CARRAMERICA REALTY CORP
Form 10-K405
March 18, 2002

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For fiscal year ended December 31, 2001

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from _______ to _______

Commission File Number 1-11706

CARRAMERICA REALTY CORPORATION
(Exact name of registrant as specified in its charter)

MARYLAND	52-1796339
(State of Incorporation)	(I.R.S. Employer Identification No.)

1850 K STREET, N.W. WASHINGTON, D.C.	20006
(Address of principal executive offices)	(Zip Code)

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

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

Title of each class	Name of each exchang
Common Stock, $0.01 Par Value	New York Stock Excha
Series B Cumulative Redeemable Preferred Stock, $0.01 Par Value	New York Stock Excha
Series C Depositary Cumulative Redeemable Preferred Stock, $0.001 Par Value	New York Stock Excha
Series D Depositary Cumulative Redeemable Preferred Stock, $0.001 Par Value	New York Stock Excha

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any

amendment to this Form 10-K. [X]

As of March 1, 2002, the aggregate market value of the 51,175,125 shares of Common Stock held by nonaffiliates of the registrant was approximately $1,533 million, based upon the closing price of $29.96 on the New York Stock Exchange composite tape on such date.

Number of shares of Common Stock outstanding as of March 1, 2002: 52,494,748

DOCUMENTS INCORPORATED BY REFERENCE: Portions of the proxy statement for the Annual Stockholders Meeting to be held in 2002 are incorporated by reference into Part III.

PART 1

ITEM 1. BUSINESS

THE COMPANY

GENERAL

CarrAmerica Realty Corporation is a fully integrated, self-administered and self-managed publicly traded real estate investment trust ("REIT"). We focus on the acquisition, development, ownership and operation of office properties, located primarily in selected markets across the United States. As of December 31, 2001, we owned a greater than 50% interest in 254 operating office properties and three properties under construction. The 254 operating properties contain a total of approximately 20.3 million square feet of net rentable area. Two of the properties under construction will contain approximately 184,000 square feet of net rentable area. The other property under construction is a residential property. The operating properties in which we owned a greater than 50% interest as of December 31, 2001 were 95.3% leased. These properties had approximately 1,000 tenants. As of December 31, 2001, we also owned minority interests (ranging from 15% to 50%) in 36 operating office properties and six properties under construction. The 36 operating properties contain a total of approximately 4.7 million square feet of net rentable area. The six properties under construction will contain approximately 1.2 million square feet of net rentable area. The operating properties in which we owned a minority interest as of December 31, 2001 were 95.7% leased.

We also are a leading office innovator, having made several strategic investments or established strategic relationships with several companies that complement our core real estate portfolio ownership. These investments and relationships include essention, the engine behind InfoCentre, a web-based operations and issues management platform, AgilQuest, an online resource reservation service, and DukeSolutions, a Duke Energy subsidiary providing comprehensive energy management programs.

We were organized as a Maryland corporation on July 9, 1992. We or our predecessor, The Oliver Carr Company ("OCCO"), have developed, owned and operated office buildings in the Washington, D.C. metropolitan area for more than 39 years. Our experienced staff of approximately 800 employees, including about 480 on-site building employees, provides a broad range of real estates services. Our principal executive offices are located at 1850 K Street, NW, Washington, DC 20006. Our telephone number is 202-729-1700. Our web site can be found at www.carramerica.com.

BUSINESS STRATEGY

Our primary business objectives are to achieve long-term sustainable per share cash flow growth and to maximize stockholder value by acquiring,

developing, owning and operating office properties primarily in markets throughout the United States that we believe exhibit strong, long-term growth characteristics. We believe we utilize our knowledge of our core markets to evaluate market conditions in order to maintain strategic flexibility and determine whether those conditions favor acquisition, development or capital recycling. During the last five years, we have actively deployed capital between acquisitions and development in order to create a portfolio with strong long-term growth prospects. Our financial strategy to meet our business objectives is primarily based on attempting to derive high returns from capital invested in real estate by providing value-added services, including development, leasing and management of the properties.

Our principal segment of operations is real estate property operations, which consists primarily of commercial property ownership. Other segments include development operations and other operations, including management services. Approximately 94.2% of our operating revenues for the year ended December 31, 2001 were associated with our real estate property operations. We conduct our development operations through our subsidiary, CarrAmerica Development, Inc. This business represented approximately 2.7% of our operating revenues for the year ended December 31, 2001.

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COMPETITIVE ADVANTAGES

Local Market Focus

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

* Long-term population and job growth are generally expected to exceed the national average;
* Large, well educated employment pools exist; and
* Entry barriers exist for new supplies of office space.

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

Our Market Managing Director group consists of nine individuals who cover all of the markets in which we own property. These Directors are responsible for maximizing the performance of our properties in their respective markets and ensuring that we are consistently meeting the needs of our customers. Because they meet with our customers and local brokers on a regular basis, the Market Managing Directors have extensive knowledge of local conditions in their respective markets and are invaluable in identifying attractive investment opportunities in them.

We are currently focusing capital in four of our core markets where we feel we can create the most value and generate the highest returns on our investments: San Francisco Bay area, Washington, D.C Metro area, Southern California and Seattle/Portland. Our property net operating income by market was as follows for the year ended December 31, 2001:

Percent of
Property Operating
Income for the

Market	Year Ended 12/31/01
San Francisco Bay	32.1
Washington, D.C. Metro	19.6
Southern California	12.3
Seattle/Portland	7.9
Dallas	7.5
Atlanta	5.7
Chicago	4.8
Phoenix	2.9
Denver	2.8
Salt Lake City	2.6
Austin	1.8
	100.0

Flexible Investment Strategy

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

Acquisitions

From 1996 to 1998, we were very active in acquiring office properties as we established an operating platform for our national business strategy. During that time, we acquired an aggregate of approximately 18.4 million square feet of net rentable area. Our acquisition activity since 1998 has been limited. We will selectively pursue acquisitions in our core markets where attractive opportunities exist, particularly when pricing yields make acquisitions of existing properties attractive in comparison to new property development.

Development

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

* Employing extensively trained and experienced development personnel;

* Avoiding the assumption of entitlement risk in conjunction with land acquisitions;

* Entering into guaranteed maximum price construction contracts with seasoned and credible contractors;

* Focusing on pre-leasing space and build-to-suit opportunities with our customer network; and

* Analyzing the supply and demand characteristics of a market before commencing inventory development in that market.

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

Capital Recycling

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

Stock Repurchases

In 2000, as investments in our stock became attractive relative to real estate investment opportunities, we commenced a repurchase program for our common stock. Through December 31, 2001, we repurchased approximately 17.9 million shares of our common stock for an aggregate purchase price of approximately $518.5 million, including the repurchase of 9.2 million shares from Security Capital Group Incorporated ("Security Capital") in November 2001.

Joint Ventures

Joint venture arrangements provide us with opportunities to reduce investment risk by diversifying capital deployment and enhancing returns on invested capital from fee arrangements. We principally utilize these arrangements on projects characterized by large dollar-per-square foot costs and/or when we desire to limit capital deployment in certain of our core markets. For example, in August 2000, we consummated a joint venture with the New York State Teachers Retirement System. The transaction allowed us to further our business strategy of increasing returns on our invested capital and to recycle capital into and out of markets based on market dynamics. We received approximately $249.6 million in cash from the transaction at closing. In June 2001, the joint venture obtained third-party financing. We received $77.9 million of the financing proceeds.

Strategic Alliances and Investments

DukeSolutions. In December 1999, we entered into an alliance with DukeSolutions, a Duke Energy subsidiary. The purpose of this alliance is to implement a comprehensive energy management program that pioneers creative web-based energy information and analysis strategies. This energy management program became operational in 2000 and is intended to minimize risk due to deregulation and to reduce the energy costs at our properties and for the third party properties which we manage.

AgilQuest. In September 2000, we made a $2.3 million equity investment in V Technologies International Corporation d/b/a AgilQuest ("AgilQuest"). AgilQuest created and operates an online resource reservation service that allows individual employees to reserve office space when and where they need it. It also enables employers to measure the use of office assets, allowing them to position office resources more efficiently. We invested an additional

$0.5 million in 2001 in AgilQuest.

essention. In November 2000, we formed a strategic relationship with essention, inc. ("essention") and made a cash investment. essention provides a web-based building operation tool, InfoCentre, for use by our properties, customers and employees. We have implemented InfoCentre at most of our properties. It allows for real-time communications and monitoring of building and customer-related maintenance activities via the Internet 24 hours per day, seven days per week. In 2001, we made an additional investment in essention. At December 31, 2001, we had invested approximately $1.7 million in essention.

HQ Global Workplaces. In 1997, we began making investments in HQ Global Workplaces ("HQ Global"), a provider of office suites. HQ Global provides office outsourcing to customers by offering furnished individual offices and multi-office suites on a short-term basis that are equipped for a number of services, including telecommunications, broadband Internet access, copying, faxing and printing, as well as secretarial support. We own approximately 16% of the equity of HQ Global on a fully diluted basis.

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

National Platform

Our national platform provides us with critical mass in order to provide access to many different sources of capital to achieve long-term sustainable cash flow growth. Our national platform is designed to provide corporate users of office space with a mix of products and services to meet their workplace needs at both the national and local levels. We believe that through our existing portfolio of operating properties, property development opportunities and land acquired and currently held for development, we can generate incremental demand. This can be accomplished through the relocation and expansion needs of many of our customers, both within a single core market and in multiple core markets.

Our National Development Group is responsible for developing office properties, build-to-suit facilities and business parks for us and third parties through our subsidiary, CarrAmerica Development, Inc. This development team consists of over 40 development and project management professionals, who are located across the United States and have an average of over 17 years of experience developing office properties. Our team oversees every aspect of land planning, building design, construction and development of office properties. This ensures that all projects meet the same high standards and uniform specifications in building design and systems. We believe that the National Development Group's expertise has given us a competitive edge in marketing our facilities and services to customers.

2001 ACTIVITIES

Development and Acquisitions Activity

During 2001, we placed in service approximately 442,000 square feet of office space that was previously under development. The total cost for these projects was approximately $80.2 million. We expect that the first year stabilized unleveraged return on this square footage will be approximately 12.7%. As of December 31, 2001, we had approximately 184,000 square feet of office space under construction in two projects that we wholly owned. Our total investment in these projects is expected to be $24.4 million. Through December 31, 2001, we had expended $17.9 million or 73.4% of the total expected investment for these projects. In conjunction with an office property development project through a joint venture, we are also developing a residential property. Total project costs for the residential property are expected to be $18.7 million of which $1.4 million had been expended as of December 31, 2001. Development of properties for others has become a more significant part of this segment of our business. This includes development of properties for joint ventures in which we are partners and for unaffiliated parties. As of December 31, 2001, we were managing $666.2 million in projects for others, including $314.2 million relating to the projects in which we had a minority interest. During 2001, we acquired land in Washington, D.C. that we contributed to a joint venture and also exercised a purchase option to acquire two buildings in northern California.

Joint Ventures - Development Activities

As of December 31, 2001, we also had approximately 1.2 million square feet of office space under construction in six projects in which we own minority interests. These projects are expected to cost approximately $314.2 million. Our total investment in these projects is expected to be approximately $89.6 million. Through December 31, 2001, approximately 46.5% or $146.0 million of the total project costs had been expended, of which our portion was $41.9 million.

Dispositions

We disposed of seven operating properties, one property under development and three parcels of land held for development during 2001. We recognized a gain of $4.5 million on these transactions.

HQ Global Workplaces

In June 2000, we sold a substantial portion of our equity interest in HQ Global and our debt and equity interests in two European executive suites affiliates in connection with the merger of HQ Global with VANTAS Incorporated. We received $377.3 million in cash in connection with these transactions. In addition, $140.5 million of debt which we had guaranteed was repaid with a portion of the cash proceeds. Following the transaction, we owned approximately 16% of the equity of HQ Global on a diluted basis and our investment had a carrying value of $42.2 million.

FrontLine, the majority stockholder of HQ Global, announced in October 2001 that HQ Global was in default with respect to certain covenant and payment

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

Financing Activity

In June 2001, we entered into a new three-year, $500 million unsecured credit facility with J.P. Morgan Chase, as agent for a group of banks. We can extend the life of the line an additional year at our option. The line

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carries an interest rate of 70 basis points over 30-day LIBOR. Our unsecured facility contains financial and other covenants with which we must comply and availability is limited to a specified percentage of the fair value of our unmortgaged properties.

On December 21, 2001, we entered into a $150 million short-term loan to provide additional liquidity. Affiliates of Banc of America Securities LLC and J.P. Morgan Securities were the lenders under this short-term loan. The loan was to mature on April 2, 2002, but terminated in January 2002 without being used when we issued $400 million of senior unsecured notes.

On January 11, 2002, we issued $400 million of senior unsecured notes. The notes bear interest at 7.125% per annum, payable semi-annually beginning on July 15, 2002. The notes mature on January 15, 2012. The notes are unconditionally guaranteed by CarrAmerica Realty, L.P., one of our subsidiaries. Proceeds from the notes were used to pay down our unsecured credit facility.

During 2001, we repurchased approximately 14.7 million shares of our common stock for approximately $428.3 million, including 9.2 million shares that we repurchased from Security Capital.

On December 19, 2001, Security Capital consummated the public offering of 19,403,417 shares of our common stock owned by it. The shares were offered to the public at $28.37 per share. Immediately prior to the consummation of the offering, Security Capital owned approximately 37.4% of our outstanding common stock. Security Capital now no longer owns any shares of our common stock. Upon the closing of the offering, Security Capital's three designees to our board of directors resigned.

In order to assist us in maintaining our qualification as a REIT and for other strategic reasons, our charter previously contained certain provisions generally limiting the ownership of shares of capital stock by any single stockholder to 5.0% of our outstanding common stock and/or 5.0% of any class or series of preferred stock. In accordance with the terms of our charter, our board of directors has increased these ownership limits to 9.8% from 5.0%. The federal tax laws include complex stock ownership and attribution rules that

apply in determining whether a stockholder exceeds the ownership limits. These rules may cause a stockholder to be treated as owning stock that is actually owned by others, including family members and entities in which the stockholder has an ownership interest. Our board of directors could waive this restriction if it were satisfied that ownership in excess of these ownership limits would not jeopardize our status as a REIT and the board otherwise decided that a waiver would be in our interests. Capital stock acquired or transferred in breach of the ownership limit will be automatically transferred to a trust for the benefit of a designated charitable beneficiary.

FORWARD-LOOKING STATEMENTS

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

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

OUR DIRECTORS

Our directors are divided into three classes, with approximately one-third of the directors elected by the stockholders annually. Upon the closing of Security Capital's public offering of all of its remaining shares of our common stock, Messrs. William D. Sanders and C. Ronald Blankenship and Ms. Caroline S. McBride, each a Security Capital designee to our nine-member board of directors, resigned as members of our board. The current members of our Board of Directors are as follows:

* Thomas A. Carr, 43, has been our Chairman of the Board of Directors since May 2000 and President and a director since 1993 and Chief Executive Officer since 1997. Mr. Carr's term as director of the Company expires at the 2004 Annual Meeting of Stockholders. Mr. Carr was our Chief Operating Officer from April 1995 to May 1997 and our Chief Financial Officer from February 1993 to April 1995. Mr. Carr holds a

Master of Business Administration degree from Harvard Business School and a Bachelor of Arts degree from Brown University. Mr. Carr is a member of the Board of Governors of the National Association of Real Estate Investment Trusts, the Young Presidents Organization and Federal City Council. He is a member of the Board of Directors of The Oliver Carr Company and V Technologies International Corp. (d\b\a AgilQuest). Mr. Carr is the son of Oliver T. Carr, Jr. and the brother of Robert O. Carr. Mr. Carr is a member of the Investment Committee and the Executive Committee of the Board of Directors. In addition, Mr. Carr is a member of management's Operating Committee and Investment Committee.

* Oliver T. Carr, Jr., 76, was Chairman of our Board of Directors from February 1993 until May 2000. He also served as our Chief Executive Officer from 1993 to 1997. Mr. Carr's term as a director expires at the 2002 Annual Meeting of Stockholders. He has been renominated for election by the stockholders at that meeting to serve another three-year term. Mr. Carr founded The Oliver Carr Company in 1962 and since that time he has been its Chairman of the Board and a director as well as President from 1962 to 2000. He also is Chairman Emeritus of the Board of Trustees of The George Washington University. Mr. Carr is the father of both our current Chairman, President and Chief Executive Officer, Thomas A. Carr, and Robert O. Carr, the President of Carr Urban Development, L.L.C. Mr. Carr is a member of the Investment Committee and the Executive Committee of the Board of Directors.

