, we may not have voting control over the joint venture or partnership. Partnership or joint venture investments may, under certain circumstances, involve risks not otherwise present, including:

- our partners or co-venturers might become bankrupt;

- our partners or co-venturers might at any time have economic or other business interests or goals which are inconsistent with our business interests or goals; and

- our partners or co-venturers may be in a position to take action contrary to our instructions or requests contrary to our policies or objectives.

Neither the partnership agreement of our operating partnership nor our governing documents prevent us from participating in joint ventures with our affiliates. Because a joint venture with an affiliate may not be negotiated in a traditional arm s length transaction, terms of the joint venture may not be as favorable to us as we could obtain if we entered into a joint venture with an outside third party.

We may not be able to successfully integrate or finance our acquisitions.

As we acquire additional properties, we will be subject to risks associated with managing new properties, including building systems not operating as expected, delay in or failure to lease vacant space and tenants failing to renew leases as they expire. In addition, our ability to manage our growth effectively will require us to successfully integrate our new acquisitions into our existing accounting systems and property management structure. We cannot assure you that we will be able to succeed with that integration or effectively manage additional properties or that newly acquired properties will perform as expected. Changing market conditions, including competition from other purchasers of suburban office properties, may diminish our opportunities for attractive additional acquisitions. Moreover, acquisition costs of a property may exceed original estimates, possibly making the property uneconomical.

Our acquisitions and renovations may not perform as expected.

Although we currently have no plans to significantly expand or renovate our properties, we may do so in the future, subject to certain restrictions contained in the merger agreement. Expansion and renovation projects may inconvenience and displace existing tenants, require us to engage in time consuming up-front planning and engineering activities and expend capital, and require us to obtain various government and other approvals, the receipt of which cannot be assured. While our policies with respect to expansion and renovation activities are intended to limit some of the risks otherwise associated with these activities, we will nevertheless incur risks, including expenditures of funds on, and devotion of our time to, projects that may not be completed.

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Our development activities may be more expensive than anticipated and may not yield our anticipated results.

We have preliminary architectural designs completed for an additional 475,000 net rentable square feet at the Howard Hughes Center in Los Angeles, California and have completed preliminary designs on a build-to-suit office building at our Long Beach Airport Business Park. We have entitlements for up to 600 hotel rooms at the Howard Hughes Center. We also have a 5-acre developable land parcel in Torrance, California that we are also marketing for a build-to-suit building. Certain restrictions contained in the merger agreement limit our ability to move forward on these developments without the approval of GECC. We also intend to review, from time to time, other opportunities for developing and constructing office buildings and other commercial properties in accordance with our development and underwriting policies.

We expect to finance our development activities over the next 24 months, subject to certain restrictions contained in the merger agreement, through net cash provided by operating activities, proceeds from asset sales, proceeds from our lines of credit or other secured borrowings.

Risks associated with our development activities may include:

- abandonment of development opportunities due to a lack of financing or other reasons;

- construction costs of a property exceeding original estimates, possibly making the property uneconomical;

- occupancy rates and rents at a newly completed property may not be sufficient to make the property profitable;

- construction and lease-up may not be completed on schedule, resulting in increased debt service expense and construction costs; and

- development activities would also be subject to risks relating to the inability to obtain, or delays in obtaining, all necessary zoning, land-use, building, occupancy and other required governmental permits and authorizations.

We are not subject to any limit on the amount or percentage of our assets that may be invested in any single property or any single geographic area.

Our governing documents do not restrict the amount or percentage of our assets that we may invest in a single property or geographic area. All of our properties are currently in Southern California and we have no immediate plans to invest outside of Southern California. Although the overall Southern California economy is diverse and well balanced, the geographic concentration of our portfolio may make us more susceptible to changes affecting the Southern California economy and real estate markets or damages from regional events such as earthquakes.

We may not be able to expand into new markets successfully.

While our business is currently limited to the Southern California market, it is possible that we will in the future expand our business to new geographic markets. We will not initially possess the same level of familiarity with new markets outside of Southern California, which could adversely affect our ability to manage, lease, develop or acquire properties in new localities.

Financing Risks

Our amount of debt could limit our operational flexibility or otherwise adversely affect our financial condition.

As of December 31, 2005, we had total debt of approximately $1.6 billion, consisting of approximately $419.6 million in secured debt and approximately $1.2 billion of unsecured debt. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

Our indebtedness could:

- require us to dedicate a substantial portion of our cash flow to pay our debt, thereby reducing the availability of our cash flow to fund distributions, working capital, capital expenditures, acquisition and development activity and other business purposes;

- make it more difficult for us to satisfy our debt obligations;

limit our ability to refinance our debt and obtain additional debt financing; and

increase our vulnerability to general adverse economic and real estate industry conditions and limit our flexibility in planning for, or reacting to, changes in our business and the real estate industry.

Despite current indebtedness levels, we may still be able to incur substantially more debt in the future, which would increase the risks associated with our substantial leverage. Neither the partnership agreement of our operating partnership nor our governing documents limit the amount or the percentage of indebtedness that we may incur. We may borrow up to a maximum of $330 million under our two lines of credit. As of December 31, 2005, we had the ability to borrow an additional $70.5 million under these two lines of credit. If new debt is added to our current debt levels, the related risks that we now face could intensify and could increase the risk of default on our indebtedness.

Scheduled debt payments could adversely affect our financial condition.

Our cash flow could be insufficient to meet required payments of principal and interest when due. In addition, we may not be able to refinance existing indebtedness, which in virtually all cases requires substantial principal payments at maturity, and, if we can refinance, the terms of the refinancing might not be as favorable as the terms of our existing indebtedness. If principal payments cannot be refinanced, extended or paid with proceeds of other capital transactions, such as new equity capital, our cash flow will not be sufficient in all years to repay all maturing debt and continue to service and repay our debt obligations.

Rises in interest rates could adversely affect our financial condition.

An increase in prevailing interest rates would have an immediate effect on the interest rates charged on our variable rate debt which rise and fall upon changes in interest rates. At December 31, 2005, approximately 14% of our debt was variable rate debt. Increases in interest rates would also impact the refinancing of our fixed rate debt. If interest rates are higher when our fixed debt becomes due, we may be forced to borrow at the higher rates. If prevailing interest rates or other factors result in higher interest rates, the increased interest expense would adversely affect our cash flow and our ability to service our debt. As a protection against rising interest rates, we may enter into agreements such as interest rate hedges, caps, floors and other interest rate exchange contracts. These agreements, however, increase our risks as to the other parties to the agreements not performing or that the agreements could be unenforceable.

Many of our properties are subject to mortgage financing which could result in foreclosure if we are unable to pay or refinance the mortgages when due.

We currently have four outstanding mortgage financings totaling approximately $358.2 million that are secured by 46 of our properties. The properties in each of these financings are fully cross-collateralized and cross-defaulted. To the extent two or more mortgages are cross-defaulted, a default in one mortgage will trigger a default in the other mortgages. The cross-defaults can give the lender a number of remedies depending on the circumstances such as the right to increase the interest rate, demand additional collateral, accelerate the maturity date of the mortgages or foreclose on and sell the properties. To the extent two or more mortgages are cross-collateralized, a default in one mortgage will allow the mortgage lender to foreclose upon and sell the properties that are not the primary collateral for the loan in default. Three additional properties are subject to single property mortgages totaling approximately $61.5 million at December 31, 2005. If we are unable to meet our obligations under these mortgages, we could be forced to pay higher interest rates or provide additional collateral or the properties subject to the mortgages could be foreclosed upon and sold, which could have a material adverse effect on us and our ability to pay or refinance our debt obligations.

Tax Risks

Our desire to qualify as a REIT restricts our ability to accumulate cash that might be used in future periods to make debt payments or to fund future growth.

In order to qualify as a REIT and avoid federal income tax liability, we must distribute to our stockholders at least 90% of our net taxable income, excluding net capital gain, and to avoid income taxation, our distributions must not be less than 100% of our net taxable income, including capital gains. To avoid excise tax liability, our distributions to our stockholders for the year must exceed the sum of 85% of its ordinary income, 95% of its capital gain net income, and any undistributed taxable income from prior years. As a result of these distribution requirements, we do not expect to accumulate significant amounts of cash. Accordingly, these distributions could significantly reduce the cash available to us in subsequent periods to make payments on our debt obligations and to fund future growth.