* Andrew F. Brimmer, 75, has been a director since February 1993. Dr. Brimmer's term as a director expires at the 2002 Annual Meeting of Stockholders. He has been renominated for election by the stockholders at that meeting to serve another three-year term. He has been President of Brimmer & Company, Inc., an economic and financial consulting firm, since 1976. Dr. Brimmer is the Wilmer D. Barrett Professor of Economics at the University of Massachusetts, Amherst. He also serves as a director of BlackRock Investment Income Trust, Inc. (and other funds) and Borg-Warner Automotive, Inc. From June 1995 through August 1998, Dr. Brimmer served as chairman of the District of Columbia Financial Control Board. He was a member of the Board of Governors of the Federal Reserve System from March 1966 through August 1974. Dr. Brimmer received a B.A. degree and a master's degree in economics from the University of Washington and a Ph.D. in economics from Harvard University. Dr. Brimmer is a member of the Audit Committee of the Board of Directors.

* A. James Clark, 74, has been a director since February 1993. Mr. Clark's term as a director expires at the 2003 Annual Meeting of Stockholders. He is Chairman of the Board and CEO of Clark Enterprises, Inc. ("CEI"), a Bethesda, Maryland-based holding company. CEI has been involved in real estate and commercial and residential construction since 1972. CEI includes the Clark Construction Group, one of the United States largest general contractors. Mr. Clark is on the Board of Trustees of the University of Maryland College Park Foundation, and is a Trustee Emeritus of the Johns Hopkins University and the Johns Hopkins Board of Medicine. He is also a member of the PGA Tour Golf Course Properties Advisory Board. Mr. Clark is a graduate of the University of Maryland. He is a member of the Investment Committee, the Executive Committee, the Executive Compensation Committee, and the Nominating Committee of the Board of Directors.

* Timothy Howard, 53, has been a director since August 1998. Mr. Howard's term as a director expires at the 2003 Annual Meeting of Stockholders. Mr. Howard has been the Executive Vice President and Chief Financial Officer of Fannie Mae since 1990 and a member of Fannie Mae's Office of the Chairman since November 2000. From 1988 to 1990, Mr. Howard was Executive Vice President - Asset Management of Fannie Mae. Mr. Howard has

held positions of increasing responsibility with Fannie Mae since beginning with the company

in 1982. Mr. Howard received a masters degree in economic and bachelors in economics, magna cum laude, from the University of California, Los Angeles. Mr. Howard is a member of the Audit Committee and the Executive Compensation Committee of the Board of Directors.

* Robert E. Torray, 64, has been a director since February 2002. Mr. Torray's term as a director expires at the 2002 Annual Meeting of Stockholders. He has been renominated for election by the stockholders at the meeting to serve as part of the class of directors whose term expires in 2003. Mr. Torray is the founder and has been Chairman of Robert E. Torray & Co., Inc., an institutional investment firm since 1972. Mr. Torray is also the founder and President of Torray Corporation, a mutual fund manager and is founder and Chairman of Birmingham Capital Management Company, an investment management company. Mr. Torray received his B.A. from Duke University.

* Wesley S. Williams, Jr., 59, has been a director since February 1993. Mr. Williams' term as a director expires at the 2004 Annual Meeting of Stockholders. Mr. Williams has been a partner of the law firm of Covington & Burling since 1975. After serving as a junior member of the Faculty of Law of Columbia University, Mr. Williams was adjunct professor of real estate finance law at Georgetown University Law Center from 1971 to 1973. In addition, he is an author or contributing author of several texts on banking law and on real estate investment and finance. Mr. Williams is on the Editorial Advisory Board of the District of Columbia Real Estate Reporter. Mr. Williams serves as Deputy Chairman of the Board of Directors of the Federal Reserve Bank of Richmond. Mr. Williams is Co-Chairman of the Board of Directors and Co-CEO of The Lockhart Companies, Inc. and of its real estate, insurance, consumer finance and miscellaneous internet and venture subsidiaries. Mr. Williams is a member of the Executive Committee of the Board of Trustees of Penn Mutual Life Insurance Company, of which he is the Senior Trustee. He is also Chairman of the Executive Committee of the Board of Regents of the Smithsonian Institution. Mr. Williams received B.A. and J.D. degrees from Harvard University, an M.A. degree from the Fletcher School of Law and Diplomacy and a LL.M. from Columbia University. Mr. Williams is a member of the Audit Committee, Executive Compensation Committee and the Nominating Committee of the Board of Directors.

OUR EXECUTIVE OFFICERS AND CERTAIN KEY EMPLOYEES

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

* Karen B. Dorigan, 37, has been Chief Investment Officer since November 2000. Prior to that time, she was Managing Director - Capital Markets and Investments since April 1999. Prior to that time, Ms. Dorigan served as a Senior Vice President since May 1997. Prior to that, Ms. Dorigan served as one of our Vice Presidents since January 1996. Prior to that, Ms. Dorigan served for more than nine years in a variety of capacities in the development business of The Oliver Carr Company, including from February 1993 to January 1996 as a Vice President. Ms. Dorigan holds a Bachelor of Science degree in Economics from the University of Pennsylvania, Wharton School. Ms. Dorigan is a member of management's Operating Committee and

Investment Committee.

* Philip L. Hawkins, 46, has been Chief Operating Officer since October 1998. From February 1996 to October 1998, Mr. Hawkins served as Managing Director--Asset Management. Prior to that time, Mr. Hawkins was employed by Jones Lang LaSalle, a real estate services company, since 1982. At LaSalle, he served as Executive Vice President, Eastern Division, Asset Management Group from 1995 to 1996, as Senior Vice President, Northeast Region, Asset Management Group from 1990 to 1994, and in other asset management positions prior to that time. Mr. Hawkins also was a director of LaSalle Partners Limited. He holds a Masters in Business Administration from the University of Chicago Graduate School of Business and a Bachelor of Arts degree from Hamilton College. Mr. Hawkins is a member of management's Operating Committee and Investment Committee.

* Richard F. Katchuk, 55, has been Chief Financial Officer since February 1999. From 1995 to 1999, Mr. Katchuk served as Chief Financial Officer and Corporate Executive Vice President of Crestar Financial Corporation. Prior to joining Crestar Financial Corporation, Mr. Katchuk was with Banc One, serving as a Senior Vice President Corporate Finance from 1988 to 1995. Mr. Katchuk holds a Bachelor of Arts degree in Economics from Hobart & William Smith Colleges. Mr. Katchuk is a member of management's Operating Committee and Investment Committee.

* Linda A. Madrid, 42, has been Managing Director, General Counsel and Corporate Secretary since November 1998. Prior to that time Ms. Madrid served as Senior Vice President and General Counsel since March 1998. Prior to that time, Ms. Madrid had been Senior Vice President, Managing Director of Legal Affairs and Corporate Secretary of Riggs National Corporation/Riggs Bank N.A. since February 1996 and Vice President and Litigation Manager from September 1993 to January 1996. Before joining Riggs, Ms. Madrid practiced law in several law firms in Washington, D.C. and served as Assistant General Counsel for Amtrak. Ms. Madrid holds a J.D. from Georgetown University Law Center and a Bachelor of Arts degree from Arizona State University. Ms. Madrid is a member of management's Operating Committee.

* Paul R. Adkins, 43, was appointed President, Carr Real Estate Services, Inc. in 2002. From 1999 to 2002, he was Managing Director - Private Capital. From 1996 to 1999, Mr. Adkins served as the Company's Senior Vice President, Market Managing Director for Washington, D.C. Mr. Adkins has been with the Company for over 17 years, including serving as Vice President of Acquisitions from May 1994 to August 1996. Prior to that, Mr. Adkins served in a variety of other capacities with the Company, with over 12 years in commercial real estate leasing. Mr. Adkins is a member of the District of Columbia's Building Industry Association and Northern Virginia's National Association of Industrial and Office Parks. Mr. Adkins holds a Bachelor of Arts degree in Economics from Bucknell University. Mr. Adkins is a member of management's Operating Committee.

* Steven N. Bralower, 53, has been Executive Vice President of Carr Real Estate Services, Inc., an affiliate that conducts management and leasing operations, since January 1999, and Senior Vice President of Carr Realty, L.P., a subsidiary, since May 1996. Mr. Bralower was Senior Vice President of Carr Real Estate Services, Inc. from 1993 to May 1996. Mr. Bralower is a member of the Greater Washington Commercial Association of Realtors. Mr. Bralower has been a member of the Georgetown University Law Center adjunct faculty since 1987. Mr. Bralower holds a Bachelor of Arts

degree from Kenyon College.

* Robert O. Carr, 52, has been President of CarrAmerica Urban Development, LLC, a subsidiary of CarrAmerica Development, since June 1998, and Chairman of the Board of Directors of Carr Real Estate Services, Inc., since February 1993. Mr. Carr served as President of Carr Real Estate Services, Inc. from 1993 to 1998. Mr. Carr is a director of The Oliver Carr Company. From 1987 until February 1993, he served as President and Chief Executive Officer of The Oliver Carr Company. Mr. Carr is a member of the Boards of Directors of the Greater Washington Research Center, the Corcoran School of Art and the National Cathedral School for Girls. Mr. Carr is also a member of the Greater Washington Board of Trade, the Urban Land Institute and the D.C. Chamber of Commerce. Mr. Carr holds a Bachelor of Arts degree from Trinity College. Mr. Carr is the son of Oliver T. Carr, Jr. and the brother of Thomas A. Carr.

* Clete Casper, 42, has been Market Managing Director - Seattle since July 1999. Prior to that time Mr. Casper served as the Company's Vice President, Market Managing Director for Seattle since July 1996. Mr. Casper has over 10 years of experience in real estate and marketing. Mr. Casper's most recent experience includes one year as a Senior Associate with CB Commercial Real Estate Group Inc., Seattle, Washington. Prior to that, Mr. Casper was with Sabey Corporation in Seattle, Washington, serving as Development Manager for four years and as a Marketing Associate for five years. Mr. Casper is a graduate of Washington State University. Mr. Casper is a member of management's Operating Committee.

* John J. Donovan, Jr., 58, has been a Market Managing Director since July 1999 and President of Carr Real Estate Services, Inc., since January 1999. Prior to that time, Mr. Donovan served as Senior Vice President of Carr Real Estate Services, Inc. from 1993 to 1998. He is a member of the Advisory Board for Jubilee Enterprise of Greater Washington, the Economic Club of Washington, the Greater Washington Board of Trade and the Greater Washington Commercial Association of Realtors. Mr. Donovan holds a Bachelor of Arts degree from Georgetown University. Mr. Donovan is a member of management's Operating Committee.

* J. Thad Ellis, 41, has been Market Managing Director - Atlanta since July 1999. Prior to that time Mr. Ellis served as the Company's Vice President, Market Managing Director for Atlanta since November 1996. Mr. Ellis has over 15 years of experience in real estate. Mr. Ellis' most recent experience includes 10 years with Peterson Properties. At Peterson Properties, his primary responsibility was to oversee and coordinate leasing and property management for the management services portfolio. Mr. Ellis is a graduate of Washington & Lee University and is a member of the National Association of Industrial and Office Parks and Atlanta's Chamber of

Commerce and is on the Advisory Board of Black's Guide. Mr. Ellis is a member of management's Operating Committee.

* Richard W. Greninger, 50, has been Managing Director - Property Operations since May 1999. Prior to that time Mr. Greninger served as Senior Vice President--Operations since January 1998. Prior to that, Mr. Greninger had been the Senior Vice President of Carr Real Estate Services, Inc., since March 1995. Prior to that time, he had been Vice President of Carr Real Estate Services, Inc. since February 1993. During

1994, Mr. Greninger served as President of the Greater Washington Apartment and Office Building Association. Mr. Greninger has served as a director of both the Institute of Real Estate Management and the Building Owners and Managers Association and a former Chairman of its National Advisory Council. He is also a member of the Board of Directors of essention. Mr. Greninger holds a Masters in Business Administration from the University of Cincinnati and a Bachelor of Science degree from Ohio State University. Mr. Greninger is a member of management's Operating Committee.

* Dale F. Hogg, 59, joined us from Iridium, LLC, in May 2000 as Senior Vice President of Human Resources and Administration. Before joining Iridium in 1994 as Vice President of Human Resources, Mr. Hogg was Corporate Manager, Global Staffing and Corporate Manager, Compensation for W.R. Grace & Co. from 1991. Prior to that time, he had been Regional Director of Human Resources at Coca-Cola Enterprises. Mr. Hogg holds a Bachelor of Science degree from Colorado State University. He is a member of management's Operating Committee.

* William Krokowski, 39, has been Market Managing Director - Denver since December 1999. Prior to that time Mr. Krokowski served as Vice President/Director of Development for CarrAmerica Development, Inc., an affiliate, since 1997. Prior to 1997, Mr. Krokowski was a member of our investments group. Prior to joining CarrAmerica, Mr. Krokowski spent over five years with Tishman Speyer Properties in New York and Washington, D.C. as a development manager. Mr. Krokowski holds a Civil Engineering degree from Bucknell University and a Masters in Business Administration from Duke University. Mr. Krokowski is a member of management's Operating Committee.

* Thomas Levy, 37, has been Senior Vice President - Investments since April 2001. He joined CarrAmerica in 1996 as Associate Due Diligence Officer after which he was promoted to Investments Director. He received a promotion to Vice President of Special Projects in April 1999 and then promoted to Vice President - Investments in April 2000. Prior to joining CarrAmerica, Mr. Levy was an Associate in the Investment Advisory Group at J.E. Roberts Companies for five years. Before joining J.E. Roberts, Mr. Levy was a Senior Consultant with Arthur Andersen & Company. He holds a Master of Business Administration from American University and a Bachelor of Arts in Economics from the University of Wisconsin. Mr. Levy is a member of management's Operating Committee.

* Joel A. Manfredo, 47, became Chief Technology Officer and Managing Director of e-business solutions in November 2000. Prior to joining us, Mr. Manfredo was Vice President and Director of Information Strategies with The Rouse Company from 1988. Mr. Manfredo served as Director of Investment Assets for a subsidiary of McCormick and Company from 1981 to 1988. Mr. Manfredo holds a Masters of Science in Finance and a Masters of Business Administration from Loyola College, as well as, a Bachelors of Science in Business Administration from Lehigh University. He is a member of management's Operating Committee.

* Robert M. Milkovich, 42, was appointed Managing Director, Carr Real Estate Services, Inc. in 2002. From 1999 to 2002, he was Market Managing Director. Prior to that time Mr. Milkovich served as Vice President, Market Managing Director for Phoenix, Arizona since January 1998. Mr. Milkovich has over 14 years of experience in real estate leasing. Mr. Milkovich's most recent experience includes five years as the Assistant Vice President of leasing for Carr Real Estate Services, Inc. Mr. Milkovich holds a Bachelor of Science in Business Administration from the University of Maryland. Mr. Milkovich is a member of management's Operating Committee.

* Malcolm O'Donnell, 48, joined us as Vice President and Managing Director for our Southern California region in October 2000. He was previously employed as Principal of Alpine Holding and Keller Equity Group, Inc. overseeing development projects. From March 1997 to December 1997, Mr. O'Donnell was Vice President of Acquisitions for Beacon Properties. Mr. O'Donnell holds a Bachelor of Science degree from the University of Southern California. He is a member of management's Operating Committee.

* Gerald J. O'Malley, 58, has been Market Managing Director - Chicago since July 1999. Prior to that time Mr. O'Malley served as Vice President, Market Managing Director for Chicago since July 1996. Mr. O'Malley has over 32 years of experience in real estate marketing. Mr. O'Malley's most recent experience includes 10 years as founder and President of G. J. O'Malley & Company, a real estate office leasing company. Mr. O'Malley holds a Bachelors of Business Administration degree from Loyola University. Mr. O'Malley is a member of management's Operating Committee.

* Jeffrey S. Pace, 39, has been Market Managing Director - Austin since July 1999. Prior to that time Mr. Pace served as Vice President, Market Managing Director for Austin, Texas since May 1997. Mr. Pace has over 14 years of experience in real estate marketing. Mr. Pace's most recent experience was with Trammell Crow Company, where he served as Marketing Director. Prior to that time, Mr. Pace held the position of Marketing Representative in the Dallas and Austin markets for Carlisle Property Company, Stockton, Luedmann, French & West and Trammell Crow Company from 1985 to 1997. Mr. Pace holds a Masters of Business Administration from the University of Texas at Arlington and a Bachelor of Science from the University of Texas at Austin. Mr. Pace is a member of management's Operating Committee.

* Stephen E. Riffee, 44, has been Senior Vice President, Controller and Treasurer since July 1999. Prior to that time, Mr. Riffee served as Vice President Finance and Chief Accounting Officer of Marriott International, Inc. for three years. Prior to joining Marriott International, Inc., Mr. Riffee served as Assistant Vice President at Burlington Northern Railroad after having previously worked in the National Transportation Practice of KPMG Peat Marwick. Mr. Riffee holds a Bachelor of Science in Commerce degree from the McIntire School of Commerce of the University of Virginia. Mr. Riffee is a member of management's Operating Committee.

* William H. Vanderstraaten, 41, has been Market Managing Director - Dallas since July 1999. Prior to that time Mr. Vanderstraaten served as Vice President, Market Managing Director for Dallas since April 1997. Mr. Vanderstraaten has over 16 years of experience in real estate development and leasing fields. Mr. Vanderstraaten's most recent experience prior to working for the Company includes eight years as Vice President--New Development for Harwood Pacific Corporation in Dallas, Texas, where his primary responsibilities were directing large scale development projects and coordinating leasing efforts for portfolios. Mr. Vanderstraaten holds a Bachelor of Science degree in Business Administration from Southern Methodist University. Mr. Vanderstraaten is a member of management's Operating Committee.

* Stephen Walsh, 44, has been Senior Vice President of Capital Markets since April 2001. Prior to this appointment, Mr. Walsh served as Acting

Manager for Capital Markets. Before joining CarrAmerica, Mr. Walsh was Vice President, Investor Relations for the Mills Corporation. Additionally, he served as Vice President in the Structured Debt Group at Bank of America. Mr. Walsh received his Master of Business Administration from George Washington University and his Bachelor's degree from the State University of New York. Mr. Walsh is a member of management's Operating Committee.

* Karen L. Widmayer, 43, has served as Senior Vice President of Corporate Communications since August 1999. Prior to that time Ms. Widmayer served as Vice President of Corporate Communications since 1997. Ms. Widmayer is an 18-year veteran of CarrAmerica and our predecessor company. Ms. Widmayer is responsible for our strategic marketing and branding including media relations, advertising, community relations, employee communications, corporate and project marketing as well as our web site and intranet site. Ms. Widmayer performed Masters work in Economics at the University of Tennessee. Ms. Widmayer holds a Bachelor of Arts degree in Business Management from Virginia Intermont College. Ms. Widmayer is a member of management's Operating Committee.

* James S. Williams, 45, has been a Managing Director since April 1999 and President of CarrAmerica Development since May 1999. Prior to that time Mr. Williams was Senior Vice President of CarrAmerica Development since October 1996. Mr. Williams rejoined us after two years as Vice President of Operations of Chadwick International. Prior to that, from 1983 to 1994, he served in a variety of capacities for The Oliver Carr Company including Senior Vice President of Development. Mr. Williams is a guest lecturer at George Washington University. He holds a Bachelor of Science degree in Business Administration from West Virginia University. Mr. Williams is a member of the Board of Directors and a member of the Executive Committee of the District of Columbia Building Industry Association. He is a member of the Investment Committee of CarrAmerica Development and a member of management's Investment Committee and Operating Committee.

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RISK FACTORS

In addition to the other information in this document, you should consider carefully the following risk factors in evaluating an investment in our securities. Any of these risks or occurrence of any one or more of the uncertainties described below could have a material adverse effect on our financial condition and the performance of our business and operations.

OUR PERFORMANCE IS SUBJECT TO RISKS ASSOCIATED WITH REAL ESTATE INVESTMENT

We are a real estate company that derives most of its income from the ownership and operation of office buildings. There are a number of factors that may adversely affect the income that our properties generate, including the following:

* Economic Downturns. Downturns in the national economy, or in regions or localities where our properties are located, generally will negatively impact the demand for office space.

* Oversupply of Office Space. An oversupply of space in markets where we own office properties would typically cause rental rates

and occupancies to decline, making it more difficult for us to lease space at attractive rental rates.

* Competitive Properties. If our properties are not as attractive to tenants (in terms of rents, services or location) as other properties that are competitive with ours, we will lose tenants to those properties or could have to reduce our rental rates to compensate for that disparity.

* Renovation Costs. In order to maintain the quality of our office buildings and successfully compete against other properties, we periodically have to spend money to repair and renovate our properties.

* Tenant Risk. Our performance, liquidity and financial condition depends on our ability to collect rent from our tenants. While no tenant in our portfolio accounted for more than 5% of our rental revenue for the year ended December 31, 2001, our financial position may be adversely affected by financial difficulties experienced by a major tenant, or by a number of smaller tenants, including bankruptcies, insolvencies or general downturns in business.

* Reletting Costs and Uncertainties. As leases expire, we try to either relet the space to an existing tenant or attract a new tenant to occupy the space. In either case, we likely will incur significant costs in the process. In addition, if market rents have declined since the time the expiring lease was entered into, the terms of any new lease signed likely will not be as favorable to us as the terms of the expiring lease, thereby reducing the income earned from that space.

* Regulatory Costs. There are a number of government regulations, including zoning, tax and accessibility laws that apply to the ownership and operation of office buildings. Compliance with existing and newly adopted regulations may require us to spend a significant amount of money on our properties.

* Fixed Nature of Costs. Most of the costs associated with owning and operating an office building are not necessarily reduced when circumstances such as market factors and competition cause a reduction in income from the property.

* Environmental Problems. Federal, state and local laws and regulations relating to the protection of the environment may require a current or previous owner or operator of real property to investigate and clean up hazardous or toxic substances or petroleum product releases at the property. The clean up can be costly. The presence of or failure to clean up contamination may adversely affect our ability to sell or lease a property or to borrow using a property as collateral.

* Competition. A number of other major real estate investors with significant capital compete with us. These competitors include publicly traded REITs, private REITs, investment banking firms and

private institutional investment funds.

* Insurance. Although we believe our properties are adequately
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  covered by insurance, we cannot predict at this time if we will be able to obtain full coverage at a reasonable cost in the future. Prior to September 11, 2001, insurance market conditions were gradually beginning to harden. Unlike the earlier hard market in the mid-1980's, the events of September 11, 2001 are expected to affect nearly all coverage lines. This, combined with the fluctuations in insurance companies' investment income, capacity and reinsurance treaty renewals, and a year of significant losses, is expected to impact premiums. Our current property insurance policy, which expires June 30, 2002, includes terrorism coverage, but we anticipate that when we renew the policy, acts of terrorism will not be included in coverage. We expect that some underwriters will offer terrorism coverage, but at a high cost. Overall, we anticipate that insurance coverage costs will be higher in the future which could reduce our profitability.

NEW DEVELOPMENTS AND ACQUISITIONS MAY FAIL TO PERFORM AS EXPECTED

Over the last few years, we have executed on a major acquisition and development program. In deciding whether to acquire or develop a particular property, we made certain assumptions regarding the expected future performance of that property. If a number of these new properties do not perform as expected, our financial performance will be adversely affected.

We remain active in developing office properties. New office property developments are subject to a number of risks, including construction delays, complications in obtaining necessary zoning, occupancy and other governmental permits, cost overruns, financing risks, and the possible inability to meet expected occupancy and rent levels. If any of these problems occur, development costs for a project will increase, and there may be costs incurred for projects that are not completed.

WE DO NOT HAVE EXCLUSIVE CONTROL OVER OUR JOINT VENTURE INVESTMENTS

We have invested in projects or properties as a co-venturer or partner in the development of new properties and the continued operations of operating properties. These investments involve risks not present in a whollyowned project. Risks related to these investments include:

* Absence of exclusive control over the development, financing, leasing, management and other aspects of the project;
* Possibility that our co-venturer or partner might:
  * become bankrupt;
  * have interests or goals that are inconsistent with ours;
  * take action contrary to our instructions, requests or interests (including those related to our qualification as a REIT for tax purposes); or
  * otherwise impede our objectives; and
* Possibility that we, together with our partners, may be required to fund losses of the investee which losses would not necessarily appear in our consolidated financial statements (e.g. for cost method investments).

In addition, most of our joint venture agreements contain buy/sell clauses that

could require us to buy or sell our interest at a time we do not deem favorable for financial or other reasons including the availability of cash at such time and the impact of tax consequences resulting from any sale.

OUR USE OF DEBT SUBJECTS US TO VARIOUS FINANCING RISKS

We regularly borrow money to finance our operations, particularly the acquisition and development of properties. We generally incur unsecured debt, although in many cases we will incur mortgage debt that is secured by one or more of our office buildings. In the future, our financial condition could be materially and adversely affected by our use of debt financing, in part due to the following risks:

* No Limitation on Debt Incurrence. Our organizational documents do not limit the amount of debt we can incur. Our degree of leverage could have important consequences, including making it more difficult for us to obtain additional financing in the future for business needs, as well as making us more vulnerable to an economic downturn.

* Possible Inability to Meet Scheduled Debt Payments. If our properties do not perform as expected, the cash flow from our properties may not be enough to make required principal and interest payments. If a property is mortgaged to secure payment of indebtedness and we are unable to meet mortgage payments, the holder of the mortgage or lender could foreclose on the property, resulting in loss of income and asset value. An unsecured lender could also attempt to foreclose on some of our assets in order to receive payment.

* Inability to Refinance Debt. In almost every case, very little of the principal amount that we borrow is repaid prior to the maturity of the loan. We generally expect to refinance that debt when it matures, although in some cases we may pay off the loan. If principal amounts due at maturity cannot be refinanced, extended or paid with proceeds of other capital transactions, such as new equity capital, our cash flow could be insufficient to repay all maturing debt. Prevailing interest rates or other factors at the time of a refinancing (such as possible reluctance of lenders to make commercial real estate loans) may result in higher interest rates and increased interest expense which could cause our cash from operations to be insufficient to service the debt.

* Financial Covenants Could Adversely Affect Our Financial Condition. Our credit facilities and the indentures under which our senior unsecured indebtedness are issued contain financial and operating covenants, including coverage ratios and other limitations on our ability to incur secured and unsecured indebtedness, sell all or substantially all of our assets and engage in mergers, consolidations and certain acquisitions. These covenants may restrict our ability to engage in transactions that would otherwise be in our best interests. In addition, failure to meet any of the financial covenants could cause an event of default under and/or

accelerate some or all of our indebtness which would have a material adverse effect on our financial condition. Failure to meet our financial covenants could result from, among other things, changes in our results of operations or even general economic changes.

* Variable Interest Rates Could Increase the Cost of Borrowing. A significant amount of our financing is through an unsecured line of credit. The line of credit is subject to variable floating interest rates. Because we have not hedged against interest fluctuations, significant increases in interest rates could dramatically increase our costs of borrowing on the line of credit. Additionally, interest rates on certain types of our debt are based on the credit rating of our debt by independent agencies, and would be increased in the event that the credit ratings are downgraded.

OUR BUSINESS STRUCTURE HAS CERTAIN RISKS ASSOCIATED WITH IT

* Certain Officers and Directors May Have Interests that Conflict with the Interests of Stockholders. Certain of our officers and members of our board of directors own limited partnership units in Carr Realty, L.P., a partnership that holds some of our properties. These individuals may have personal interests that conflict with the interests of our stockholders with respect to business decisions affecting us and Carr Realty, L.P., such as interests in the timing and pricing of property sales or refinancings in order to obtain favorable tax treatment. We, as the sole general partner of Carr Realty, L.P., have the exclusive authority to determine whether and on what terms Carr Realty, L.P. will sell or refinance an individual property, but the effect of certain transactions on these unitholders may influence our decisions affecting these properties.

* We May Not Be Able to Sell Properties When Appropriate. Real estate property investments generally cannot be sold quickly. Agreements that we have entered into with respect to certain properties owned by CarrAmerica Realty, L.P. and Carr Realty, L.P. limit our ability to dispose of property. Also, the tax laws applicable to REITs restrict our ability to dispose of certain properties. Therefore, we may by unable to vary our portfolio promptly in response to market conditions, which may adversely affect our financial position. In addition, we will be subject to tax on the sale of properties by our development company, CarrAmerica Development, Inc.

* Lack of Voting Control Over Carr Real Estate Services, Inc. While most of our income is generated from the ownership and operation of our office buildings, we own an 8.1% voting and a 95.8% nonvoting interest in Carr Real Estate Services, Inc. Carr Real Estate Services, Inc. conducts management and leasing operations for third parties and for office buildings in

which we own less than a 100% interest. As of December 31, 2001, we owned approximately 95% of the economic interest in Carr Real Estate Services, Inc. through the ownership of nonvoting common stock. The majority of voting common stock of Carr Real Estate Services, Inc. is owned by The Oliver Carr Company. As a result, we have no right to elect the directors of Carr Real Estate Services, Inc., and our ability to influence its operations is limited. Carr Real Estate Services, Inc. may engage in business activities that are not in our best interests.

* We Depend On External Capital.
  To qualify as a REIT, we generally must distribute to our stockholders each year at least 90% of our net taxable income excluding net capital gain and in order to eliminate federal income tax, we must distribute 100% of our net taxable income, including capital gains. Because of this distribution requirement, we likely will not be able to fund all future capital needs, including capital for property development and acquisitions, with income from operations. We therefore will have to rely on third-party sources of capital, which may or may not be available on favorable terms, if at all. Our access to third-party sources of capital depends on a number of things, including the market's perception of our growth potential and our current and potential future earnings.

CERTAIN FACTORS MAY INHIBIT CHANGES IN CONTROL OF THE COMPANY

* Charter and By-law Provisions. Certain provisions of our charter and by-laws may delay or prevent a change in control of the Company or other transactions that could provide our common stockholders with a premium over the then-prevailing market price of our common stock or that might otherwise be in the best interests of our stockholders. These include a staggered board of directors and the ability of our board of directors to authorize the issuance of preferred stock without stockholder approval. Also, any future series of preferred stock may have voting provisions that could delay or prevent a change in control or other transaction that might involve a premium price or otherwise be in the best interests of our common stockholders.

* Ownership Limit. In order to assist us in maintaining our qualification as a REIT and for other strategic reasons, our charter previously contained certain provisions generally limiting the ownership of shares of capital stock by any single stockholder to 5.0% of our outstanding common stock and/or 5.0% of any class or series of preferred stock. In accordance with the terms of our charter, our board of directors has increased these ownership limits to 9.8% from 5.0%. The federal tax laws include complex stock ownership and attribution rules that apply in determining whether a stockholder exceeds the ownership limits. These rules may cause a stockholder to be treated as owning stock that is actually owned by others, including family members and entities in which the stockholder has an ownership interest. Our board of directors could waive this restriction with respect to certain stockholders if it were satisfied that ownership in excess of these ownership limits would not jeopardize our status as a REIT and the board otherwise decided that a waiver would be in our interests. Capital stock acquired or transferred in breach of the ownership limit will be automatically transferred to a trust for the benefit of a designated charitable beneficiary.

* Maryland Law Provisions. Certain provisions of Maryland law which are applicable to us because we are a Maryland corporation prohibit "business combinations" with any person that beneficially owns ten percent or more of our outstanding voting shares (an "interested stockholder") or with an affiliate of the interested stockholder. These prohibitions last for five years after the most recent date on which the person became an interested stockholder. After the five-year period, a business combination with an interested stockholder must be approved by two super-majority stockholder votes unless, among other conditions, our common stockholders receive a minimum price for their shares and the consideration is received in cash or in the same form as previously paid by the interested stockholder for its common shares. Our board of directors has opted out of these business combination provisions. Consequently, the five-year prohibition and the super-majority vote requirements will not apply to a business combination

involving us. Our board of directors may, however, repeal this election in most cases and cause us to become subject to these provisions in the future. Being subject to the provisions could delay or prevent a change in control or other transactions that might involve a premium price or otherwise be in the best interests of our stockholders.

THE MARKET VALUE OF OUR SECURITIES CAN BE ADVERSELY AFFECTED BY MANY FACTORS

As with any public company, a number of factors may adversely influence the public market price of our common stock, many of which are beyond our control. These factors include:

* Level of institutional interest in us;
* Perception of REITs generally and REITs with portfolios similar to ours, in particular, by market professionals;
* Attractiveness of securities of REITs in comparison to other companies;
* Our financial condition and performance;
* The market's perception of our growth potential and potential future cash dividends;
* Increases in market interest rates, which may lead investors to demand a higher annual yield from our distributions in relation to the price paid for our stock; and
* Relatively low trading volume of shares of REITs in general, which tends to exacerbate a market trend with respect to our stock.

Sales of a substantial number of shares of our stock, or the perception that such sales could occur, also could adversely affect prevailing market prices for our stock. In addition to the possibility that we may sell shares of our stock in a public offering at any time, we also may issue shares of common stock upon redemption of units of interest held by third parties in affiliated partnerships that we control, as well as upon exercise of stock options that we grant to our employees and others. All of these shares will be available for sale in the public markets from time to time.