Our operating partnership intends to qualify as a partnership, but we cannot guarantee that it will qualify.

Our operating partnership intends to qualify as a partnership for federal income tax purposes. However, if our operating partnership were a publicly traded partnership, it would be treated as a corporation instead of a partnership for federal income tax purposes unless at least 90% of its income is qualifying income as defined in the Internal Revenue Code. The income requirements applicable to REITs and the definition of qualifying income for purposes of this 90% test are similar in most respects. Qualifying income for the 90% test generally includes passive income, such as specified types of real property rents, dividends and interest. We believe that our operating partnership would meet this 90% test, but we cannot guarantee that it would. If our operating partnership were to be taxed as a corporation, it would incur substantial tax liabilities and we would fail to qualify as a REIT for federal income tax purposes.

We may suffer adverse tax consequences and be unable to attract capital if we fail to qualify as a REIT.

We believe that 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. Although we believe that we have been and will continue to be organized and have operated and will continue to operate so as to qualify for taxation as a REIT, we cannot assure you that we have been or will continue to be organized or operated in a manner so as to qualify or remain so qualified. For us to qualify as a REIT, we must satisfy numerous requirements established under highly technical and complex Internal Revenue Code provisions for which there are only limited judicial and administrative interpretations and tests regarding various factual matters and circumstances not entirely within our control. The complexity of these provisions and of the applicable Treasury Regulations that have been promulgated under the Internal Revenue Code is greater in the case of a REIT, like us, that holds its assets through an investment in a partnership. No assurance can be given that legislation, new regulations, administrative interpretations or court decisions will not significantly change the tax laws with respect to our qualification as a REIT or the federal income tax consequences of qualification. We are, however, not aware of any pending legislation that would adversely affect our ability to qualify as a REIT. Our qualification and taxation as a REIT depends on our ability to meet, through actual annual operating results, asset diversification, distribution levels and diversity of stock ownership, the various qualification tests imposed under the Internal Revenue Code, the results of which have not been and will not be reviewed by our tax counsel.

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. If we were disqualified as a REIT, our ability to raise additional capital could be significantly impaired. This could reduce the funds we would have available to pay distributions to our stockholders and to service our debt.

Even if we qualify for and maintain our REIT status, we will be subject to certain federal, state and local taxes on our income and property. For example, if we have net income from a prohibited transaction, specifically sales or other taxable dispositions of property held primarily for sale to customers in the ordinary course of business, that income will be subject to a 100% tax.

Other Risks

We are subject to agreements and policies that may deter change in control offers that might be attractive to our stockholders.

Certain provisions of our charter and bylaws may delay, defer or prevent a third party from making offers to acquire us or assume control over us. For example, such provisions may:

- deter tender offers for our common stock, which offers may be attractive to the stockholders; and

- deter purchases of large blocks of common stock, thereby limiting the opportunity for stockholders to receive a premium for their common stock over then-prevailing market prices.

Our charter contains a provision designed to prevent a concentration of ownership among our stockholders that would cause us to fail to qualify as a REIT. Under the Internal Revenue Code, not more than 50% in value of our outstanding shares of common stock may be owned, actually or constructively, by five or fewer individuals, including specific kinds of entities, at any time during the last half of our taxable year. In addition, if we, or an owner of 10% or more of our common stock, actually or constructively owns 10% or more of a tenant of ours, or a tenant of any partnership in which we are a partner, the rent received by us from that tenant will not be qualifying income for purposes of the REIT gross income tests. In order to protect us against the risk of losing REIT status, the ownership limit included in our charter limits actual or constructive ownership of our outstanding shares of common stock by any single stockholder to 9.0%, by value or by number of shares, whichever is more restrictive, of the then outstanding shares of common stock. Actual or constructive ownership of shares of common stock in excess of the ownership limit will cause the violative transfer or ownership to be void with respect to the transferee or owner as to that number of shares in excess of the ownership limit and such shares will be automatically transferred to a trust for the exclusive benefit of one or more qualified charitable organizations. That transferee or owner will have no right to vote such shares or be entitled to dividends or other distributions with respect to such shares.

Although our Board of Directors presently has no intention of doing so, except as described below, our Board of Directors could waive this restriction with respect to a particular stockholder if it were satisfied, based upon the advice of counsel or a ruling from the Internal Revenue Service, that ownership by such stockholder in excess of the ownership limit would not jeopardize our status as a REIT and our Board of Directors otherwise decided such action would be in our best interests. Our Board of Directors has waived our ownership limit with respect to Mr. Ziman, our Chairman and CEO, and certain family members and affiliates and has permitted these parties to actually and constructively own up to 13.0% of the outstanding shares of common stock.

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Our charter authorizes our Board of Directors to cause us to issue authorized but unissued shares of common stock or preferred stock and to reclassify any unissued shares of common stock or classify any unissued and reclassify any previously classified but unissued shares of preferred stock and, with respect to the preferred stock, to set the preferences, rights and other terms of such classified or unclassified shares. Although our Board of Directors has no such intention at the present time, it could establish a series of preferred stock that could, depending on the terms of such series, delay, defer or prevent a transaction or a change in control that might involve a premium price for the common stock or otherwise be in the best interest of our stockholders.

Our Board of Directors is divided into three classes of directors. Directors of each class are chosen for three-year terms upon the expiration of their current terms and each year one class of directors will be elected by the stockholders. The staggered terms of directors may reduce the possibility of a tender offer or an attempt to change control even though a tender offer or change in control might be in the best interest of our stockholders.

Losses in excess of our insurance coverage or uninsured losses could adversely affect our cash flow.

We carry comprehensive liability, fire, extended coverage, terrorism and rental loss insurance policies which currently cover all of our properties with specifications and insured limits that we believe are adequate and appropriate under the circumstances. Some losses, however, are generally not insured against because it is not economically feasible to do so. Should an uninsured loss or a loss in excess of insured limits occur, we could lose our capital invested in the property, as well as the anticipated future revenue from the property and, in the case of debt which is recourse to us, we would remain obligated for any mortgage debt or other financial obligations related to the property. Any loss would adversely affect our cash flow with respect to the property subject to the loss. Moreover, we would generally be liable for any unsatisfied obligations other than non-recourse obligations with respect to the property subject to the loss.

Lack of availability of insurance coverage for biological, chemical or nuclear terrorist attacks could adversely affect our financial condition.

Our current terrorism insurance policy, which has been extended to March 2007, specifically excludes biological, chemical or nuclear terrorist acts. We have been notified by our insurance broker that in the aftermath of the September 11th attacks, insurance carriers will continue to exclude these types of attacks from terrorism insurance policies or offer coverage for biological, chemical or nuclear attacks coverages at prohibitive costs. Although we did not derive more than 3.5% of our 2005 net operating income from any one of the properties in our portfolio, a biological, chemical or nuclear terrorist attack damaging several of our properties or negatively impacting the financial condition of our tenants could materially deteriorate our operating results and overall financial condition.

An earthquake could adversely affect our business.

All of our properties are located in Southern California, which is a high risk geographical area for earthquakes. Depending upon its magnitude, an earthquake could severely damage our properties which would adversely affect our business. We maintain earthquake insurance for our properties and the resulting business interruption. We cannot assure you that our insurance will be sufficient if there is a major earthquake.

Our properties may be subject to environmental liabilities.

Under federal, state and local environmental laws, a current or previous owner or operator of real estate may be required to investigate and clean up hazardous or toxic substances or petroleum product releases at the property and may be held liable to a governmental entity or to third parties for property damage and for investigation and clean-up costs in connection with the contamination. These laws typically impose clean-up responsibility and liability without regard to whether the owner knew of or caused the presence of the contaminants, and the liability under these laws has been interpreted to be joint and several unless the harm is divisible and there is a reasonable basis for allocation of responsibility. These costs may be substantial, and the presence of these substances, or the failure to remediate the contamination on the property, may adversely affect the owner s ability to sell or rent the property or to borrow against the property. Finally, third parties may have claims against the owner of the site based on damages and costs resulting from environmental contamination emanating from that site.

Specific federal, state and local laws, regulations and ordinances govern the removal, encapsulation or disturbance of asbestos-containing materials when those materials are in poor condition or in the event of construction, remodeling, renovation or demolition of a building. These laws may impose liability for release of asbestos-containing material and may provide for third parties to seek recovery from owners or operators of real properties for personal injury associated with asbestos-containing materials. In connection with the ownership and operation of our properties, we may be potentially liable for those costs.

In the past few years, independent environmental consultants have conducted or updated Phase I environmental assessments and other environmental investigations as appropriate at some of our properties. The environmental site assessments and investigations have identified 38 properties in our portfolio, representing approximately 43% of the total rentable square feet in the portfolio, affected by environmental concerns. These environmental concerns include properties that may be impacted by known or suspected (a) contamination caused by third party sources or (b) soil and/or groundwater contamination which has been remediated, and (c) those containing underground storage tanks or asbestos.

Of these properties, four are believed to be affected by contamination caused by third party sources and two of these also house an underground storage tank, two contain friable asbestos, twenty contain non-friable asbestos, and twelve house underground storage tanks only. The properties affected by contamination are primarily affected by petroleum and solvent substances, and in each case a third party has indemnified us for any and all problems associated with this contamination. With regard to those properties affected by asbestos, asbestos does not pose a health hazard if it is not disturbed in such a way to cause an airborne release of asbestos. Asbestos is friable when it can be crumbled, pulverized or reduced to powder by hand pressure, and non-friable when hand pressure cannot release encapsulated asbestos fibers. Friable asbestos is more likely to be released into the air than non-friable asbestos. We manage all asbestos in ways that minimize its potential to become airborne or otherwise threaten human health. Regarding underground storage tanks, subsurface leakage of the materials contained within the tank constitutes the primary risk posed by these devices. Of the fourteen underground storage tanks, two are currently being removed and no known UST-related regulatory violations or outstanding compliance issues exist with the remainder. We have also implemented a program to ensure appropriate double-wall construction, testing protocols, placement of tanks within bermed areas, and the installation of leak and spill detection equipment at relevant sites.

Environmental site assessments and investigations completed to date have not, however, revealed any environmental liability that we believe would have a material adverse effect on our business, assets or results of operations taken as a whole, nor are we aware of any material environmental liability. Nevertheless, it is possible that our environmental site assessments do not reveal all environmental liabilities or that there are material environmental liabilities of which we are unaware.

We believe that our properties are in compliance in all material respects with all federal, state and local laws regarding hazardous or toxic substances or petroleum products, except as noted above. We have not been notified by any governmental authority, and are not otherwise aware, of any material noncompliance, liability or claim relating to hazardous or toxic substances or petroleum products in connection with any of our present properties, other than as noted above. It is possible that future laws will impose material environmental liabilities on us and that the current environmental condition of our properties will be affected by tenants, by the condition of land or operations in the vicinity of our properties, such as the presence of underground storage tanks, or by third parties unrelated to us.

We may incur increased costs as a result of enacted and proposed changes in laws and regulations.

Enacted and proposed changes in the law and regulations affecting public companies, including the provisions of the Sarbanes-Oxley Act of 2002 and rules proposed by the SEC and by the New York Stock Exchange has resulted in significant increased compliance costs to us as we evaluate the implications of any new rules and comply to their requirements. The new rules could make it more difficult or more costly for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. The impact of these events could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as executive officers. The compliance with and the provisions of the Sarbanes-Oxley Act in future years will result in significant continuing costs to us.

ITEM 1B. *UNRESOLVED STAFF COMMENTS*

None.

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ITEM 2. *PROPERTIES*

Existing Portfolio

As of December 31, 2005, our portfolio consists of 116 primarily office properties containing approximately 18.5 million net rentable square feet, which individually range from approximately 12,000 to 600,000 net rentable square feet. Of the 116 properties currently in service in our portfolio, 115, 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, 2005:

Location	Number of Properties		Number of Buildings		Approximate Net Rentable Square Feet		Property Operating Results[1], [2] For the Year Ended December 31, 2005 ($000 s and unaudited)	
	Total	% of Total	Total	% of Total	Total	% of Total	Total	% of Total
Los Angeles County:								
West[3]	30	26%	32	16%	5,415,813	29%	$ 115,240	39%
North	29	25%	46	24%	3,573,218	20%	53,883	18%
South	11	9%	15	8%	2,454,951	13%	30,978	11%
Subtotal	70	60%	93	48%	11,443,982	62%	200,101	68%
Orange County	18	16%	50	26%	3,215,415	17%	38,133	13%
San Diego County	24	21%	36	19%	3,308,843	18%	47,480	16%
Ventura County	4	3%	13	7%	576,260	3%	7,556	3%
Total	116	100%	192	100%	18,544,500	100%	$ 293,270	100%

(1) 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.

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

	Year Ended December 31,		
	2005	2004	2003
Net Income	$ 65,499	$ 73,775	$ 58,509
Add:			
General and administrative expense	33,571	19,503	16,931
Interest expense	98,184	88,502	92,736
Depreciation and amortization	137,385	115,806	106,893
Minority interest	570	5,159	5,231
Interest and other loss	1,593	509	403
Impairment on investment in securities		2,700	
Loss from debt defeasance related to sale of discontinued properties	835		
Less:			
Gain on sale of discontinued properties	(40,653)	(30,473)	(5,937)
Discontinued operations, net of minority interest	(3,714)	(10,304)	(18,310)
Property Operating Results	$ 293,270	$ 265,177	$ 256,456

(2) Excludes the operating results of one property sold during the first quarter of 2005, one property sold during the second quarter of 2005 and six properties sold during the third quarter of 2005. The operating results for these properties are reported as part of discontinued operations in our consolidated statements of income.

(3) Includes a retail property with approximately 37,000 net rentable square

feet.

The following is a summary of our occupancy and in-place rents as of December 31, 2005:

Location	**Percent Occupied**	**Percent Leased**	**Annualized Base Rent Per Leased Square Foot**(1)	
			Portfolio Total	*Full Service Gross Leases*(2)
Los Angeles County:				
West	95.0%	95.8%	$ 28.25	$ 28.27
North	92.4%	95.1%	22.79	23.46
South	90.6%	92.3%	19.24	20.75
Subtotal/Weighted Average	93.3%	94.8%	24.66	25.42
Orange County	93.5%	95.0%	19.80	22.48
San Diego County	85.0%	86.3%	22.84	25.44
Ventura County	94.3%	94.3%	19.32	19.32
Total/Weighted Average	91.9%	93.3%	$ 23.33	$ 24.76

(1) Based on monthly contractual base rent under existing leases as of December 31, 2005, 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 26 properties and

approximately 2.9 million square feet under triple net and modified gross leases.

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/residential units. The merger agreement limits our ability to make any expenditures, transactions or agreements in connection with the Howard Hughes Center development except in accordance with a development plan and budget that we provide to GECC, which is subject to their reasonable approval.

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 five-acre developable land parcel in Torrance, California that we intend to market for a build-to-suit building. The merger agreement limits our ability to commence, commit to or enter into any construction or development, other than construction or development that is in the ordinary course of business and has a cost that, in the aggregate, is not in excess of $5,000,000.

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. The merger agreement limits our ability to sell any assets without the written consent of GECC.

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Dispositions

The following table summarizes our disposition activity during 2005:

Property	County	Submarket	Date of Sale	Property Type	Square Feet	Gross Sales Price ($000 s)
Activity Business Center	San Diego	Miramar	January 5, 2005	Office	167,170	$ 16,650
5832 Bolsa	Orange	West County	June 29, 2005	Office	49,355	8,670
4900 California	Kern	Bakersfield	August 4, 2005	Office	153,181	(A)
Parkway Center	Kern	Bakersfield	August 4, 2005	Office	60,885	(A)
100 W. Broadway	Los Angeles	Downtown Long Beach	August 4, 2005	Office	192,975	(A)
145 S. Fairfax	Los Angeles	Miracle Mile	August 11, 2005	Office	55,181	12,000
Irvine Corporate Center	Orange	Greater Airport	September 28, 2005	Office	127,561	17,840(1)
Oceangate Tower	Los Angeles	Downtown Long Beach	September 28, 2005	Office	211,620	38,000(1)
Sub-total					1,017,928	93,160
(A) Portfolio sale						55,600(2)
					1,017,928	$ 148,760

(1) The net proceeds from these dispositions of approximately $54.6 million are currently held in escrow accounts for potential like-kind exchanges and are included as part of restricted cash in our consolidated balance sheet at December 31,

2005.