OUR STATUS AS A REIT

We believe that we qualify for taxation as a REIT for federal income tax purposes, and we plan to operate so that we can continue to meet the requirements for taxation as a REIT. If we qualify as a REIT, we generally will not be subject to federal income tax on our income that we distribute currently to our shareholders. Many of the REIT requirements, however, are highly technical and complex. The determination that we are a REIT requires an analysis of various factual matters and circumstances that may not be totally within our control. For example, to qualify as a REIT, at least 95% of our gross income must come from specific passive sources, like rent, that are itemized in the REIT tax laws. In determining that we have satisfied this requirement, we have concluded that certain services, such as cafeteria services that we have provided to tenants through an independent contractor in certain of our properties under arrangements where we bear part or all of the expenses of such services, are considered customary in the geographic area where such properties are located. There can be no assurance that the IRS or a court would agree with such conclusion or other positions we have taken interpreting the REIT requirements. We also are required to distribute to our stockholders at least 90% of our REIT taxable income (excluding capital gains). The fact that we hold some of our assets through partnerships and their subsidiaries further complicates the application of the REIT requirements. Even

a technical or inadvertent mistake could jeopardize our REIT status. Furthermore, Congress and the IRS might make changes to the tax laws and regulations, and the courts might issue new rulings, that make it more difficult, or impossible, for us to remain qualified as a REIT.

If we fail to qualify as a REIT for federal income tax purposes, we would be subject to federal income tax at regular corporate rates. Also, unless the IRS granted us relief under certain statutory provisions, we would remain disqualified as a REIT for four years following the year we first failed to qualify. If we failed to qualify as a REIT, we would have to pay significant income taxes. This likely would have a significant adverse affect on the value of our securities. In addition, we would no longer be required to pay any dividends to stockholders.

Even if we qualify as a REIT for federal income tax purposes, we are required to pay certain federal, state and local taxes on our income and property. For example, if we have net income from "prohibited transactions," that income will be subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of property held primarily for sale to customers in the ordinary course of business. The determination as to whether a particular sale is a prohibited transaction depends on the facts and circumstances related to that sale. While we have recently undertaken a significant number of asset sales, we do not believe that those sales should be considered prohibited transactions, but there can be no assurance that the IRS would not contend otherwise. In addition, any net taxable income earned directly by some of our affiliates, including Carr Real Estate Services, Inc. and CarrAmerica Development, Inc., is subject to federal and state corporate income tax. In this regard, several provisions of the laws applicable to REITs and their subsidiaries ensure that a taxable REIT subsidiary will be subject to an appropriate level of federal income taxation. For example, a taxable REIT subsidiary is limited in its ability to deduct interest payments made to an affiliated REIT. In addition, the REIT has to pay a 100% penalty tax on some payments that it receives or on some deductions taken by the taxable REIT subsidiaries if the economic arrangements between the

REIT, the REIT's tenants, and the taxable REIT subsidiary are not comparable to similar arrangements between unrelated parties. Several entities in which we own interests, Carr Real Estate Services, Inc. and CarrAmerica Development, have elected to be taxable REIT subsidiaries. Finally, some state and local jurisdictions may tax some of our income even though as a REIT we are not subject to federal income tax on that income. To the extent that we and our affiliates are required to pay federal, state and local taxes, we will have less cash available for distributions to our shareholders.

ITEM 2. PROPERTIES

GENERAL

As of December 31, 2001, we owned interests (consisting of whole or partial ownership interests) in 290 operating properties located in 12 markets across the United States. As of December 31, 2001, we owned fee simple title or leasehold interest in 252 operating properties, controlling partial interests in two operating properties and non-controlling partial interests of 15% to 50% in 36 operating properties. In addition, as of December 31, 2001, we owned

(either directly or through CarrAmerica Development) two office properties and one residential property under development. Except as we disclose in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources", we have no immediate plans to renovate our operating properties other than for routine capital improvements. Although we believe our properties are adequately covered by insurance, we cannot predict at this time if we will be able to obtain full coverage at a reasonable cost in the future. Prior to September 11, 2001, insurance market conditions were gradually beginning to harden. Unlike the earlier hard market in the mid-1980's, the events of September 11, 2001 are expected to affect nearly all coverage lines. This, combined with the fluctuations in insurance companies' investment income, capacity and reinsurance treaty renewals, and a year of significant losses, is expected to impact premiums. Our current property insurance policy, which expires June 30, 2002 includes terrorism coverage, but we anticipate that when we renew the policy, acts of terrorism will not be included in coverage. We expect that some underwriters will offer terrorism coverage, but at a high cost. Overall, we anticipate that insurance coverage costs will be higher in the future.

We believe that, as a result of our national operating system, market research capabilities, access to capital and experience as an owner, operator and developer of properties, we will continue to be able to identify and consummate acquisition and development opportunities and to operate our portfolio more effectively than competitors without such capabilities. We compete in many of our markets with other real estate operators, some of which may have been active in those markets for a longer period of time than we have.

The following table sets forth information about each operating property in which we own an interest as of December 31, 2001.

Property	# of Buildings	Net Rentable Area in Sq. Feet/1/	Percent Leased/2/	Total Annualized Base Rent/3/ (in thousands)	Avera Base R /Leas Sq. Fe
Consolidated Properties					
EASTERN REGION					
Downtown Washington, D.C.:					
International Square	3	1,014,556	100.0%	$34,237	
900 19th Street	1	101,215	97.7%	3,257	
2550 M Street	1	187,931	100.0%	8,191	
1730 Pennsylvania Avenue/6/	1	229,377	100.0%	8,313	
1255 23rd Street/7/	1	306,395	96.4%	8,620	

1747 Pennsylvania Avenue	1	151,872	96.4%	4,838
1775 Pennsylvania Avenue	1	143,981	98.5%	4,091
Suburban Washington, D.C.:				
One Rock Spring Plaza/6/	1	205,721	98.1%	5,572
Sunrise Corporate Center	3	260,253	100.0%	6,333
Reston Crossing East & West	2	327,788	100.0%	6,556
Atlanta, GA:				
Glenridge	1	63,904	97.7%	1,243
Century Springs West	1	95,074	78.0%	1,451
Holcomb Place	1	72,827	100.0%	1,326
Midori	1	99,691	100.0%	1,928
Parkwood	1	150,270	96.0%	2,905
Lakewood	1	80,483	20.2%	289
The Summit	1	179,085	100.0%	3,299
Spalding Ridge	1	128,233	99.3%	2,630
2400 Lake Park Drive	1	100,918	77.0%	1,359
680 Engineering Drive	1	62,154	83.4%	505
Embassy Row	3	465,359	90.8%	7,887
Embassy 100, 500	2	190,470	100.0%	4,168
Waterford Centre	1	82,368	75.3%	1,235
	-----	----------		
Eastern Region Subtotal	31	4,699,925	95.4%	
PACIFIC REGION				

Southern California: Orange County/Los Angeles:				
Scenic Business Park	4	138,076	100.0%	2,343
Harbor Corporate Park	4	151,924	96.1%	2,872

Property	# of Buildings	Net Rentable Area in Sq. Feet/1/	Percent Leased/2/	Total Annualized Base Rent/3/ (in thousands)
Plaza PacifiCare	1	104,377	100.0%	1,064
Katella Corporate Center	1	80,609	97.1%	1,444
Warner Center	12	343,486	98.7%	8,750
South Coast Executive Center	2	161,692	68.4%	2,858
Warner Premier	1	61,553	64.3%	1,111
Von Karman	1	104,138	100.0%	2,636

Property	# of Buildings	Net Rentable Area in Sq. Feet/1/	Percent Leased/2/	Total Annualized Base Rent/3/ (in thousands)	Ave Base /Le Sq. F
2600 W. Olive	1	144,831	100.0%	3,704	2
Bay Technology Center	2	107,481	100.0%	1,699	1
Pacific Corporate Plaza 1, 2, 3	3	125,298	100.0%	2,418	1
Alton Deere Plaza	6	182,183	79.9%	2,689	1
Westlake Spectrum	2	108,084	100.0%	2,060	1
Southern California: San Diego:					
Del Mar Corporate Plaza	2	123,142	100.0%	3,381	2
Wateridge Pavilion	1	62,194	73.5%	922	2
Towne Center Technology Park 1, 2, 3	3	182,120	100.0%	3,156	1
Lightspan	1	64,800	100.0%	1,229	1
La Jolla Spectrum 1 & 2	2	156,653	100.0%	4,799	3

Palomar Oaks Technology Park	6	170,357	81.8%	1,740	1
Jaycor	1	105,358	100.0%	1,896	1
Highlands Corporate Center	5	205,085	89.2%	5,797	3
Northern California: San Francisco Bay Area:					
CarrAmerica Corporate Center	7	1,004,799	100.0%	19,273	1
Valley Business Park I	2	67,784	83.2%	1,161	2
Bayshore Centre 2	1	94,874	100.0%	1,935	2
Rincon Centre	3	201,178	100.0%	4,954	2
Valley Centre II	4	212,082	100.0%	3,124	1
Valley Office Centre	2	68,881	96.4%	2,312	3
Valley Centre	2	102,291	100.0%	2,002	1
Valley Business Park II	6	166,928	100.0%	3,535	2
Rio Robles	7	368,178	100.0%	6,009	1
First Street Technology Center	1	67,582	100.0%	1,014	1
Baytech Business Park	4	300,000	100.0%	5,366	1
3571 North First Street	1	116,000	100.0%	3,062	2
San Mateo Center I	1	70,000	0.0%	-	
Oakmead West Land A-G	7	425,981	100.0%	9,712	2
San Mateo II & III	2	141,731	61.5%	3,577	4
Hacienda West	2	208,654	93.8%	5,954	3
Sunnyvale Technology Center	5	165,520	100.0%	3,379	2
Clarify Corporate Center 1, 2, 3, 4	4	258,048	100.0%	6,637	2
Valley Technology Center 1, 2, 3, 4, 5, 6 & 7	7	460,590	100.0%	11,105	2

Property	# of Buildings	Net Rentable Area in Sq. Feet/1/	Percent Leased/2/	Total Annualized Base Rent/3/ (in thousands)	Ave Base /Le Sq. F
Golden Gateway Commons	3	273,842	95.3%	9,468	3
Techmart Commerce Center	1	266,050	91.3%	9,824	4
Fremont Technology Park 1, 2, 3	3	139,304	100.0%	2,564	1
Mountain View Gateway Center	2	236,400	100.0%	5,201	2
Portland, OR:					
Sunset Corporate Park	3	132,531	80.9%	1,488	1
Rock Creek Corp Center	3	142,662	100.0%	3,051	2
Seattle, WA:					
Redmond East	10	396,497	91.6%	5,137	1
Redmond Hilltop B & C	2	90,880	100.0%	1,515	1
Canyon Park	6	316,978	99.1%	5,014	1
Willow Creek	1	96,179	100.0%	981	1
Willow Creek Corp. Center 1, 2, 3, 4, 5, 6	6	329,009	100.0%	5,524	1
Canyon Park Commons 1, 2, 4	3	176,846	100.0%	2,251	1

Canyon Park Commons	1	95,290	100.0%	1,342	1
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Pacific Region Subtotal	173	10,077,010	95.6%		
CENTRAL REGION					
Austin, TX:					
City View Centre	3	136,183	24.0%	531	1
City View Center	1	128,716	100.0%	2,073	1
Braker Point	1	195,230	100.0%	3,353	1
Tower of the Hills	2	166,149	100.0%	2,992	1
Chicago, IL:					
Parkway North I	1	249,314	80.6%	3,182	1
Unisys	2	365,244	97.0%	5,700	1
The Crossings	1	297,799	92.3%	5,165	1
Bannockburn I & II	2	209,969	93.2%	3,180	1
Bannockburn IV	1	105,330	96.2%	1,708	1
Dallas, TX:					
Cedar Maple Plaza	3	113,343	93.1%	2,433	2
Quorum North	1	116,178	93.3%	2,250	2
Quorum Place	1	178,296	90.9%	3,135	1
Tollway Plaza 1, 2	2	359,903	100.0%	8,405	2
Two Mission Park	1	77,832	85.7%	1,178	1
Commons @ Las Colinas 1,2,3	3	604,234	100.0%	11,763	1
5000 Quorum	1	162,165	96.5%	3,214	2
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Central Region Subtotal	26	3,465,885	92.7%		
MOUNTAIN REGION					
Denver, CO:					
Harlequin Plaza	2	329,273	94.9%	5,625	1

Property	# of Buildings	Net Rentable Area in Sq. Feet/1/	Percent Leased/2/	Total Annualized Base Rent/3/ (in thousands)	Average Base Rent /Leased Sq. Feet/4/
Quebec Court I	1	130,000	100.0%	2,144	16.50
Quebec Court II	1	157,294	100.0%	2,694	17.13
Quebec Centre	3	106,865	93.5%	1,871	18.73
Dry Creek 3	1	92,356	100.0%	1,458	15.79
Phoenix, AZ:					
Qwest Communications	4	532,506	100.0%	9,503	17.85
Salt Lake City, UT:					
Sorenson Research Park	5	282,944	97.7%	3,382	12.24
Wasatch Corporate Center	3	178,231	96.0%	2,365	13.82
Wasatch Corporate Center 17, 18	2	121,654	100.0%	1,838	15.11
Sorenson X	1	41,288	100.0%	780	18.90
Creekside I & II	1	78,000	100.0%	1,032	13.23
Mountain Region Subtotal	24	2,050,411	98.2%		
Total Consolidated Properties	254	20,293,231		419,226	
Weighted Average			95.3%		21.72
Unconsolidated Properties					
Washington, D.C.:					
1919 Pennsylvania Avenue/8/	1	328,436	99.4%	8,927	37.13
2025 M Street/8/	1	245,303	99.5%	4,886	27.96
1201 F Street/12/	1	226,871	96.0%	6,636	33.62
Bond Building/9/	1	162,182	99.2%	5,425	33.72
1717 Pennsylvania Avenue/10/	1	236,455	97.2%	6,718	37.77
799 9th Street/13/	1	201,464	74.3%	6,556	43.80
Booz Allen & Hamilton Building/10/	1	222,989	100.0%	3,706	16.62
Portland, OR:					

Property	# of Buildings	Net Rentable Area in Sq. Feet/1/	Percent Leased/2/	Total Annualized Base Rent/3/ (in thousands)	Average Base Rent /Leased Sq. Feet/4/
GM Call Center/11/	1	103,279	100.0%	1,250	12.11
Chicago, IL:					
Parkway 3, 4, 5, 6, 10/12/	5	653,914	99.2%	11,069	17.94
Dallas, TX:					
Royal Ridge Phase II, A, B/12/	4	503,733	88.9%	7,617	17.00
Custer Court/8/	1	120,050	45.0%	1,167	21.60
Austin, TX:					
Riata Corporate and Riata Crossing/12/	12	997,678	100.0%	16,717	16.96
Denver, CO:					

Property	# of Buildings	Net Rentable Area in Sq. Feet/1/	Percent Leased/2/	Total Annualized Base Rent/3/ (in thousands)	Average Base Rent /Leased Sq. Feet/4/
Panorama I, II, III, V, VIII, X/12/	6	664,050	91.0%	11,718	17.65
Total Unconsolidated Properties	36	4,666,404		92,392	
Weighted Average			95.7%		20.69
Total All Operating Properties	290	24,959,635		$511,618	
Weighted Average			95.4%		$21.52

/1/ Includes office, retail and parking space but excludes storage.
/2/ Includes spaces for leases that have been executed and have commenced as of December 31, 2001.
/3/ Total annualized base rent equals total original base rent, including historical contractual increases and excluding (i)percentage rents, (ii) additional rent payable by tenants such as common area maintenance, real estate taxes and other expense reimbursements, (iii) future contractual or contingent rent escalations and (iv) parking rents.
/4/ Calculated as total annualized base rent divided by net rentable area leased.
/5/ Includes tenants leasing 10% or more of rentable square footage (with the percentage of rentable square footage in parentheses).
/6/ We own the improvements on the property and have a leasehold interest in all the underlying land.
/7/ We hold a general and limited partner interest in a partnership that owns the property.
/8/ We own 49% through a joint venture.

/9/ We own 15% through a joint venture.
/10/We own 50% through a joint venture.
/11/We own 16% through a joint venture.
/12/We own 35% through a joint venture.
/13/We own 40% through a joint venture.

OCCUPANCY, AVERAGE RENTALS AND LEASE EXPIRATIONS

As of December 31, 2001, 95.3% of our aggregate net rentable square footage in 254 consolidated operating properties was leased. The following table summarizes percent leased and average annualized rent per leased square foot (excluding storage space) for the past five years for the consolidated operating properties:

December 31,	Percent Leased at Year End	Average Annualized Rent/Leased Sq. Ft./1/	Number of Consolidated Properties
2001	95.3%	$25.02	254
2000	97.4%	23.77	252
1999	97.4%	21.66	271
1998	96.7%	20.46	292
1997	95.9%	19.38	243

/1/Calculated as total annualized building operating revenue, including tenant reimbursements for operating expenses and excluding parking and storage revenue, divided by the total square feet, excluding storage, in buildings under lease at year end.