(2) Approximately $22.5 million of this amount was used to acquire Agoura Hills Business Park as part of a like-kind exchange.

Acquisitions

The following table summarizes our acquisition activity during 2005:

Property	County	Submarket	Date of Purchase	Property Type	Square Feet	Gross Purchase Price ($000 s)
707 Broadway	San Diego	Downtown	January 5, 2005	Office	169,536	$ 48,000(1)
Arden Towers at Sorrento	San Diego	Sorrento Mesa	March 22, 2005	Office/Retail	608,253	184,850
5670 Wilshire Boulevard	Los Angeles	Miracle Mile	April 8, 2005	Office	409,118	92,650(2)
Agoura Hills Business Park	Los Angeles	Agoura Hills	August 5, 2005	Office	115,227	23,175
					1,302,134	$ 348,675

(1) Approximately $2.0 million of the acquisition price was funded through the issuance of 54,950 OP units at an average price of $37.27 per unit.

(2) The gross acquisition price includes the assumption of a $51.5 million mortgage loan payable secured by the property. In addition,

approximately $12.5 million of the acquisition price was funded from an escrow account to complete a like-kind exchange for a property sold in December 2004. This amount has been included as part of restricted cash in our consolidated balance sheet at December 31, 2004.

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The following table presents specific information regarding our 116 properties as of December 31, 2005:

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									
6100 Wilshire	Hollywood/Wilshire Corridor	Miracle Mile	1986	207,658	1.1%	97.0%	$ 4,957	51	$ 24.62
5670 Wilshire Boulevard	Hollywood/Wilshire Corridor	Miracle Mile	1964/91	409,118	2.2	91.5	$ 9,898	65	26.44
120 S. Spalding	West Los Angeles	Beverly Hills Triangle	1984	63,276	0.3	100.0	2,784	15	44.00
9665 Wilshire	West Los Angeles	Beverly Hills Triangle	1972/92-93	160,502	0.9	100.0	5,861	21	36.52
8383 Wilshire	West Los Angeles	Beverly Hills	1971/93	417,459	2.2	91.1	10,085	131	26.51
9100 Wilshire	West Los Angeles	Beverly Hills	1971/90	327,697	1.8	96.2	8,729	77	27.68
Beverly Atrium	West Los Angeles	Beverly Hills	1989	59,542	0.3	91.8	1,688	12	30.89
Wilshire Pacific Plaza	West Los Angeles	Brentwood	1976/87	103,529	0.6	100.0	2,694	45	26.03
World Savings Center [(2)]	West Los Angeles	Brentwood	1983	469,710	2.5	98.6	14,686	64	31.72
400 Corporate Pointe	West Los Angeles	Culver City/Fox Hills	1987	165,989	0.9	90.0	2,796	14	18.71
600 Corporate Pointe	West Los Angeles	Culver City/Fox Hills	1989	276,516	1.5	96.2	5,736	22	21.56
6060 Center Drive	West Los Angeles	Culver City/Fox Hills	2000	256,739	1.4	99.1	8,467	8	33.28
6080 Center Drive	West Los Angeles	Culver City/Fox Hills	2001	286,210	1.5	90.0	9,573	16	37.18

6100 Center Drive	West Los Angeles	Culver City/Fox Hills	2002	285,516	1.5	99.5	8,376	25	29.49
Bristol Plaza	West Los Angeles	Culver City/Fox Hills	1982	84,565	0.5	98.3	1,746	29	21.00
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	317,729	1.7	99.2	8,695	38	27.60
Northpoint	West Los Angeles	Culver City/Fox Hills	1991	103,015	0.6	100.0	2,520	9	24.46
1919 Santa Monica	West Los Angeles	Santa Monica	1991	43,628	0.2	100.0	1,158	9	26.53
2001 Wilshire Blvd.	West Los Angeles	Santa Monica	1980	104,528	0.6	96.7	2,601	23	25.73
2730 Wilshire	West Los Angeles	Santa Monica	1985	57,141	0.3	96.8	1,545	25	27.93
2800 28th Street	West Los Angeles	Santa Monica	1979	108,007	0.6	95.4	2,674	42	25.96
Westwood Center	West Los Angeles	Westwood	1965/2000	313,304	1.7	99.7	11,100	43	35.52
10350 Santa Monica	West Los Angeles	West Los Angeles	1979	42,967	0.2	90.8	926	16	23.75
10351 Santa Monica	West Los Angeles	West Los Angeles	1984	97,169	0.5	90.2	2,109	14	24.07
Century Park Center	West Los Angeles	West Los Angeles	1972/94	245,381	1.3	89.1	5,142	93	23.53
10780 Santa Monica	West Los Angeles	West Los Angeles	1984	93,257	0.5	100.0	2,361	34	25.31
1950 Sawtelle	West Los Angeles	West Los Angeles	1988/95	103,673	0.6	98.6	2,443	42	23.90
11075 Santa Monica	West Los Angeles	West Los Angeles	1983	35,822	0.2	95.0	852	7	25.04
Westwood Terrace	West Los Angeles	West Los Angeles	1988	139,207	0.8	94.8	3,412	28	25.87
Subtotal/Weighted Average Los Angeles West				5,415,813	29.2%	95.8%	$ 146,581	1,019	$ 28.25

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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 North									
303 Glenoaks	Glendale/Tri-Cities	Burbank	1983/96	176,675	1.0%	98.1%	$ 4,041	27	$ 23.32
601 S. Glenoaks	Glendale/Tri-Cities	Burbank	1990	74,654	0.4	94.8	1,474	19	20.84
Burbank Executive Plaza	Glendale/Tri-Cities	Burbank	1983	62,717	0.3	100.0	1,457	19	23.24
333 N. Glenoaks	Glendale/Tri-Cities	Burbank	1978/83	84,263	0.5	88.9	1,685	17	22.49
425 West Broadway	Glendale/Tri-Cities	Glendale	1984	72,426	0.4	98.4	1,526	14	21.41
535 N. Brand Blvd.	Glendale/Tri-Cities	Glendale	1973/92/99	106,657	0.6	99.7	2,269	44	21.33
5161 Lankershim	Glendale/Tri-Cities	North Hollywood	1985/97	181,757	1.0	100.0	4,056	9	22.31
150 East Colorado Boulevard	Glendale/Tri-Cities	Pasadena	1979/97	61,803	0.3	100.0	1,467	20	23.73
299 N. Euclid	Glendale/Tri-Cities	Pasadena	1983/99	74,689	0.4	100.0	1,908	4	25.54
70 South Lake	Glendale/Tri-Cities	Pasadena	1982/94	102,726	0.6	95.4	2,596	22	26.49
Agoura Hills Business Park	San Fernando Valley	Agoura Hills	1988	115,227	0.6	95.8	2,589	12	23.47
Calabasas Commerce Center	San Fernando Valley	Calabasas	1990	126,771	0.7	100.0	2,396	10	18.90
Calabasas Tech	San Fernando Valley	Calabasas	1990/2001	284,822	1.5	87.1	4,856	18	19.58
16000 Ventura	San Fernando Valley	Encino	1980/96	175,242	0.9	98.2	3,974	46	23.08
Noble Professional Center	San Fernando Valley	Sherman Oaks	1985/93	52,929	0.3	93.1	1,157	19	23.48
15250 Ventura	San Fernando Valley	Sherman Oaks	1970/90-91	112,838	0.6	100.0	2,525	43	22.38
Sunset Pointe Plaza	San Fernando Valley	Valencia	1988	59,258	0.3	75.6	1,185	27	26.46
Tourney Pointe	San Fernando Valley	Valencia	1985/98-2000	212,021	1.1	96.6	4,410	37	21.53
			1989	105,854	0.6	95.5	1,774	5	17.54

Westlake Lindero 5601	San Fernando Valley	Westlake Village							
Homestore	San Fernando Valley	Westlake Village	2000	137,762	0.7	100.0	3,158	1	22.92
Clarendon Crest	San Fernando Valley	Woodland Hills	1990	44,317	0.2	100.0	949	18	21.42
Woodland Hills Financial Center	San Fernando Valley	Woodland Hills	1972/95	228,687	1.2	95.9	5,108	73	23.29
Warner Corporate Center	San Fernando Valley	Woodland Hills	1988	253,032	1.4	99.0	6,644	33	26.53
Los Angeles Corporate Center	San Gabriel Valley	Monterey Park	1984/86	390,028	2.1	88.3	7,898	46	22.94
Conejo Business Center	Ventura	Newbury Park/Thousand Oaks	1991	68,328	0.4	95.5	1,469	28	22.52
Hillside Corporate Center	Ventura	Newbury Park/Thousand Oaks	1998	60,803	0.3	100.0	1,654	11	27.21
Marin Corporate Center	Ventura	Newbury Park/Thousand Oaks	1986	50,656	0.3	70.1	842	25	23.68
Westlake Gardens	Ventura	Westlake Village	1998	47,440	0.3	100.0	1,302	19	27.45
Westlake Gardens II	Ventura	Westlake Village	1999	48,836	0.3	100.0	1,104	5	22.61
Subtotal/Weighted Average Los Angeles North				3,573,218	19.3%	95.1%	$ 77,473	671	$ 22.79

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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 South									
Pacific Gateway	South Bay	190th Corridor	1982/90	229,505	1.2%	94.6%	$ 4,579	36	$ 21.08
South Bay Centre	South Bay	190th Corridor	1984	204,617	1.1	96.3	4,079	31	20.71
Gateway Towers	South Bay	190th Corridor	1984/86	439,084	2.4	94.7	9,702	75	23.32
Continental Grand Plaza	South Bay	El Segundo	1986	235,246	1.3	100.0	5,773	41	24.55
Grand Avenue Plaza	South Bay	El Segundo	1980/98	81,593	0.4	96.0	1,574	18	20.10
5200 West Century	South Bay	LAX	1982/98-99	321,608	1.7	77.2	4,418	34	17.79
Skyview Center	South Bay	LAX	1981/87/95	399,318	2.1	84.0	5,331	65	15.89
Long Beach Airport Bldg D [2]	South Bay	Suburban Long Beach	1987/95	121,610	0.7	100.0	1,167	1	9.60
Long Beach Airport Bldg F & G [2]	South Bay	Suburban Long Beach	1987/95	150,403	0.8	100.0	1,047	1	6.96
5000 East Spring [2]	South Bay	Suburban Long Beach	1989/95	167,149	0.9	97.2	3,744	44	23.05
Mariner Court	South Bay	Torrance	1989	104,818	0.6	100.0	2,197	38	20.96
Subtotal/Weighted Average Los Angeles South				2,454,951	13.2%	92.3%	$ 43,611	384	$ 19.24

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]
Orange County									
1370 Valley Vista	LA Central	Diamond Bar	1988	86,298	0.5%	100.0%	$ 1,859	14	$ 21.54
City Centre I	Orange County	Central County	1985/97	146,698	0.8	100.0	2,996	34	20.42
Anaheim City Centre [2]	Orange County	Central County	1986/91	182,521	1.0	100.0	3,607	28	19.76
Orange Financial Center	Orange County	Central County	1985/95	310,020	1.7	99.8	6,953	42	22.48
Fountain Valley City Centre	Orange County	Greater Airport	1982	303,072	1.6	99.0	6,747	25	22.48
Fountain Valley Plaza	Orange County	Greater Airport	1982	107,498	0.6	66.6	1,468	7	20.52
Newport Irvine Center	Orange County	Greater Airport	1981/97	73,310	0.4	98.2	1,800	31	25.00
South Coast Executive Center	Orange County	Greater Airport	1979/97	61,994	0.3	95.8	1,194	25	20.10
Von Karman Corporate Center	Orange County	Greater Airport	1981/84	444,968	2.4	96.2	9,325	37	21.78
Centerpointe La Palma	Orange County	North County	1986/88/90	602,516	3.2	98.9	11,582	97	19.43
Savi Tech Center	Orange County	North County	1989/2005	372,119	2.0	80.5	4,532	4	15.13
Yorba Linda Business Park	Orange County	North County	1988	165,772	0.9	95.8	1,508	63	9.50
Crown Cabot Financial Center	Orange County	South County	1989	174,173	0.9	98.3	4,941	42	28.86
5632 Bolsa	Orange County	West County	1987	21,568	0.1	100.0	189	1	8.76
5672 Bolsa	Orange County	West County	1987	12,110	0.1	100.0	106	1	8.76
5702 Bolsa	Orange County	West County	1987/97	27,731	0.1	100.0	232	2	8.38
Huntington Beach Plaza	Orange County	West County	1984/96	54,254	0.3	78.9	787	16	18.39
Huntington Commerce Center	Orange County	West County	1987	68,793	0.4	100.0	662	22	9.63
Subtotal/Weighted Average Orange County				3,215,415	17.3%	95.0%	$ 60,488	491	$ 19.80

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	Major Area	Submarket	Year(s) Built/ Renovated	Approximate Net Rentable Square Feet	Percentage of Total Portfolio Net Rentable Square Feet	Percent Leased	Annualize Base Rent ($000s)
nty							
ate Center	San Diego County	Carlsbad	1996	126,280	0.7%	42.0%	$ 554
enter	San Diego County	Del Mar Heights	1987/89	107,076	0.6	100.0	3,529
	San Diego County	Downtown	1982/96	548,370	3.0	86.5	11,714
	San Diego County	Downtown	1961/2001	169,536	0.9	98.5	3,652
	San Diego County	Governor Park	1984	38,060	0.2	79.7	708
tive Centre	San Diego County	Governor Park	1988	52,910	0.3	84.4	1,177
tive Centre II	San Diego County	Governor Park	1989	103,554	0.6	78.3	2,416
laza	San Diego County	Governor Park	1986	104,254	0.6	79.7	2,006
anch	San Diego County	Scripps Ranch	1978/96	43,560	0.2	0.0	
e Center	San Diego County	Kearney Mesa	1990	69,734	0.4	100.0	1,278
rate Center	San Diego County	Kearney Mesa	1991	133,149	0.7	97.5	2,469
e Center	San Diego County	Kearney Mesa	1990	45,059	0.2	100.0	405
Plaza	San Diego County	Kearney Mesa	1986	203,739	1.1	100.0	4,742
	San Diego County	Mission Valley	1979	134,688	0.7	80.7	2,272
	San Diego County	Rancho Bernardo/Poway	1991/96	112,000	0.6	100.0	672
cy	San Diego County	Rancho Bernardo/Poway	1986	48,026	0.3	96.8	1,217
fice Plaza	San Diego County	Rancho Bernardo/Poway	1985	77,732	0.4	76.6	1,524
gy Center	San Diego County	Rancho Bernardo/Poway	1986	155,612	0.8	100.0	1,981
sional Plaza	San Diego County	Rancho Bernardo/Poway	1992	59,681	0.3	76.2	1,165
	San Diego County	Rancho Bernardo/Poway	1982/97	78,819	0.4	100.0	975
	San Diego County	Sorrento Mesa	1984/96	48,955	0.3	35.2	233
Sorrento	San Diego County	Sorrento Mesa	1989/91/2001	608,253	3.3	82.9	14,369
ce Park	San Diego County	Torrey Pines	1980/97	81,204	0.4	100.0	2,068
ve Plaza	San Diego County	University Towne Centre	1984	158,592	0.9	97.9	4,045
ed Average	San Diego County			3,308,843	17.9%	86.3%	$ 65,171

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perty 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	Annua Ba Re pe Lea Ne Rent Squ Fee
tura County									
narillo Business Park	Ventura	Camarillo	1984/97	152,969	0.8%	91.6%	$ 2,961	24	$ 21
0 Town Center	Ventura	Oxnard	1989	108,358	0.6	93.4	1,905	11	18
ır Drive Business Center	Ventura	Oxnard	1982	137,181	0.7	98.9	2,551	36	18
ter Promenade	Ventura	Ventura	1988	177,752	1.0	93.7	3,088	63	18
total/Weighted Average Ventura County				576,260	3.1%	94.3%	$ 10,505	134	$ 19
tfolio Total/ Weighted Average				18,544,500	100.0%	93.3%	$ 403,829	3,090	$ 23

(1) Calculated as monthly contractual base rent under existing leases as of December 31, 2005, 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.