The following table is a schedule of our lease expirations for leases in place as of December 31, 2001 for the next ten years for the 254 consolidated operating properties, assuming no tenants exercise renewal options:

Year of Lease Expiration	Net Rentable Area Subject to Expiring Leases (sq. ft.)	Annual Base Rent Under Expiring Leases (000's)	Percent of Total Annual Base Rent Represented by Expiring Leases
2002	2,007,000	$ 44,637	10.5%
2003	2,726,000	55,908	13.2%
2004	3,045,000	68,201	16.1%
2005	2,474,000	53,819	12.7%
2006	2,162,000	49,313	11.6%
2007	1,759,000	37,938	9.0%
2008	1,501,000	34,039	8.0%
2009	1,514,000	29,500	7.0%
2010	613,000	14,403	3.4%
2011	223,000	3,709	0.9%
2012 and thereafter	1,323,000	31,878	7.6%

MORTGAGE FINANCING

As of December 31, 2001, some of our consolidated operating properties were subject to fixed rate mortgage indebtedness. The total of these mortgages was $473.4 million. Our fixed rate mortgage debt as of December 31, 2001 bore an effective weighted average interest rate of 8.04% and a weighted average maturity of 6.9 years (assuming loans callable before maturity are called as

early as possible). The following table details information regarding the existing mortgage indebtedness for the consolidated operating properties as of December 31, 2001.

Property	Interest Rate	Principal Balance (000's)	Maturity Date	Annual D Service (
Sunnyvale Technology Center/Highland Corporate Center/Hacienda West	8.90%	$ 28,875	6/1/02	$2
Jaycor	7.35%	10,861	2/1/03	1
Parkway North	6.92%	24,164	12/1/03	1
Canyon Park Commons	9.13%	4,923	12/1/04	
Qwest Communications	7.92%	16,613	12/1/05	4
Qwest Communications	7.92%	4,822	12/1/05	1
Qwest Communications	7.92%	7,233	12/1/05	1
Qwest Communications	7.92%	7,233	12/1/05	1
Redmond East	8.38%	26,141	1/1/06	2
Century Springs West/Glenridge/Midori/Lakewood/Parkwood	7.20%	18,718	1/1/06	2
Wateridge Pavilion	8.25%	3,308	11/1/06	
Wasatch Corporate Center	8.15%	12,016	1/2/07	1
2600 West Olive	6.75%	18,913	1/1/09	1
Palomar Oaks	8.85%	9,636	4/1/09	1
1255 23rd St	8.12%	37,982	4/1/09	3
1730 Penn/ International Square	8.12%	182,176	4/1/09	17
South Coast	7.13%	14,871	6/10/09	1
Sorenson	7.75%	2,198	7/1/11	
Sorenson	8.88%	1,523	5/1/17	
1747 Penn	9.50%	14,042	7/10/17	1
900 19th St.	8.25%	15,305	7/15/19	1
1775 Penn	7.63%	11,735	9/1/29	1
Techmart Commercial Ctr./6/	n/a	94	2/1/03	
Total	8.04%	$473,382		$51

1. Prepayable at the rates stated in the loan documents.
2. Prepayable after 12/19/05 at the rates stated in the loan documents.
3. Prepayable at the rates stated in the loan documents.
4. Note is callable by the lender after 6/30/02. The estimated principal balance will be $13,841,000 at that date.
5. Note is callable by the lender after 7/1/04. The estimated principal balance will be $14,177,000 at that date.
6. Capital lease.

For additional information regarding our office properties and their operation, see "Item 1, Business."

ITEM 3. LEGAL PROCEEDINGS

We currently involved in two separate lawsuits with two stockholders of HQ Global. The first lawsuit involves the September 1998 conversion of an approximately $111 million loan that we made to HQ Global into stock of HQ Global. We, along with HQ Global, initiated this lawsuit in the United States District Court for the District of Columbia in February 1999, asking the court to declare that the terms of the debt conversion were fair, after two minority stockholders threatened to challenge the terms of the conversion. These stockholders had claimed that both the conversion price used and the methods by which the conversion price was agreed upon between HQ Global and us were not fair to HQ Global or these stockholders. Thereafter, these two stockholders filed their own counterclaims against HQ Global, the board of directors of HQ Global and us. The stockholders asked the court to declare the conversion void, or in the alternative for compensatory and punitive damages. On September 12, 2001, the trial court granted these stockholders' motion for summary judgment, declaring that the shares issued in connection with the conversion were null and void. We believe that the trial court incorrectly interpreted Delaware law in this case. We appealed this decision on October 2, 2001. We recognize that, in light of the trial court's finding, there is a reasonable possibility that we will be unsuccessful in overturning the court's decision. In that

event, there are a number of possible outcomes, including a reduction in our equity interest in HQ Global or a cash payment by us to these stockholders. We currently believe that the value of any loss we may incur from this decision should not exceed $10 million, although we cannot assure you that this will be the case.

The second lawsuit involves claims filed by these two stockholders in April 2000 arising out of the June 2000 merger transaction involving HQ Global and VANTAS Incorporated. In this lawsuit, these two stockholders have brought claims against HQ Global, the board of directors of HQ Global, FrontLine Capital Group and us in Delaware Chancery Court. The two stockholders allege that, in connection with the merger transaction, we breached our fiduciary duties to the two stockholders and breached a contract with the stockholders. The claim relates principally to the allocation of consideration paid to us with respect to our interest in an affiliate of HQ Global that conducts international executive suites operations. The stockholders asked the court to rescind the transaction, or in the alternative for compensatory and rescissory damages. The court recently determined that it would not rescind the merger transaction, but held open the possibility that compensatory damages could be awarded or that another equitable remedy might be available. We believe that these claims are without merit and that we will ultimately prevail in this action, although we cannot assure you that the court will not find in favor of these stockholders. We continue to believe, however, that, even if the court finds in favor of these stockholders, any such adverse result will not have a material adverse effect on our financial condition or results of operations.

We party to a variety of other legal proceedings arising in the ordinary course of business. All of these matters, taken together, are not expected to have a material adverse impact on us.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY & RELATED STOCKHOLDER

MATTERS

Our common stock is listed on the New York Stock Exchange ("NYSE") under the symbol "CRE". As of December 31, 2001, there were 388 stockholders of record. The following table sets forth the high and low sale prices of our common stock as reported on the NYSE Composite Tape, and the dividends paid per share of common stock for each quarterly period for the past two years.

2001	1Q	2Q	3Q	4Q	Full Year
High	$ 30.88	30.69	33.29	30.30	33.29
Low	27.83	27.00	27.78	27.90	27.00
Dividend	0.4625	0.4625	0.4625	0.4625	1.85

2000	1Q	2Q	3Q	4Q	Full Year
High	$ 20.77	27.44	30.27	31.50	31.50
Low	18.56	20.34	26.60	28.80	18.56
Dividend	0.4625	0.4625	0.4625	0.4625	1.85

In order to qualify as a REIT, we are required to make ordinary dividend distributions to our stockholders. The amount of these distributions must equal at least:

i. the sum of (A) 90% of our "REIT taxable income" (computed without regard to the dividends paid deduction and our net capital gain) and (B) 90% of the net income (after tax), if any, from foreclosure property,

minus

ii. the sum of certain non-cash income items.

Our strategy is to distribute what we believe is a conservative percentage of our cash flow. This permits us to retain funds for capital improvements and other investments while funding our distributions.

For federal income tax purposes, distributions may consist of ordinary income, capital gains, nontaxable return of capital or a combination of those items. Distributions that exceed our current and accumulated earnings and profits (calculated for tax purposes) constitute a return of capital rather than a dividend, which reduces a stockholder's basis in the shares of common stock and will not be taxable to the extent that the distribution equals or is less than the stockholder's basis in the stock. To the extent a distribution exceeds both current and accumulated earnings and profits and the stockholder's basis in the stock, that distribution will be treated as a gain from the sale or exchange of that stockholder's shares. Every year, we notify stockholders of the taxability of distributions paid during the preceding year.

The following table sets forth the approximate taxability of common stock distributions paid in 2001, 2000 and 1999:

	2001	2000	1999
Ordinary income	92%	84%	78%
Capital gain	8%	16%	22%

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected financial and operating information. The financial and operating data have been extracted from our consolidated financial statements for each of the periods presented.

The following selected financial and operating information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the financial statements and related notes included elsewhere in this Annual Report on Form 10K:

(In thousands, except per share data)	Year Ended December 31,			
	2001	2000	1999	19
Operating Data:				
Real Estate Operating Revenue (from continuing operations):				
Rental revenue	$ 507,609	$ 531,859	$ 498,849	$ 44
Real estates service revenue	31,037	26,172	17,054	1
Consolidated Data:				
Income from continuing operations	79,061	147,159	151,079 /1/	11
Income (loss) from discontinued operations	-	456	(7,862)	
Gain on sale of discontinued operations, net of tax	-	31,852	-	
Dividends paid to common stockholders	114,106	123,245	125,876	12
Per Share Data:				
Basic income from continuing operations	0.73	1.69	1.71	
Diluted income from continuing operations	0.71	1.65	1.71	
Income (loss) from discontinued operations - diluted	-	0.01	(0.12)	
Gain on sale of discontinued operations- diluted	-	0.47	-	
Dividends paid to common shareholders	1.85	1.85	1.85	
Weighted average shares outstanding - basic	61,010	66,221	67,858	6
Weighted average shares outstanding - diluted	62,442	67,649	67,982	6

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(In thousands)	As of or for the Year Ende		
	2001	2000	1999

Balance Sheet Data:				
Real estate, before accumulated depreciation	$ 2,872,047	$ 2,813,320	$ 3,067,822	$
Total assets	2,775,600	3,072,841	3,479,072	
Mortgages and notes payable	1,405,382	1,211,158	1,603,371	
Minority interest	83,393	89,687	92,586	
Total stockholders' equity	1,177,807	1,646,706	1,686,715	
Total common shares outstanding	51,965	65,018	66,826	
Other Data:				
Net cash provided by operating activities	$ 217,714	$ 179,054	$ 175,069	
Net cash provided by (used by) investing activities	101,204	567,477	83,647	
Net cash (used by) provided by financing activities	(338,581)	(773,713)	(238,366)	
Funds from continuing operations before allocation to the unitholders/2/	216,682	254,714	226,587	

/1/ Net income from continuing operations includes a non-recurring gain (loss) of $4.5 million and ($13.7) million related to a treasury lock agreement in 1999 and 1998, respectively.

/2/ We believe that funds from operations is helpful to investors as a measure of the performance of an equity REIT. Along with cash flows from operating activities, financing activities and investing activities, funds from operations provides investors with an indication of our ability to incur and service debt, to make capital expenditures and to fund other cash needs. Funds from operations is defined by the National Association of Real Estate Investment Trusts (NAREIT) as net income (loss) computed in accordance with accounting principles generally accepted in the United States of America (GAAP), excluding gains or losses from sales of depreciable operating properties and items that are classified as extraordinary items under GAAP, plus depreciation and amortization of assets uniquely significant to the real estate industry and after adjustments for unconsolidated partnerships and joint ventures. Adjustments for unconsolidated partnerships and joint ventures are calculated to reflect funds from operations on the same basis. Our funds from operations may not be comparable to funds from operations reported by other REITs that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently from us. Funds from operations does not represent net income or cash flow generated from operating activities in accordance with GAAP and, as such, should not be considered an alternative to net income as an indication of our performance or to cash flow as a measure of liquidity or our ability to make distributions.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The discussion that follows is based primarily on our consolidated financial statements as of December 31, 2001 and 2000, and for the years ended December 31, 2001, 2000 and 1999 and should be read along with the consolidated

financial statements and related notes. The ability to compare one period to another may be significantly affected by acquisitions completed, development properties placed in service and dispositions made during those years. The number of properties that we owned and were consolidated in the financial statements were 254 in 2001, 252 in 2000 and 271 in 1999. Comparison of the periods is also affected by development operations.

CRITICAL ACCOUNTING POLICIES

Critical accounting policies are those that are both important to the presentation of our financial condition and results of operations and require management's most difficult, complex or subjective judgments. Our critical accounting policies relate to the evaluation of impairment of long-lived assets and of our investment in HQ Global and the evaluation of the collectibility of accounts and notes receivable.

If events or changes in circumstances indicate that the carrying value of a rental property to be held and used or land held for development may be impaired, we perform a recoverability analysis based on estimated undiscounted cash flows to be generated from the property in the future. If the analysis indicates that the carrying value is not recoverable from future cash flows, the property is written down to estimated fair value and an impairment loss is recognized. If we decide to sell rental properties or land held for development, we evaluate the recoverability of the carrying amounts of the assets. If the evaluation indicates that the carrying value is not recoverable from estimated net sales proceeds, the property is written down to estimated fair value less costs to sell and an impairment loss is recognized within income from continuing operations. Our estimates of cash flows and fair values of the properties are based on current market conditions and consider matters such as rental rates and

occupancies for comparable properties, recent sales data for comparable properties and, where applicable, contracts or the results of negotiations with purchasers or prospective purchasers. Our estimates are subject to revision as market conditions and our assessments of them change.

If events or circumstances indicate that the fair value of an investment accounted for using the equity or cost method (such as our investment in HQ Global) has declined below its carrying value and we consider the decline to be "other than temporary," the investment is written down to fair value and an impairment loss is recognized. For example, our evaluation of impairment of our investment in HQ Global in 2001 was based on a number of factors. These factors included: analysis of the financial condition and operating results of HQ Global, which deteriorated significantly during 2001 as the economic slowdown reduced the demand for temporary office space, particularly from technology-related tenants; the inability of HQ Global to remain in compliance with provisions of its debt agreements and its failure to reach an agreement with lenders on a restructuring of its debt prior to the expiration of a forbearance period in December 2001; the losses of key board members and executives by HQ Global, particularly in the last half of 2001;and the announcement by FrontLine Capital Group, HQ Global's controlling shareholder, in November 2001 that it had recognized an impairment in the value of intangible assets relating to HQ Global. Based on our evaluation, we determined in the fourth quarter of 2001 that our investment in HQ Global was impaired on an "other than temporary" basis and that our investment in HQ Global had no value. Accordingly, we wrote down our carrying value of the investment to zero and recognized the loss in continuing operations. We would not expect this conclusion to change unless there is a significant improvement in HQ Global's

business and a restructuring of its debt on terms that are favorable to its equity investors.

Our allowance for doubtful accounts and notes receivable is established based on analysis of the risk of loss on specific accounts. The analysis places particular emphasis on past-due accounts and considers information such as the nature and age of the receivable, the payment history of the tenant or other debtor, the financial condition of the tenant and our assessment of its ability to meet its lease obligations, the basis for any disputes and the status of related negotiations, etc. Our estimate of the required allowance, which is reviewed on a quarterly basis, is subject to revision as these factors change and is sensitive to the effects of economic and market conditions on our tenants, particularly in our largest markets (i.e., the San Francisco Bay and Washington, D.C. areas). For example, in 2001, due to economic conditions and analysis of our accounts receivable, we increased our provision for uncollectible accounts by approximately $5.5 million.

RESULTS OF OPERATIONS

The discussion and analysis of operating results focuses on our segments as management believes that segment analysis provides the most effective means of understanding the business. Our reportable operating segments are real estate property operations and development operations. Other business activities and operations, which are not reported separately, are included in other operations. Executive office suites are presented as discontinued operations in our financial statements.

Our operating segments' performance is measured using funds from operations. Funds from operations is defined by the National Association of Real Estate Investment Trusts (NAREIT) as follows:

* Net income (loss) - computed in accordance with accounting principles generally accepted in the United States of America (GAAP);

* Less gains (or plus losses) from sales of depreciable operating properties and items that are classified as extraordinary items under GAAP;

* Plus depreciation and amortization of assets uniquely significant to the real estate industry;

* Plus or minus adjustments for unconsolidated partnerships and joint ventures (to reflect funds from operations on the same basis).

Funds from operations does not represent net income or cash flow generated from operating activities in accordance with GAAP. As such, it should not be considered an alternative to net income as an indication of our performance or to cash flows as a measure of our liquidity or our ability to make distributions.

REAL ESTATE PROPERTY OPERATIONS

Operating results and assets of real estate property operations are summarized as follows:

	For the year ended	Variance	
Real Estate Operations	December 31,	2001 vs.	2000 vs.

(in millions)	2001	2000	1999	2000	1999
Operating revenue	$ 507.6	$ 531.9	$ 498.9	$ (24.3)	$ 33.0
Segment expense	162.8	170.0	167.2	(7.2)	2.8
Interest expense	44.0	49.2	50.5	(5.2)	(1.3)
Other income, net	19.7	14.5	8.9	5.2	5.6
	As of December 31,				
	2001	2000	1999		
Total assets	$ 2,682.7	$ 2,711.9	$ 2,991.8	$ (29.2)	$ (279.9)

Real estate operating revenues decreased $24.3 million (4.6%) in 2001 as compared to 2000. This decrease resulted from the dispositions of interests in properties, including the properties contributed to Carr Office Park, L.L.C., a joint venture in which we have a 35% interest, in August 2000. The decrease in revenues was partially offset by development properties being placed in service and "same store" rental growth. Same store rental revenues grew by approximately 4.3% (approximately $18.1 million). This increase was due primarily to an increase in average rental rates in properties in the Northern California market.