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Tenant Information

As of December 31, 2005, no one tenant represented more than 2.0% of the aggregate annualized base rent of our properties and only three 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. Our leases typically contain provisions permitting tenants to renew expiring leases at prevailing market rates. Approximately 84% 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, 2005 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)(1)
Vivendi Universal	2	33	1.34%	1.98%	231,681	$ 7,980
State of California	17	40	1.53	1.46	264,640	5,886
U.S. Government	14	46	0.90	1.08	155,240	4,360
Ceridian Corporation	2	52	0.88	0.95	152,612	3,833
Atlantic Richfield	1	9	0.83	0.88	143,885	3,551
Pepperdine University	1	155	0.65	0.86	113,488	3,481
Walt Disney Pictures and Television	1	31	0.88	0.85	151,792	3,443
Westfield Corporation	1	87	0.62	0.80	107,300	3,249
University of Phoenix	4	61	0.81	0.80	140,839	3,235
Homestore, Inc.	1	25	0.80	0.78	137,762	3,158
Total/Weighted Average(2)	44	49	9.24%	10.44%	1,599,239	$ 42,176

(1) Annualized base rent is calculated as monthly contractual base

rent under existing leases as of December 31, 2005, 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.

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The following table presents the diversification of the tenants occupying space in our portfolio by industry as of December 31, 2005:

North American Industrial Classification System Description	NAICS Code	Occupied Square Feet	Percentage of Total Occupied Portfolio
Professional, Scientific, and Technical Services	541	4,286,195	25.16%
Finance and Insurance	521-525	3,052,141	17.92%
Information	511-519	1,836,169	10.78%
Manufacturing	311-339	1,601,997	9.40%
Health Care and Social Assistance	621-624	1,055,317	6.19%
Real Estate, Rental and Leasing	531-533	1,053,944	6.19%
Administrative and Support and Waste Management and Remediation Services	561-562	713,069	4.19%
Public Administration	921-928	691,051	4.05%
Educational Services	611	678,313	3.99%
Wholesale Trade	423-425	436,419	2.56%
Transportation and Warehousing	481-493	319,855	1.88%
Construction	236-238	316,738	1.86%
Other Services (except Public Administration)	811-814	236,792	1.39%
Arts, Entertainment, and Recreation	711-713	223,423	1.31%
Retail Trade	441-454	207,715	1.22%
Accommodation and Food Services	721-722	203,712	1.20%
Management of Companies and Enterprises	551	54,934	0.32%
Utilities	221	16,490	0.10%
Agriculture, Forestry, Fishing and Hunting	111-115	3,582	0.02%
Mining	211-213	2,894	0.02%
Other Uncategorized		42,954	0.25%
		17,033,704	**100.00%**

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Lease Distribution

The following table presents information relating to the distribution of the leases for our 116 properties, based on leased net rentable square feet, as of December 31, 2005:

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(1)
2,500 and under	1,526	49.38%	2,182,471	12.61%	54,502	$ 24.97	12.40%
2,501-5,000	714	23.11	2,474,599	14.30	64,106	25.91	14.58
5,001-7,500	301	9.74	1,829,632	10.57	48,986	26.77	11.14
7,501-10,000	174	5.63	1,522,055	8.80	39,130	25.71	8.90
10,001-20,000	246	7.96	3,544,307	20.48	93,659	26.43	21.31
20,001-40,000	80	2.59	2,302,542	13.30	60,229	26.16	13.70
40,001 and over	49	1.59	3,451,072	19.94	78,975	22.88	17.97
Total/Weighted Average	**3,090**	**100.00%**	**17,306,678**	**100.00%**	**439,587**	**$ 25.40**	**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.

Lease Expirations

The following table presents a summary schedule of the total lease expirations for our 116 properties for leases in place at December 31, 2005. This table assumes that none of the tenants exercise renewal options or termination rights, if any, at or prior to the scheduled expirations:

	Square Footage	Percentage	Annualized Base Rent	Average Annualized Base Rent	Percentage of Aggregate Portfolio

Year of Lease Expiration	Number of Leases Expiring	of Expiring Leases	of Aggregate Leased Square Feet	of Expiring Leases[(1)] ($000s)	per Square Foot of Expiring Leases	Annualized Base Rent[(1)]
Month-to-Month	135	355,091	2.05%	$ 8,073	$ 22.74	1.84%
Q1 2006	126	502,542	2.90	12,147	24.17	2.76
Q2 2006	152	583,695	3.37	12,581	21.55	2.86
Q3 2006	150	709,215	4.10	18,860	26.59	4.29
Q4 2006	165	620,783	3.59	15,392	24.79	3.50
2006 Sub-Total[(2)]	**593**	**2,416,235**	**13.96**	**58,980**	**24.41**	**13.41**
2007	576	2,466,134	14.25	58,971	23.91	13.42
2008	593	3,009,772	17.39	75,741	25.16	17.23
2009	395	2,270,358	13.12	55,478	24.44	12.62
2010	375	2,473,804	14.29	61,225	24.75	13.93
2011	136	1,073,165	6.20	29,871	27.83	6.80
2012	93	1,200,423	6.94	30,998	25.82	7.05
2013	61	727,839	4.21	21,325	29.30	4.85
2014	36	383,970	2.22	10,953	28.53	2.49
2015+	97	929,887	5.37	27,972	30.08	6.36
Total/Weighted Average	**3,090**	**17,306,678**	**100.00%**	**$ 439,587**	**$ 25.40**	**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.

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ITEM 3. ***LEGAL PROCEEDINGS***

On December 23, 2005, a purported stockholder class action lawsuit related to the merger agreement was filed in Los Angeles County Superior Court naming us and each of our directors as defendants. The lawsuit, *Charter Township of Clinton Police and Fire Retirement System v. Arden Realty, Inc., et al.* (Case No. BC345065), alleges, among other things, that $45.25 per share in cash to be paid to the holders of shares our common stock in connection with the merger is inadequate and that the individual defendants breached their fiduciary duties to our stockholders in negotiating and approving the merger agreement. The complaint seeks the following equitable relief: (i) declaring that the lawsuit is properly maintainable as a class action and certification of the plaintiff as a class representative; (ii) declaring that the defendants have breached their fiduciary duties owed to the plaintiff and other members of the class; (iii) enjoining the merger and, if such transaction is consummated, rescinding the transaction; (iv) enjoining the triggering of acceleration clauses related to stock options upon a change of control; (v) requiring the defendants to uphold their fiduciary duties and to fully insulate themselves from any conflicts of interest that interfere with such duties; and (vi) awarding attorneys and experts fees to the plaintiff.

A second purported stockholder class action lawsuit, *Dwyer v. Arden Realty, Inc., et al.* (Case No. BC345468), was filed in Los Angeles County Superior Court on January 4, 2006 against the same defendants as in *Charter Township*. The *Dwyer* complaint purports to allege claims for breach of fiduciary duty, indemnification and injunctive relief. The complaint seeks the following relief: (i) declaring that the lawsuit is properly maintainable as a class action and certification of the plaintiff as a class representative; (ii) preliminarily and permanently enjoining defendants from proceeding with, consummating or closing the proposed transaction; (iii) in the event the transaction is consummated, rescinding the transaction; (iv) awarding compensatory damages against defendants; and (v) awarding plaintiff attorneys fees and costs.

We believe that these lawsuits are without merit and intend to vigorously defend the actions.

In addition to the aforementioned litigation relating to the proposed merger, 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, 2005.

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, 2005.

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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 15, 2006, the last reported sales price per share of our common stock on the NYSE was $45.51 and there were approximately 212 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 Divdends Declared
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
2005			
First Quarter	$37.00	$33.16	$ 0.505
Second Quarter	$37.28	$33.01	$ 0.505
Third Quarter	$41.17	$36.10	$ 0.505
Fourth Quarter	$47.12	$39.43	$ 0.505

Prior to entering into the merger agreement, we paid quarterly cash dividends to common stockholders at the discretion of our Board of Directors. The amount of each quarterly cash dividend depended 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 deemed relevant.

The merger agreement for the proposed merger regulates the future payment of dividends and authorizes us to continue to declare and pay regular quarterly dividends, subject to certain limited exceptions including the dividend amount not to exceed $0.505 per share of our common stock per quarter, for each fiscal quarter that ends prior to the closing of the merger.

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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,				
	2005	**2004**	**2003**	**2002**	**2001**
		(in thousands, except ratio and per share amounts)			
Operating Data:					
Property revenues	$ 441,903	$ 393,001	$ 376,791	$ 357,976	$ 366,125
Interest and other (loss) income	(1,593)	(509)	(403)	2,044	2,134
Property operating expenses	(148,633)	(127,824)	(120,335)	(111,128)	(104,724)
General and administrative expense	(33,571)	(19,503)	(16,931)	(12,583)	(11,497)
Depreciation and amortization	(137,385)	(115,806)	(106,893)	(96,156)	(89,496)
Interest expense	(98,184)	(88,502)	(92,736)	(87,466)	(85,586)
Gain on sale of operating properties				1,967	4,591
Impairment on investment in securities		(2,700)			
Minority interest	(570)	(5,159)	(5,231)	(5,660)	(6,803)
Income from continuing operations	21,967	32,998	34,262	48,994	74,744
Discontinued operations, net of minority interest (1)	3,714	10,304	18,310	21,181	23,015
Gain on sale of discontinued properties	40,653	30,473	5,937		
Loss from debt defeasance related to sale of discontinued properties	(835)				
Net income	$ 65,499	$ 73,775	$ 58,509	$ 70,175	$ 97,759
Basic net income per common share:					
Income from continuing operations	$ 0.33	$ 0.51	$ 0.54	$ 0.76	$ 1.17
Income from discontinued operations	0.65	0.62	0.38	0.33	0.36
Net income per common share-basic	$ 0.98	$ 1.13	$ 0.92	$ 1.09	$ 1.53
Weighed average number of common shares-basic	66,611	65,372	63,553	64,151	63,754
Diluted net income per common share:					
Income from continuing operations	$ 0.33	$ 0.50	$ 0.54	$ 0.76	$ 1.17
Income from discontinued operations	0.65	0.62	0.38	0.33	0.36
	$ 0.98	$ 1.12	$ 0.92	$ 1.09	$ 1.53

Net income per common share-diluted					
Weighed average number of common shares-diluted	67,074	65,740	63,815	64,351	64,014
Cash dividends declared per common share	$ 2.02	$ 2.02	$ 2.02	$ 2.02	$ 2.02
Other Data:					
Cash provided by operating activities	$ 167,281	$ 184,907	$ 181,482	$ 199,922	$ 204,667
Cash used in investing activities	(290,614)	(11,237)	(20,355)	(213,002)	(115,854)
Cash (used in) provided by financing activities	110,932	(165,337)	(160,483)	(19,898)	(57,204)
Funds from Operations[2]	165,204	171,777	174,458	181,549	198,240

Selected financial data continues on next page.

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	Year Ended December 31,				
	2005	2004	2003	2002	2001
Balance Sheet Data:					
Net investment in real estate	$2,768,911	$2,551,981	$2,646,699	$2,741,624	$2,622,980
Total assets	$2,907,870	$2,659,997	$2,741,433	$2,832,409	$2,761,443
Total indebtedness	$1,623,821	$1,326,084	$1,349,781	$1,402,304	$1,251,483
Other liabilities (3)	$ 76,615	$ 83,713	$ 76,638	$ 76,350	$ 62,685
Minority interests	$ 20,368	$ 20,414	$ 72,194	$ 74,571	$ 78,661
Total stockholders equity	$1,153,152	$1,196,292	$1,210,285	$1,247,377	$1,337,206

(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.

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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 15 to 36 years and who collectively have an average of 21 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, 2005, 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 116 primarily suburban office properties and 192 buildings containing approximately 18.5 million net rentable square feet. As of December 31, 2005, our operating portfolio was 91.9% 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, subject to certain restrictions contained in the merger agreement for the proposed matter. 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, subject to certain restrictions contained in the merger agreement for the proposed matter.

Proposed Merger

On December 21, 2005, we, along with our operating partnership and the partnership merger sub entered into the merger agreement with GECC, REIT merger sub, Trizec Properties, Inc., and Trizec Holdings Operating LLC. Pursuant to the merger agreement, GECC will acquire us and our subsidiaries through a series of transactions including the REIT merger as well as the partnership merger.

In the REIT merger, we will be merged with and into REIT merger sub, with REIT merger sub surviving, and shares of our common stock converted into the right to receive merger consideration of $45.25, plus an amount equal to a prorated portion of our normal $0.505 quarterly dividend. In the partnership merger, partnership merger sub will be merged with and into our operating partnership, and holders of our OP units, subject to certain eligibility requirements, may elect to either participate in the redemption and exchange of OP units for class B units of Trizec Holdings Operating LLC, plus an amount equal to a prorated portion of our $0.505 quarterly distribution, or have their OP units converted into the right to receive merger consideration of $45.25, plus an amount equal to a prorated portion of our $0.505 quarterly distribution.

In connection with the mergers, we will sell to Trizec Operating Company a portfolio of certain of our properties, comprised of 13 office properties totaling 4.1 million square feet, certain undeveloped land parcels and other assets. Following the consummation of the transactions, GECC or its affiliates will own or control the entity or entities which will succeed to the ownership of the remaining properties owned by us.

Our board has unanimously approved the merger agreement and has recommended it for approval by our common stockholders. The parties expect to close the transaction in the second quarter of 2006. The closing of the merger is subject to, among other things, a number of customary conditions, including the approval by the affirmative vote of two-thirds of the holders of shares of our common stock. The transaction is not subject to any financing condition.

Critical Accounting Policies

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 our company s more significant judgments and estimates used in the preparation of the consolidated financial statements. For a summary of all our significant accounting policies see note 2 to the 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, 2005 and 2004, 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, 2005 and 2004 we had a total of $5.4 million and $5.7 million in our allowance for doubtful accounts and other reserves, respectively, representing approximately 11% and 10% 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, 2005 and 2004, we had a total of $42.9 million and $39.3 million of total lease security available, respectively. For the years ended December 31, 2005, 2004 and 2003 our bad debt expense related to losses for uncollected rents, deferred rents, tenants reimbursements and other uncollectible charges were approximately 0.7%, 0.3% and 0.6% 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, 2005 and 2004.

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, up to a maximum of forty seven years.

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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, 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, 2005 to the year ended December 31, 2004
(in thousands, except number of properties and percentages)

	Year Ended December 31,			Percent
	2005	2004	Change	Change
Revenue from rental operations:				
Scheduled cash rents	$ 381,495	$ 338,381	$ 43,114	13%
Straight-line rents	2,029	1,977	52	3
Tenant reimbursements	20,353	18,926	1,427	8
Parking, net of expense	27,279	23,319	3,960	17
Other rental operations	10,747	10,398	349	3
Total revenue from rental operations	441,903	393,001	48,902	12
Property expenses:				
Repairs and maintenance	51,944	42,333	9,611	23
Utilities	35,430	31,381	4,049	13
Real estate taxes	32,563	29,540	3,023	10
Insurance	7,279	7,142	137	2
Ground rent	1,199	746	453	61
Administrative	20,218	16,682	3,536	21
Total property expenses	148,633	127,824	20,809	16
Property operating results(1)	293,270	265,177	28,093	11
General and administrative	33,571	19,503	14,068	72
Interest expense	98,184	88,502	9,682	11
Depreciation and amortization	137,385	115,806	21,579	19
Interest and other loss	1,593	509	1,084	213
Income from continuing operations before impairment on investment in securities and minority interest	$ 22,537	$ 40,857	$ (18,320)	(45)%
Discontinued operations, net of minority interest	$ 3,714	$ 10,304	$ (6,590)	(64)%
Number of properties:				
Acquired during period	4	2		
Completed and placed in service during period		1		
Disposed of during period	(8)	(12)		
Owned at end of period	116	120		