Real estate operating revenues increased $33.0 million (6.6%) in 2000 as compared to 1999. This increase resulted from development properties being placed in service, "same store" rental growth and higher occupancies. Same store rental revenues grew by approximately 7.2% (approximately $25.6 million). This increase was due primarily to an increase in average rental rates in properties in the San Francisco Bay area due to strong demand for office space. The average occupancy rate, when compared on a same store basis, was 97.2% in 2000 and 96.8% in 1999. These increases were partially offset by dispositions of interests in properties, including the properties contributed to Carr Office Park, L.L.C. in August 2000.

Real estate operating expenses decreased $7.2 million (4.2%) in 2001 as compared to 2000. This decrease was due primarily to the dispositions of interests in properties, including the properties contributed to Carr Office Park, L.L.C., partially offset by an increase in same store expenses of approximately $13.6 million (10.3%). The increase in expenses includes an increase in the provision for uncollectible accounts of approximately $5.5 million due to collection issues and tenant bankruptcies.

Real estate operating expenses increased $2.8 million (1.7%) in 2000 as compared to 1999. This increase was due to development properties being placed in service and a slight increase in same store expenses. These increases were partially offset by dispositions of interests in properties, including the properties contributed to Carr Office Park, L.L.C. in August 2000.

Real estate interest expense decreased $5.2 million (10.6%) in 2001 as compared to 2000 and $1.3 million (2.6%) in 2000 as compared to 1999. These decreases were principally the result of the retirement of certain mortgages due to maturities or dispositions of the related properties.

Real estate other income increased $5.2 million (35.9%) in 2001 as compared to 2000 and $5.6 million (62.9%) in 2000 as compared to 1999. These increases were primarily the result of equity in earnings of unconsolidated entities (excluding depreciation and amortization), primarily from the investment in Carr Office Park, L.L.C.

Real estate assets declined $29.2 million from 2000 to 2001 due

principally to the sale of properties in the Phoenix market. The primary cause of the decrease in real estate assets from 1999 to 2000 was the contribution of $332.1 million of property to Carr Office Park, L.L.C. These assets are not included in our consolidated financial statements but we retain a 35% interest in them.

In response to a deteriorating economic climate, the real estate markets have materially softened in 2001. Demand for office space has declined significantly and vacancy rates have increased in each of our core markets. As a result, occupancy in our portfolio of operating properties decreased to 95.3% at December 31, 2001, as compared to 97.4% at December 31, 2000. While market rental rates have declined somewhat in most markets from peak levels, rental rates on space that was re-leased in 2001 increased an average of 18.6% over rates that were in effect under expiring leases. However, in the fourth quarter of 2001, rental rates on space that was re-leased declined 2.7% from rates that were in effect under expiring leases. We expect that the softening of the real estate markets we experienced in the latter half of 2001 will continue throughout 2002. As a result of the soft market, we anticipate that occupancy levels will be lower in 2002. We expect average occupancy to decline to approximately 93.5% for 2002.

DEVELOPMENT OPERATIONS

Operating results and assets of development operations are summarized as follows:

Development Operations	For the year ended December 31,			Variance	
(in millions)	2001	2000	1999	2001 vs. 2000	2000 vs. 1999
Operating revenue	$ 14.2	$ 10.6	$ 6.6	$ 3.6	$ 4.0
Segment expense	6.6	4.5	4.6	2.1	(0.1)
Interest expense	-	-	-	-	-
Other income, net	0.4	0.2	0.2	0.2	-
	As of December 31,				
	2001	2000	1999		
Total assets	$ 49.8	$ 96.3	$ 220.1	$ (46.5)	$ (123.8)

Revenue from our development operations increased $3.6 million (34.0%) in 2001 as compared to 2000 and $4.0 million (60.6%) in 2000 as compared to 1999. These increases resulted primarily from our growth in fee development business. In particular, in August 2000, we began providing services to Carr Office Park, L.L.C. and other joint ventures in connection with their development of new properties. The increase for 2001 also includes incentive fees of $5.2 million earned as a result of achieving cost and completion date targets on development of certain properties. Incentive fees for 2000 were $0.8 million.

The expenses for our development operations increased $2.1 million in 2001 as compared to 2000 and decreased $0.1 million in 2000 as compared to 1999. The increase in 2001 was due principally to increased activity in development for third parties. The decrease in expenses in 2000 was due primarily to lower salary expense from a temporary reduction in headcount.

In 2001, development assets decreased $46.5 million from 2000 due primarily to properties being placed in service and a lower level of internal development activity. Total development assets decreased $123.8 million in 2000 from $220.1 million in 1999. This decrease includes $76.9 million due to our contribution of assets to Carr Office Park, L.L.C. The remaining decrease was due primarily to properties being placed in service.

OTHER OPERATIONS

Operating results and assets of other operations are summarized as follows:

Other Operations	For the year ended December 31,			Variance	
(in millions)	2001	2000	1999	2001 vs. 2000	2000 vs. 1999
Operating revenue	$ 16.9	$ 15.5	$ 10.4	$ 1.4	$ 5.1
Segment expense	42.9	41.6	34.3	1.3	7.3
Interest expense	38.5	49.1	38.6	(10.6)	10.5
Other expense, net	(47.3)	(3.6)	(3.2)	(43.7)	(0.4)
	As of December 31,				
	2001	2000	1999		
Total assets	$ 43.1	$ 264.6	$ 59.5	$ (221.5)	$ 205.1

Revenues from our other operations increased $1.4 million (9.0%) in 2001 as compared to 2000 and increased $5.1 million (49.0%) in 2000 as compared to 1999. These increases resulted primarily from expansion of our operations in the area of managing rental properties for affiliates and others. In particular, in August 2000, we began providing leasing and management services to Carr Office Park, L.L.C.

Expenses of our other operations increased $1.3 million (3.1%) in 2001 as compared to 2000 and $7.3 million (21.3%) in 2000 as compared to 1999. The increase in 2001 was due primarily to our expanded property management operations discussed above and professional fees associated with internal process improvement efforts and other initiatives. The increase in 2000 was due primarily to the same factors.

Interest expense for other operations is net of interest allocated to other segments, consisting primarily of interest capitalized on development projects at our average effective borrowing rate. Interest expense for our other operations decreased $10.6 million (21.6%) in 2001 as compared to 2000 and increased $10.5 million (27.2%) in 2000 as compared to 1999. The decrease in 2001 is due to the repayment of debt and lower interest rates on our floating rate debt. The increase in 2000 was due to a decrease in capitalized interest due primarily to a lower level of development activity.

Other expenses, net, of our other operations increased $43.7 million in

2001 as compared to 2000 due primarily to the impairment loss recognized on our investment in HQ Global. FrontLine Capital Group ("FrontLine"), the majority stockholder of HQ Global, announced in October 2001 that HQ Global was in default with respect to certain covenant and payment obligations under its senior and mezzanine term indebtedness, was in a forebearance period with HQ Global lenders and was actively negotiating with those lenders. In November 2001, FrontLine disclosed that it had recognized an impairment in the value of intangible assets relating to HQ Global due to HQ Global's trend of operating losses and its inability to remain in compliance with its debt arrangements. Based on these factors, our analysis of the financial condition and operating results of HQ Global (which deteriorated significantly during 2001 as the economic slowdown reduced the demand for temporary office space, particularly from technology-related tenants) and the losses of key board members and executives by HQ Global, particularly in the last half of 2001, we determined in the fourth quarter of 2001, that our investment in HQ Global was impaired. We recorded a $42.2 million impairment charge, reducing the carrying value of our investment in HQ Global to zero.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization decreased $1.5 million (1.2%) in 2001 compared to 2000 and increased $8.8 million (7.4%) in 2000 compared to 1999. The decrease in 2001 was due to the disposition of the Phoenix properties and the contribution of properties to Carr Office Park, L.L.C., partially offset by properties placed in service. The increase in 2000 was due primarily to acquisitions of property and transitions of property from construction in progress to operations, partially offset by property dispositions and joint venture activity.

GAIN ON SALE OF ASSETS AND OTHER PROVISIONS, NET

We dispose of assets (sometimes using tax-deferred exchanges) that are inconsistent with our long-term strategic or return objectives or where market conditions for sale are favorable. The proceeds from the sales are redeployed into other properties or used to fund development operations or to support other corporate needs.

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During 2001, we disposed of seven operating properties, one property under development and three parcels of land held for development. We recognized a gain of $4.5 million on these transactions. We also recognized an impairment loss of $1.5 million on certain parcels of land held for development or sale due to a decline in fair market value of the land.

During 2000, we disposed of 16 operating properties (including one property in which we held an interest through an unconsolidated entity) and four parcels of land held for development. We recognized a gain of $24.1 million on these transactions, net of taxes of $5.6 million, including a gain of $8.8 million relating to our share of gain on a sale of property in which we held an interest through an unconsolidated entity.

On August 17, 2000, we closed on a joint venture transaction with New York State Teachers' Retirement System ("NYSTRS"). At closing, we and some affiliates contributed properties to the joint venture, Carr Office Park, L.L.C., and NYSTRS contributed cash of approximately $255.1 million. The joint venture encompasses five suburban office parks (including 26 rental properties and land held for development of additional properties) in four markets. We received approximately $249.6 million and a 35% interest in the joint venture in exchange for the properties contributed and recognized a gain on the partial

sale of $20.1 million, net of taxes of $13.1 million.

Other provisions for 2000 includes an impairment loss of $7.9 million for land held for development that we decided to sell. For various reasons, we determined that we would not proceed with planned development of rental properties on certain of our land holdings and decided to market the land for sale. As a result, we evaluated the recoverability of the carrying amounts of the land. We determined that the carrying amounts would not be recovered from estimated net sale proceeds in certain cases and, in those cases, we recognized impairment losses.

During 1999, we disposed of 63 properties and two parcels of land being held for development. We recognized a gain of $54.8 million, net of District of Columbia franchise tax of $0.6 million.

DISCONTINUED OPERATIONS

Our income from discontinued operations of the executive suites business was $0.5 million in 2000 versus a loss of $7.9 million in 1999. Income increased primarily due to the lease-up of development properties placed into operations.

On January 20, 2000, we, along with HQ Global Workplaces, Inc. (HQ Global), VANTAS Incorporated (VANTAS) and FrontLine, entered into several agreements that contemplated several transactions including (i) the merger of VANTAS with and into HQ Global, (ii) the acquisition by FrontLine of shares of HQ Global common stock from us and other stockholders of HQ Global, and (iii) the acquisition by VANTAS of our debt and equity interests in OmniOffices (UK) Limited and OmniOffices LUX 1929 Holding Company S.A. On June 1, 2000, we consummated the transactions. We recognized an after tax gain of $31.9 million. Following the transactions, we owned approximately 16% of the equity of HQ Global on a fully diluted basis and our investment had a carrying value of $42.2 million.

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

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CONSOLIDATED CASH FLOWS

Consolidated cash flow information is summarized as follows:

	For the year ended	Variance

(in millions)	December 31, 2001	2000	1999	2001 vs. 2000	2000 vs. 1999
Cash provided by operating activities	$ 217.7	$ 179.1	$ 175.1	$ 38.6	$ 4.0
Cash provided by investing activities	101.2	567.5	83.6	(466.3)	483.9
Cash used by financing activities	(338.6)	(773.7)	(238.4)	435.1	(535.3)

Operations generated $217.7 million of net cash in 2001 compared to $179.1 million in 2000 and $175.1 million in 1999. The changes in cash flow from operating activities were primarily the result of factors discussed above in the analysis of operating results. The level of net cash provided by operating activities is also affected by the timing of receipt of revenues and payment of expenses, including in 2001 income taxes relating to sales of properties and discontinued operations completed in 2000.

Our investing activities provided net cash of $101.2 million in 2001, $567.5 million in 2000 and $83.6 million in 1999. The decrease in net cash provided by investing activities in 2001 is due primarily to the fact that in 2000, we sold our investment in HQ Global, generating $377.3 million of cash. Proceeds from sales of properties were also higher in 2000 ($474.0 million) due primarily to the Carr Office Park, L.L.C. transaction. The effect of these decreases on net cash provided by investing activities was partially offset by a reduction in development activities ($32.4 million), receipt of a distribution from Carr Office Park, L.L.C. from proceeds of a third party financing of properties ($77.9 million) and a release of restricted deposits ($34.9 million) in connection with the acquisition of a property. The increase in net cash provided by investing activities in 2000 is due to proceeds from the sale of discontinued operations and reduced property acquisitions and development activity.

Our financing activities used net cash of $338.6 million in 2001, $773.7 million in 2000 and $238.4 million in 1999. During 2001, we repurchased $428.3 million of our common stock generally using our credit line to finance the purchases. In 2001, we had net borrowings on our credit line of $281.0 million. In 2000, we decreased our debt significantly. Net debt repayments during 2000 totaled $546.3 million including net repayment of credit facility borrowings of $307.5 million and retirement of $150.0 million of senior unsecured notes. We also repurchased $90.2 million of our common stock in 2000. In 1999, we repurchased $109.8 million of our common stock and our net borrowings were $37.5 million.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2001, we had approximately $5.0 million in available cash, cash equivalents and marketable securities. As a REIT, we are required to distribute at least 90% of our taxable income to our stockholders on an annual basis. In addition, we and our affiliates require capital to invest in our existing portfolio of operating assets for capital projects. These capital projects can include such things as large-scale renovations, routine capital improvements, deferred maintenance on properties we have recently acquired and tenant related matters, including tenant improvements, allowances and leasing commissions. Therefore, as a general matter, it is unlikely our cash balances would satisfy our liquidity needs. Instead, these needs must be met from cash generated from rental and real estate service revenue and external sources of capital.

We derive substantially all of our revenue from tenants under existing

leases at our properties. Our operating cash flow therefore depends materially on the rents that we are able to charge to our tenants, and the ability of these tenants to make their rental payments. We believe that the diversity of our tenant base (no tenant accounted for more than 5% of revenue in 2001) helps insulate us from the negative impact of tenant defaults and bankruptcies. However, general economic downturns, or economic downturns in one or more of our core markets, still may adversely impact the ability of our tenants to make lease payments and our ability to re-lease space on favorable terms as leases expire. In either of these cases, our cash flow and therefore our ability to meet our capital needs would be adversely affected.

As a result of the recent economic downturn, the real estate markets materially softened during 2001. Demand for office space has declined significantly and vacancy rates have increased in each of our core markets except for downtown Washington, D.C. As a result, occupancy in our portfolio of operating properties decreased to 95.3% at December 31, 2001, as compared to 97.4% at December 31, 2000. While market rental rates have declined somewhat in most markets from peak levels, rental rates on space that was re-leased in 2001 increased an average of 18.6% over rates that were in effect under expiring leases. However, in the fourth quarter of 2001, rental rates on space that was re-leased declined 2.7% from rates that were in effect under expiring leases. We expect that real estate markets will remain soft throughout 2002. As a result of the soft market, we anticipate that occupancy levels will be lower in 2002. We expect average occupancy to decline to approximately 93.5% for 2002.

Our primary external source of liquidity is our credit facility. In June 2001, we closed on a new three-year $500.0 million unsecured credit facility with J.P. Morgan Chase, as agent for a group of banks. We can extend the life of the line an additional year at our option. The line carries an interest rate of 70 basis points over 30-day LIBOR. Our unsecured facility contains financial and other covenants with which we must comply and availability is limited to a specified percentage of the fair value of our unmortgaged properties. As of December 31, 2001, $457.0 million was drawn on the credit facility, $2.2 million in letters of credit were outstanding and we had $40.8 million available for borrowing. As of February 28, 2002, $70.0 million was drawn on the credit facility, $2.2 million in letters of credit were outstanding and we had $427.8 million available for borrowing.

On December 21, 2001, we entered into a $150 million short-term loan to provide additional liquidity. Affiliates of Banc of America Securities LLC and J.P. Morgan Securities were the lenders under this short-term loan. The loan was to mature on April 2, 2002, but was terminated without being used in January 2002 when we issued $400 million of senior unsecured notes.

We have significant capital requirements for development projects currently underway and in the future. As of December 31, 2001, we had approximately 184,000 square feet of office space in two development projects in progress. In conjunction with an office property development project through a joint venture, we are developing a residential property. Our total expected investment on these projects is $43.1 million. Through December 31, 2001 we had invested $19.3 million or 44.7% of the total expected investment for these projects. As of December 31, 2001, we also had 1.2 million square feet of office space under construction in six projects in which we own minority interests. These projects are expected to cost $314.2 million of which, our total investment is expected to be approximately $89.6 million. Through December 31, 2001, approximately $146.0 million or 46.5% of the total project costs had been expended. We have financed our investment in projects under construction at December 31, 2001, primarily from the proceeds of asset

dispositions and borrowings under our credit facility. We expect that these sources and project-specific financing of selected assets will provide additional funds required to complete the development and to finance the costs of additional projects.

We also regularly incur significant expenditures in connection with the re-leasing of office space, principally in the form of tenant improvements and leasing commissions. The amounts of these expenditures can vary significantly, depending on negotiations with tenants and the willingness of tenants to pay higher base rents over the life of the leases. We expect to pay for these capital expenditures out of excess cash from operations or, to the extent necessary, draws on our line of credit. We believe that a significant portion of these expenditures is recouped in the form of continuing lease payments.

Our Board of Directors has authorized us to spend up to $325 million to repurchase our common shares, preferred shares and debt securities excluding the 9.2 million shares repurchased from Security Capital in November 2001 which were separately approved. Since the start of this program in mid-2000 through December 31, 2001, we have acquired approximately 8.7 million of our common shares for an aggregate purchase price of approximately $253.4 million. We do not currently anticipate repurchasing any common stock in 2002, although market conditions could cause us to reevaluate this determination at any time.

We pay dividends quarterly. The maintenance of these dividends is subject to various factors, including the discretion of the Board of Directors, the ability to pay dividends under Maryland law, the availability of cash to make the necessary dividend payments and the effect of REIT distribution requirements, which require at least 90% of our taxable income to be distributed to stockholders. In addition, under our line of credit, we generally are restricted from paying dividends that would exceed 90% of our funds from operations during any four-quarter period.

Funds, which we accumulate for the distribution, are invested primarily in short-term investments collateralized by securities of the United States Government or one of its agencies.

Our long-term liquidity requirements consist primarily of funds necessary to pay for the principal amount of our long-term debt as it matures, significant non-recurring capital expenditures that need to be made periodically at our properties, development projects that we undertake and the costs associated with acquisitions of properties.

We seek to create and maintain a capital structure that will enable us to diversify our capital resources. This typically allows us to obtain additional capital from a number of different sources. These sources include additional equity offerings of common stock and/or preferred stock, public and private debt financings and possible asset dispositions. Our management believes that we will continue to have access to the capital resources necessary to expand and develop our business, to fund our operating and administrative expenses, to continue to meet our debt service obligations, to pay dividends in accordance with REIT requirements, to acquire additional properties and land and to pay for construction in progress.

Our total debt at December 31, 2001 was $1.4 billion of which $457.0 million (32.5%) bore a LIBOR-based floating rate. The interest rate on borrowings on our unsecured credit facility at December 31, 2001 was 2.6%. Our fixed rate mortgage payable debt bore an effective weighted average interest rate of 8.04% at December 31, 2001. The weighted average term of this debt is

6.9 years. At December 31, 2001, our debt represented 39.6% of our total market capitalization of $3.6 billion. At February 28, 2002, we had $70.0 million outstanding under our unsecured credit facility.

Our unsecured credit facility contains financial and other covenants with which we must comply. Some of these covenants include:

* A minimum ratio of annual EBITDA (earnings before interest, taxes, depreciation and amortization) to interest expense;
* A minimum ratio of annual EBITDA to fixed charges;
* A maximum ratio of total debt to tangible fair market value of our assets; and
* Restrictions on our ability to make dividend distributions in excess of 90% of funds from operations.

Availability under the unsecured credit facility is also limited to a specified percentage of the fair value of our unmortgaged properties.

Our senior unsecured notes also contain covenants with which we must comply. These include:

* Limits on our total indebtedness on a consolidated basis;
* Limits on our secured indebtedness on a consolidated basis; and
* Limits on our required debt service payments.

We have three investment grade ratings. As of December 31, 2001, Fitch Rating Services and Standard & Poors have assigned a stable outlook and a BBB rating to our prospective senior unsecured debt offerings and their BBB- rating to our prospective cumulative preferred stock offerings. Moody's Investor Service has assigned a negative outlook and its Baa2 rating to our prospective senior unsecured debt offerings and its Ba2 rating to our prospective cumulative preferred stock offerings. A downgrade in outlook or rating by any one of these rating agencies could result from, among other things, a change in our financial position or a downturn in general economic conditions. Any such downturn could adversely affect our ability to obtain future financing or increase costs of existing debt.

In the future, if, as a result of general economic downturns, a rating downgrade or otherwise, our properties do not perform as expected, or we cannot raise the expected funds from the sale of properties and/or if we are unable to obtain capital from other sources, we may not be able to make required principal and interest payments or make necessary routine capital improvements with respect to our existing portfolio of operating assets. While we believe that we would continue to have sufficient funds to pay our operating and debt service expenses and our regular quarterly dividends, our ability to expand our development activity or to fund additional development in our joint ventures could be adversely affected. In addition, if a property is mortgaged to secure payment of indebtedness and we are unable to meet mortgage payments, the holder of the mortgage or lender could foreclose on the property, resulting in loss of income and asset value. An unsecured lender could also attempt to foreclose on some of our

assets in order to receive payment. In many cases, very little of the principal amount that we borrow is repaid prior to the maturity of the loan. We generally expect to refinance that debt when it matures, although in some cases we may pay off the loan. If principal amounts due at maturity cannot be refinanced, extended or paid with proceeds of other capital transactions, such as new

equity capital, our cash flow may be insufficient to repay all maturing debt. Prevailing interest rates or other factors at the time of a refinancing (such as possible reluctance of lenders to make commercial real estate loans) may result in higher interest rates and increased interest expense.

Our ability to raise funds through sales of debt and equity securities is dependent on, among other things, general market conditions for REITs, market perceptions about us, our debt rating and the current trading price of our stock. During 1999, 2000 and the early part of 2001, we did not issue significant amounts of debt or equity securities. In the second half of 2001, market conditions improved, and in January 2002 we issued $400 million of senior unsecured notes. The notes bear interest at 7.125% per annum payable semi-annually beginning on July 15, 2002. The notes mature on January 15, 2012. The notes are unconditionally guaranteed by CarrAmerica Realty, L.P., one of our subsidiaries. Proceeds from the notes were used to pay down our unsecured credit facility. We will continue to analyze which source of capital is most advantageous to us at any particular point in time, but the capital markets may not consistently be available on terms that are attractive.

Below is a summary of certain obligations that will require the use of significant capital:

(in thousands)	Payments due by Period			
Contractual Obligations	Total	Less than 1 Year	1-3 Years	4-5 Years
Long-term debt	$ 1,405,382	$ 43,944	$ 796,817	$ 197,701
Operating leases - land/1/	193,511	3,328	9,984	6,656
Operating lease - building	6,860	2,204	2,328	1,552
Est. development commitments	38,536	35,667	2,869	-

/1/Ground rents with remaining lease terms up to 85 years

Although we believe our properties are adequately covered by insurance, we cannot predict at this time if we will be able to obtain full coverage at a reasonable cost in the future. Prior to September 11, 2001, insurance market conditions were gradually beginning to harden. Unlike the earlier hard market in the mid-1980's, the events of September 11, 2001 are expected to affect nearly all coverage lines. This, combined with the fluctuations in insurance companies' investment income, capacity and reinsurance treaty renewals, and a year of significant losses, is expected to impact premiums. Our current property insurance policy, which expires June 30, 2002 includes terrorism coverage, but we anticipate that when we renew the policy, acts of terrorism will not be included in coverage. We expect that some underwriters will offer terrorism coverage, but at a high cost. Overall, we anticipate that insurance coverage costs will be higher in the future.

On March 13, 2002, HQ Global Workplaces, Inc. ("HQ Global") filed for bankruptcy protection under Chapter 11 of the federal bankruptcy laws. As described above, we previously owned a substantial economic interest in HQ Global. During 1997 and 1998, to assist HQ Global as it grew its business, we provided guarantees of HQ Global's performance under four office leases that it signed. In connection with the HQ Global/VANTAS merger transaction, FrontLine agreed to indemnify us against any losses incurred with respect to these

guarantees. However, at this time, FrontLine's principal asset is its interest in HQ Global, and therefore our ability to recover any resulting losses from FrontLine under this indemnity likely will be limited. To our knowledge, all monthly rent payments were made by HQ Global under two of these leases through January 2002, and rental payments under the other two leases were made through February 2002. As a result, we may be liable to the lessors with respect to payments due under two of these leases from and after February 2002 and under the other two leases from and after March 2002.

As part of the initial filings made in connection with the bankruptcy proceedings, HQ Global filed a motion to reject one of these four leases. That lease is for space in San Jose, California. This lease is for approximately 22,000 square feet of space at two adjacent buildings and runs through October 2008, with total aggregate remaining lease payments as of February 1, 2002 of approximately $6.2 million (approximately $706,000 of which is payable in 2002). Our liability under this guarantee is limited to approximately $2 million.

HQ Global has not filed a motion seeking to reject the remaining three leases that we have guaranteed, although it could do so in the future. Even if the leases are not rejected, we may ultimately be liable to the lessors for payments due under the leases. In one case, the lease is for approximately 25,000 square feet of space in midtown Manhattan, and our liability is currently capped at approximately $630,000, which liability reduces over the life of the lease until its expiration in September 2007. The second lease is a sublease for space in downtown Manhattan. This lease is for approximately 26,000 square feet of space and runs through March 2008, with total aggregate remaining lease payments as of February 1, 2002 of approximately $5.4 million (approximately $755,000 of which is payable in 2002). The third lease is for space in San Mateo, California. This lease is for approximately 19,000 square feet of space and runs through January 2013, with total aggregate remaining lease payments as of March 1, 2002 of approximately $10.4 million (approximately $612,000 of which is payable in 2002).

We currently are evaluating a number of options with respect to these leases in an attempt to reduce or eliminate our possible exposure under these lease guarantees. These options include, among other things, seeking to sublease certain of these lease locations to third parties or assuming the lease as a primary tenant and conducting executive suites or other business activities at these locations. It also is possible that claims by the lessors under the guarantees may be mitigated through re-leasing by them of the space or by retaining the security (generally in the form of cash or letters of credit) granted to them by HQ Global under the leases, but there can be no assurance that this will be the case.

We have investments in real estate joint ventures in which we hold 15%-50% interests. These investments are accounted for using the equity or cost method, as appropriate, and therefore, the assets and liabilities of the joint ventures are not included in our consolidated financial statements. Summarized information relating to the financial condition and results of operations of these joint ventures is presented in note 5 of the notes to consolidated financial statements. Most of these joint ventures own and operate office buildings financed by non-recourse debt obligations. These obligations aggregated $497.5 million at December 31, 2001, and are secured only by the real estate and other assets of the joint ventures. We have no obligation to repay this debt and the lenders have no recourse to our other assets. We expect that cash flows from operations of the joint ventures and/or proceeds from sales of their assets will satisfy their obligations under those debt agreements. As of December 31, 2001, we guaranteed $8.0 million of debt related to a joint venture and $5.2 million of debt related to a development project we have undertaken with a third party. However, our investments in these joint ventures are subject to risks not inherent in our majority owned properties, including:

* Absence of exclusive control over the development, financing, leasing, management and other aspects of the project;

* Possibility that our co-venturer or partner might:
  * become bankrupt;
  * have interests or goals that are inconsistent with ours;
  * take action contrary to our instructions, requests or interests (including those related to our qualification as a REIT for tax purposes); or
  * otherwise impede our objectives; and
* Possibility that we, together with our partners, may be required to fund losses of the investee which losses would not necessarily appear on our consolidated financial statements (e.g. for cost method investments).

In addition to making investments in these ventures, we provide construction management, leasing, development and architectural and other services to them. We earned fees for these services of $6.2 million in 2001, $8.9 million in 2000 and $7.9 million in 1999. Accounts receivable from joint ventures and other affiliates were $4.2 million at December 31, 2001 and $4.8 million at December 31, 2000.

Other material related party transactions include general contracting and other services from Clark Enterprises, Inc., an entity in which one of our directors is the majority stockholder. We, including our unconsolidated affiliates, paid $25.8 million in 2001, $10.0 million in 2000 and $20.1 million in 1999 to Clark Enterprises, Inc. for these services. Substantially all of the payments are related to our unconsolidated affiliates.

NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 2001. SFAS No. 142 changes the accounting for goodwill and intangible assets with indefinite lives from an amortization approach to an impairment-only approach. Adoption of SFAS No. 142 on January 1, 2002 will not have an effect on our financial statements.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assts and for Long-Lived Assets to Be Disposed Of," and APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." The Statement does not change the fundamental provisions of SFAS No. 121; however, it resolves various implementation issues of SFAS No. 121 and establishes a single accounting model for long-lived assets to be disposed of by sale. It retains the requirement of Opinion No. 30 to report separately discontinued operations but extends that reporting to a component of an entity that either has been disposed of (by sale, abandonment, or in distribution to owners) or is classified as held for sale. We do not believe that adoption of SFAS No. 144 in 2002 will have a material effect on our financial statements.

FUNDS FROM OPERATIONS

We believe that funds from operations is helpful to investors as a measure of the performance of an equity REIT. Based on our experience, funds from operations, along with information about cash flows from operating activities, investing activities and financing activities, provides investors with an indication of our ability to incur and service debt, to make capital expenditures and to fund other cash needs. Funds from operations is defined by the National Association of Real Estate Investment Trusts (NAREIT) as follows:

* Net income (loss) - computed in accordance with accounting principles generally accepted in the United States of America (GAAP);
* Less gains (or plus losses) from sales of depreciable operating properties and items that are classified as extraordinary items under GAAP;
* Plus depreciation and amortization of assets uniquely significant to the real estate industry;
* Plus or minus adjustments for unconsolidated partnerships and joint ventures (to reflect funds from operations on the same basis).

Our funds from operations may not be comparable to funds from operations reported by other REITs. These other REITs may not define the term in accordance with the current NAREIT definition or may interpret the

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current NAREIT definition differently than us. We continue to exclude the gain (loss) on settlement of treasury locks for funds from operations. Funds from operations does not represent net income or cash flow generated from operating activities in accordance with GAAP. As such, it should not be considered an alternative to net income as an indication of our performance or to cash flows as a measure of our liquidity or our ability to make distributions.

The following table provides the calculation of our funds from operations for the years presented:

(In thousands)	2001	2000
Income from continuing operations before minority interest	$ 88,492	$ 163,308
Adjustments to derive funds from operations:		
Add:		
Depreciation and amortization	131,909	128,861
Gain on settlement of treasury locks	-	-
Deduct:		
Minority interests (non-Unitholders share of depreciation, amortization and net income)	(755)	(1,084)
Gain on sale of assets and other provisions, net	(2,964)	(36,371)
Funds from operations before allocation to the minority Unitholders	216,682	254,714
Less funds from operations allocable to the minority Unitholders	(16,901)	(16,342)
Funds from operations allocable to CarrAmerica Realty Corporation	199,781	238,372
Less preferred stock dividends	(34,719)	(35,206)

Funds from operations allocable to common shareholders	$ 165,062	$ 203,166

Changes in funds from operations are largely attributable to the effects of property acquisitions and dispositions and new developments as discussed above.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Increases in interest rates would increase our interest expense and adversely affect our cash flow. As of December 31, 2001, we had $457.0 million outstanding under our line of credit that bears a floating interest rate. In addition, we had $473.4 million of fixed rate mortgage debt. Our unsecured credit facility matures in June 2004. The mortgage loans mature at various dates through 2029. We also have $475.0 million senior unsecured notes, which mature between 2004 and 2008. As of February 28, 2002, we had $70.0 million outstanding under our line of credit, $470.5 million of fixed rate mortgage debt and $875.0 million of senior unsecured notes.

Our future earnings and cash flow and the fair values of our financial instruments are dependent upon prevailing market rates. Market risk associated with financial instruments and derivative and commodity instruments is the risk of loss from adverse changes in market prices or rates. We manage our risk by matching projected cash inflows from operating activities, financing activities and investing activities with projected cash outflows to fund debt payments, acquisitions, capital expenditures, distributions and other cash requirements. We may also use derivative financial instruments at times to limit market risk. Interest rate protection agreements may be used to convert floating rate debt to a fixed rate basis, to convert fixed rate debt to a floating rate basis or to hedge anticipated financing transactions. We use derivative financial instruments only for hedging purposes, and not for speculation or trading purposes.

If the market rates of interest on our variable rate debt change by 10% (or approximately 26 basis points), our interest expense would change by approximately $1.2 million. This assumes the amount outstanding under our variable rate credit facility remains at $457.0 million, our balance at December 31, 2001. The book value of our variable interest credit facility approximates market value at December 31, 2001. As of February 28, 2002, a 10% change in the interest rate on our variable rate debt would change our interest expense by approximately $0.2 million.