Net rentable square feet:				
Acquired during period	1,302	391		
Completed and placed in service during period	51	283		
Expansion space placed in service		168		
Disposed of during period	(1,018)	(1,268)		
Owned at end of period	18,545	18,210		
Same Property Portfolio(2):				
Revenue from rental operations	$ 390,003	$ 382,723	$ 7,280	2%
Property expenses	131,792	124,383	7,409	6
	$ 258,211	$ 258,340	$ (129)	%
Straight-line rents	$ 1,536	$ 1,841		
Number of properties	109	109		
Number of buildings	179	179		
Average occupancy	91.3%	90.4%		
Net rentable square feet	16,436	16,436		

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(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, 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,		
	2005	**2004**	**2003**
Net Income	$ 65,499	$ 73,775	$ 58,509
Add:			
General and administrative expense	33,571	19,503	16,931
Interest expense	98,184	88,502	92,736
Depreciation and amortization	137,385	115,806	106,893
Minority interest	570	5,159	5,231

Interest and other loss	1,593	509	403
Impairment on investment in securities		2,700	
Loss from debt defeasance related to sale of discontinued properties	835		
Less:			
Gain on sale of discontinued properties	(40,653)	(30,473)	(5,937)
Discontinued operations, net of minority interest	(3,714)	(10,304)	(18,310)
Property Operating Results	$ 293,270	$ 265,177	$ 256,456

(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.

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VARIANCES FOR RESULTS OF OPERATIONS

Our Property Operating Results for the year ended December 31, 2005 compared to 2004 were primarily affected by our acquisitions and development activities since January 1, 2004.

As a result of these changes within our portfolio of properties since January 1, 2004, 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 $48.9 million, or 12%, for the year ended December 31, 2005 compared to 2004. This increase was primarily due to revenues from our 6100 Center Drive development property that was placed in service during the second quarter of 2004, two office properties acquired in Los Angeles County in October 2004 totaling approximately 391,000 square feet, two office properties acquired in San Diego County in January 2005 and March 2005, respectively, totaling approximately 778,000 square feet, one property acquired in Los Angeles County in April 2005 totaling approximately 409,000 square feet, one property acquired in Los Angeles County in August 2005 totaling 115,000 square feet and from overall occupancy gains and scheduled rent increases in our properties.

Revenue from rental operations for the same store portfolio increased by approximately $7.3 million, or 2%, in 2005 as compared to 2004. The increase was due to an approximate $9.4 million increase in scheduled cash rents, partially offset by an approximate $1.7 decrease in straight-line rents and an approximate $0.4 million decrease in other rental operations. The increase in scheduled cash rents was primarily attributable to scheduled rent increases in existing leases and by a 0.9% increase in average occupancy for these properties. The decrease in straight-line rents was primarily attributable to the turning over of older leases within our same store portfolio. Other rental operations decreased primarily due to higher bad debt expense in 2005, partially offset by higher lease termination fees in 2005.

Property Expenses

Property expenses increased approximately $20.8 million, or 16%, for the year ended December 31, 2005 compared to 2004. 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 $7.4 million, or 6%, in 2005 as compared to 2004. This increase was due to an approximate $5.0 million increase in repairs and maintenance, an approximate $1.3 million increase in property administrative expenses and an approximate $1.0 million increase in utilities expense. The increase in repairs and maintenance expense was primarily due to higher costs for contracted services and timing of certain projects. The increase in property administrative expense was primarily due to higher employee compensation costs. The increase in utilities expense was primarily due to increased usage in 2005 compared to a mild 2004 summer and increases associated with higher average occupancy in the same store portfolio in the current year.

General and Administrative

General and administrative expenses as a percentage of total revenues, including revenues from discontinued operations, were approximately 7.4% for the year ended December 31, 2005 compared to approximately 4.5% for the same period in 2004. The approximate $14.1 million increase in general and administrative expenses over 2004 was primarily due to $1.7 million in employee separation costs, a $6.6 million increase in personnel costs, $3.7 million in costs related to the acquisition of the company by GECC, $0.4 million in dead-deal costs for a proposed fee-development project and increases due to the timing of various other matters including investor relations, travel, annual management and board retreats, contributions, board of director fees and legal fees. Personnel costs increased due to annual merit increases, costs related to our Deferred Compensation Plan, addition of resources within our capital market and investment activities and increases in non-cash compensation totaling approximately $1.8 million. Our Deferred Compensation Plan costs increased due to an expansion in the number of participants and contributions made. Non-cash compensation costs increased primarily due to restricted stock grants made since the first quarter of 2004 and costs associated with a long-term Outperformance Compensation Plan approved by the Board of Directors in April 2005 through which certain executives can receive equity or cash awards if returns generated are in excess of specified threshold amounts.

Interest Expense

Interest expense increased approximately $9.7 million, or 11%, for the year ended December 31, 2005 compared to the same period in 2004, primarily due to higher net borrowings during 2005 as a result of our approximate $200 million in net property acquisitions year-to-date which were partially offset by lower interest costs as a result of our refinancing activities. In March 2005, we refinanced $200 million of 8.875% unsecured notes with ten-year unsecured notes at an all-in rate of 5.5%.

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Depreciation and Amortization

Depreciation and amortization expense increased by approximately $21.6 million, or 19%, for the year ended December 31, 2005 compared to the same period in 2004, primarily due to depreciation related to a development property placed in service in the second quarter of 2004, two properties acquired in October 2004, one property acquired in January 2005, one property acquired in March 2005, one property acquired in April 2005, one property acquired in August 2005 and depreciation related to capital expenditures, tenant improvements and leasing commissions placed in service subsequent to January 1, 2004.

Interest and Other Loss

Interest and other loss decreased by approximately $1.1 million for the year ended December 31, 2005 compared to the same period in 2004, primarily due to net income recognized from a consulting and installation project completed in 2004 by Next>edge, our taxable REIT subsidiary that provides energy consulting services and from a loss recorded on the sale of a leasehold interest in June 2005, all of which were partially offset by higher interest income earned on sales proceeds associated with potential like-kind exchanges in 2005.

Discontinued Operations

From the beginning of 2004 to December 31, 2005, we have sold a total of 20 properties. The results of operations classified as discontinued operations for these properties for the years ended December 31, 2005 and 2004 are as follows (in thousands):

	Year Ended December 31, 2005	Year Ended December 31, 2004	Change	Percent Change
Discontinued Operations:				
Revenues	$ 10,483	$ 36,725	$ (26,242)	(71)%
Property operating expenses	(4,128)	(13,592)	9,464	(70)
Depreciation and amortization	(1,287)	(10,776)	9,489	(88)
Interest expense	(245)	(1,013)	768	(76)
Minority interest	(1,112)	(1,043)	(69)	7
Interest and other income	3	3		
Discontinued operations, net of minority interest	$ 3,714	$ 10,304	$ (6,590)	(64)%
Gain on sale of discontinued properties	$ 40,653	$ 30,473	$ 10,180	33%

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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	$ 338,381	$ 324,214	$ 14,167	4%
Straight-line rents	1,977	1,093	884	81
Tenant reimbursements	18,926	21,835	(2,909)	(13)
Parking, net of expense	23,319	20,984	2,335	11
Other rental operations	10,398	8,665	1,733	20
Total revenue from rental operations	393,001	376,791	16,210	4
Property expenses:				
Repairs and maintenance	42,333	38,847	3,486	9
Utilities	31,381	30,864	517	2
Real estate taxes	29,540	27,171	2,369	9
Insurance	7,142	7,526	(384)	(5)
Ground rent	746	961	(215)	(22)
Administrative	16,682	14,966	1,716	11
Total property expenses	127,824	120,335	7,489	6
Property operating results[1]	265,177	256,456	8,721	3
General and administrative	19,503	16,931	2,572	15
Interest	88,502	92,736	(4,234)	(5)
Depreciation and amortization	115,806	106,893	8,913	8
Interest and other loss	509	403	106	26
Income from continuing operations before impairment on investments in securities and minority interest	$ 40,857	$ 39,493	$ 1,364	3%
Discontinued operations, net of minority interest	$ 10,304	$ 18,310	$ (8,006)	(44)%
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			