A change in interest rates generally does not impact future earnings and cash flows for fixed rate debt instruments. As fixed rate debt matures, and additional debt is incurred to fund the repayments of maturing loans, future earnings and cash flows may be impacted by changes in interest rates. This impact would be realized in the periods subsequent to debt maturities. The following is a summary of the fixed rate mortgages and senior unsecured debt maturities at December 31, 2001 (in thousands):

2002	$ 43,944
2003	50,129
2004	171,480
2005	118,208
2006	51,935
2007 & thereafter	512,686

$ 948,382
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If we assume the repayments of fixed rate borrowings are made in accordance with the terms and conditions of the respective credit arrangements, a 10 percent change in the market interest rate for the respective fixed rate debt instruments would change the fair market value of our fixed rate debt by approximately $15.1 million. The estimated fair market value of the fixed rate debt instruments and the senior unsecured notes at December 31, 2001 was $494.5 million and $489.8 million, respectively. The estimated fair market value of the fixed rate debt instruments and the senior unsecured notes at February 28, 2001 was $492.4 million and $893.7 million, respectively.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary data included in this Annual Report on Form 10-K are listed in Part IV, Item 14(a).

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

This information is hereby incorporated by reference to the material appearing in Part I of this Annual Report on Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

This information is hereby incorporated by reference to the material appearing in the Notice of Annual Meeting of Stockholders ("Proxy Statement") to be held on May 2, 2002 under the caption "Executive Compensation."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

This information is hereby incorporated by reference to the material appearing in the Proxy Statement under the caption "Voting Securities and Principal Holders Thereof."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

This information is hereby incorporated by reference to the material appearing in the Proxy Statement under the caption "Certain Relationships and Transactions."

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENTS SCHEDULES, AND REPORTS ON FORM 8-K

14(a)(1) Financial Statements

Reference is made to the Index to Financial Statements and Schedule on page 50.

14(a)(2) Financial Statement Schedule

Reference is made to the Index to Financial Statements and Schedule on page 50.

14(a)(3) Exhibits

1.1 Underwriting Agreement, dated as of December 13, 2001, by and among CarrAmerica Realty Corporation, Security Capital and Goldman, Sachs & Co., Salomon Smith Barney Inc., First Union Securities, Inc., Legg Mason Wood Walker, Incorporated, Banc of America Securities LLC, Deutsche Banc Alex. Brown Inc. and A.G. Edwards & Sons, Inc., as representative of several underwriters (incorporated by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K dated December 13, 2001 and filed December 18, 2001).

1.2 Underwriting Agreement, dated as of January 8, 2002 between CarrAmerica Realty Corporation and J.P. Morgan Securities Inc. (incorporated by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K filed on January 11, 2002).

1.3 Terms Agreement, dated as of January 8, 2002, by and among CarrAmerica Realty Corporation, CarrAmerica Realty, L.P., J.P. Morgan Securities Inc., Banc of America Securities LLC, First Union Securities, Inc., Lehman Brothers Inc., Salomon Smith Barney Inc., Commerzbank Capital Markets Corporation, Goldman, Sachs & Co., Legg Mason Wood Walker, Incorporated, PNC Capital Markets, Inc. and Wells Fargo Brokerage Services, LLC (incorporated by reference to Exhibit 1.2 to the Company's Current Report on Form 8-K filed on January 11, 2002).

3.1 Amendment and Restatement of Articles of Incorporation of CarrAmerica Realty Corporation, as amended on April 29, 1996 and April 30, 1996 (incorporated by reference to the same numbered exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996).

3.2 Articles Supplementary Relating to Series A Cumulative Convertible Redeemable Preferred Stock dated October 24, 1996 (incorporated by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996).

3.3 Articles Supplementary Relating to Series B Cumulative Redeemable Preferred Stock dated August 8, 1997 (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997).

3.4 Articles Supplementary Relating to Series C Cumulative Redeemable Preferred Stock dated October 30, 1997 (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated and filed on November 6, 1997).

3.5 Articles Supplementary Relating to Series D Cumulative Redeemable Preferred Stock dated December 17, 1997 (incorporated by reference to

Exhibit 4.1 to the Company's Current Report on Form 8-K dated December 16, 1997 and filed on December 17, 1997).

3.6 Articles of Amendment of Amendment and Restatement of Articles of Incorporation of CarrAmerica Realty Corporation (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998).

3.7 Second Amendment and Restatement of By-laws of CarrAmerica Realty Corporation (incorporated by references to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on February 12, 1997).

3.8 Amendment to the Second Amendment and Restatement of By-Laws of CarrAmerica Realty Corporation (incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the Quarter ended June 30, 1998).

3.9 Amendment to the Second Amendment and Restatement of By-laws of CarrAmerica Realty Corporation (incorporated by reference to Exhibit 3.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998).

4.1 Indenture, dated as of July 1, 1997, by and among the Company, as Issuer, CarrAmerica Realty, L.P., as Guarantor, and Bankers Trust Company, as Trustee, Relating to the Company's 7.20% Notes due 2004 and 7.375% Notes due 2007 (incorporated by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997).

4.2 Indenture, dated as of February 23, 1998, by and among the Company, as Issuer, CarrAmerica Realty, L.P., as Guarantor, and Bankers Trust Company, as Trustee, Relating to the Company's 6.625% Notes due 2005 and 6.875% Notes due 2008, (incorporated by reference to Exhibit 4.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).

4.3 Indenture, dated as of October 1, 1998 by and among the Company, as Issuer, CarrAmerica Realty, L.P., as Guarantor, and Bankers Trust Company, as Trustee, (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on October 2, 1998).

4.4 Indenture, dated as of January 11, 2002, by and among CarrAmerica Realty Corporation, CarrAmerica Realty, L.P., as Guarantor, and U.S. National Association as Trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on January 11, 2002).

10.1 Second Amended and Restated Agreement of Limited Partnership of CarrAmerica Realty, L.P., dated May 9, 1997 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997).

10.2 First Amendment to Second Amended and Restated Agreement of Limited Partnership of CarrAmerica Realty, L.P., dated October 6, 1997 (incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).

10.3 Second Amendment to Second Amended and Restated Agreement of Limited

Partnership of CarrAmerica Realty, L.P., dated December 12, 1997 (incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).

10.4 Third Amendment to Second Amended and Restated Agreement of Limited Partnership of CarrAmerica Realty, L.P., dated December 31, 1997 (incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).

10.5 Fourth Amendment to Second Amended and Restated Agreement of Limited Partnership of CarrAmerica Realty, L.P., dated as of December 31, 1998 (incorporated by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998).

10.6 Third Amended and Restated Agreement of Limited Partnership of Carr Realty, L.P., dated March 5, 1996, as amended (incorporated by reference to Exhibit 3.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996).

10.7 First Amendment to Third Amended and Restated Agreement of Limited Partnership of Carr Realty, L.P., dated as of January 22, 1998 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998).

10.8 Second Amendment to Third Amended and Restated Agreement of Limited Partnership of CarrAmerica Realty, L.P., dated as of February 17, 1998 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998).

10.9 Third Amendment to Third Amended and Restated Agreement of Limited Partnership of CarrAmerica Realty, L.P., dated as of May 8, 1998 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998).

10.10 1993 Carr Realty Option Plan (incorporated by reference to Exhibit 10.3 of the Company's Registration Statement on Form S-11, No. 33-53626).

10.11 Non-Employee Director Stock Option Plan (incorporated by reference to the Company's Registration Statement on Form S-8, No. 33-92136).

10.12 First Amendment to CarrAmerica Realty Corporation 1995 Non-Employee Director Stock Option Plan (incorporated by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998).

10.13 Second Amendment to CarrAmerica Realty Corporation 1995 Non-Employee Director Stock Option Plan (incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999).

10.14 1997 Stock Option and Incentive Plan (incorporated by reference to Exhibit 10.5 to the Company's annual report on Form 10-K for the year ended December 31, 1996).

10.15 First Amendment to CarrAmerica Realty Corporation 1997 Stock Option and Incentive Plan (incorporated by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998).

10.16 Second Amendment to CarrAmerica Realty Corporation 1997 Stock Option and Incentive Plan (incorporated by reference to Exhibit 10.15 to the

Company's Annual Report on Form 10-K for the year ended December 31, 1998).

10.17	Third Amendment to CarrAmerica Realty Corporation 1997 Stock Option and Incentive Plan (incorporated by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998).
10.18	Fourth Amendment to CarrAmerica Realty Corporation 1997 Stock Option and Incentive Plan (incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999).
10.19	Fifth Amendment to CarrAmerica Realty Corporation 1997 Stock Option and Incentive Plan (incorporated by reference to Exhibit 10.19 of the Company's 1999 Annual Report on Form 10-K).
10.20	Noncompetition and Restriction Agreement by and among The Oliver Carr Company, Oliver T. Carr, Jr., Carr Realty Corporation and Carr Realty, L.P. (incorporated by reference to Exhibit 10.7 of the Company's Registration Statement on Form S-11, No. 33-53626).
10.21	Consolidated, Amended and Restated Promissory Note dated March 19, 1999 from Carr Realty, L.P. to the Northwestern Mutual Life Insurance Company (incorporated by reference to Exhibit 10.21 of the Company's 1999 Annual Report on Form 10-K).
10.22	Consolidated, Amended and Restated Deed of Trust and Security Agreement dated March 19, 1999 by and among Carr Realty, L.P., William H. Norton, and the Northwestern Mutual Life Insurance Company (incorporated by reference to Exhibit 10.22 of the Company's 1999 Annual Report on Form 10-K).
10.23	Registration Rights Agreement, dated April 30, 1996 by and among Carr Realty Corporation, Security Capital Holdings, S.A. and Security Capital U.S. Realty (incorporated by reference to Exhibit 2.3 of Security Capital U.S. Realty's Schedule 13D dated April 30, 1996).
10.24	Fourth Amended and Restated Credit Agreement, dated August 27, 1998 by and among CarrAmerica Realty Corporation, Carr Realty, L.P., CarrAmerica Realty, L.P., Morgan Guaranty Trust Company of New York, Commerzbank Aktiengesellschaft, New York Branch, NationsBank, N.A., Wells Fargo Bank, National Association, Bank of America National Trust and Savings Association, and the other banks listed therein (incorporated by reference to Exhibit 10.15 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998).
10.25	Agreement and Plan of Merger by and among HQ Global Workplaces, Inc., CarrAmerica Realty Corporation, VANTAS Incorporated and Reckson Service Industries, Inc., dated as of January 20, 2000 (incorporated by reference to Exhibit 10.1 to the Company's Current Report filed on Form 8-K filed February 3, 2000).
10.26	First Amendment to Agreement and Plan of Merger by and among HQ Global Workplaces, Inc., the Company, VANTAS Incorporated and Reckson Services Industries, Inc., dated as of April 29, 2000 (incorporated by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000).

10.27 Second Amendment to Agreement and Plan of Merger by and among VANTAS Incorporated, FrontLine Capital Group, CarrAmerica Realty Corporation and HQ Global Workplaces, Inc. dated as of May 31, 2000 (incorporated by reference to Exhibit 10.1 to the Company's Current Report filed on Form 8-K filed June 16, 2000).

10.28 Stock Purchase Agreement between CarrAmerica Realty Corporation and Reckson Service Industries, Inc., dated as of January 20, 2000 (incorporated by reference to Exhibit 10.3 to the Company's Current Report filed on Form 8-K filed February 3, 2000).

10.29 First Amendment to Stock Purchase Agreement between the Company and Reckson Service Industries, Inc., dated as of April 20, 2000 (incorporated by reference to Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000).

10.30 Stock Purchase agreement among CarrAmerica Realty Corporation, OmniOffices (UK) Limited, OmniOffices (Lux) 1929 Holding Company S.A., VANTAS Incorporated and Reckson Service Industries, Inc., dated as of January 20, 2000 (incorporated by reference to Exhibit 10.4 to the Company's Current Report filed on Form 8-K filed February 3, 2000).

10.31 First Amendment to Stock Purchase Agreement among the Company, OmniOffices (UK) Limited, OmniOffices (Lux) 1929 Holding Company S.A., VANTAS Incorporated and Reckson Service Industries, Inc., dated as of April 29, 2000 (incorporated by reference to Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000).

10.32 Indemnification and Escrow Agreement by and among FrontLine Capital Group, CarrAmerica Realty Corporation and the other parties named therein dated as of June 1, 2000 (incorporated by reference to Exhibit 10.2 to the Company's Current Report filed on Form 8-K filed June 16, 2000).

10.33 Registration Rights Agreement, by and between FrontLine Capital Group and CarrAmerica Realty Corporation dated as of June 1, 2000 (incorporated by reference to Exhibit 10.3 to the Company's Current Report filed on Form 8-K filed June 16, 2000).

10.34 Registration Rights Agreement by and between HQ Global Holdings, Inc. and CarrAmerica Realty Corporation dated as of June 1, 2000 (incorporated by reference to Exhibit 10.4 to the Company's Current Report filed on Form 8-K filed June 16, 2000).

10.35 Stockholders Agreement among FrontLine Capital Group, HQ Global Workplaces, Inc. and CarrAmerica Realty Corporation dated as of June 1, 2000 (incorporated by reference to Exhibit 10.5 to the Company's Current Report filed on Form 8-K filed June 16, 2000).

10.36 Amended and Restated Limited Liability Company Agreement Carr Office Park, L.L.C., dated as of August 15, 2000 (incorporated by reference to Exhibit 10.1 to the Company's Current Report filed on Form 8-K filed September 1, 2000).

10.37 Contribution and Purchase/Sale Agreement, dated as of August 15, 2000, among CarrAmerica Realty Corporation, CarrAmerica Realty L.P.,

CarrAmerica Development, Inc., Carr Development & Construction, L.P., Carr Parkway North I Corporation and New York State Teachers' Retirement System (incorporated by reference to Exhibit 10.2 to the Company's Current Report filed on Form 8-K filed September 1, 2000).

10.38 Supplemental Agreement (Amending and Supplementing the Contribution Agreement and the LLC Agreement), dated as of August 15, 2000, among CarrAmerica Realty Corporation, CarrAmerica Realty L.P., CarrAmerica Development, Inc., Carr Development & Construction, L.P., Carr Parkway North I Corporation and New York State Teachers' Retirement System (incorporated by reference to Exhibit 10.3 to the Company's Current Report filed on Form 8-K filed September 1, 2000).

10.39 Loan Agreement, dated as of April 18, 2000, by and among the Company, CarrAmerica Realty, L.P. and The Chase Manhattan Bank (incorporated by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000).

10.40 Change in Control Employment Agreement by and between CarrAmerica Realty Corporation and Philip L. Hawkins, dated May 6, 1999 (incorporated by reference to Exhibit 10.41 to the Company's 2000 Annual Report on Form 10- K).

10.41 Change in Control Employment Agreement by and between CarrAmerica Realty Corporation and Richard F. Katchuk, dated May 6, 1999 (incorporated by reference to Exhibit 10.42 to the Company's 2000 Annual Report on Form 10-K).

10.42 Change in Control Employment Agreement by and between CarrAmerica Realty Corporation and Thomas A. Carr, dated May 6, 1999 (incorporated by reference to Exhibit 10.43 to the Company's 2000 Annual Report on Form 10-K).

10.43 Change in Control Employment Agreement by and between CarrAmerica Realty Corporation and Karen B. Dorigan, dated February 6, 2001 (incorporated by reference to Exhibit 10.44 to the Company's 2000 Annual Report on Form 10-K).

10.44 Revolving Credit Agreement dated June 28, 2001 among CarrAmerica Realty Corporation, as Borrower, The Chase Manhattan Bank, as Bank and Administrative Agent for the Banks, J.P. Morgan Securities Inc., as Lead Arranger, Exclusive Advisor and Sole Bookrunner, Bank of America, N.A. as Syndication Agent, PNC Bank, National Association, as Documentation Agent, Commerzbank AG, New York Branch, as Documentation Agent, First Union National Bank, as Documentation Agent, and the Banks Listed in the Revolving Credit Agreement (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001).

10.45 Guaranty of Payment dated June 28, 2001 by CarrAmerica Realty L.P. in favor of Chase Manhattan Bank (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001).

10.46 Stock Purchase Agreement, dated as of Novemeber 15, 2001, by and among the Company, Security Capital Group Incorporated and Security Capital Office Business Trust (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated November 15, 2001 and

filed November 16, 2001).

10.47 Termination Agreement, dated as of December 13, 2001, between the Company and Security Capital Group Incorporated (filed herewith).

11.1 Statement regarding computation of per share earnings; reference is made to Notes to Financial Statements, Footnote 1(k).

12.1 Statement re: Computation of ratios

21.1 List of Subsidiaries.

23.1 Consent of KPMG LLP, dated March 18, 2002.

24.1 Power of Attorney of Oliver T. Carr, Jr.

24.2 Power of Attorney of Andrew F. Brimmer.

24.3 Power of Attorney of A. James Clark.

24.4 Power of Attorney of Timothy Howard.

24.5 Power of Attorney of Wesley S. Williams, Jr.

24.6 Power of Attorney of Robert E. Torray

14(B) REPORTS ON FORM 8-K

Form 8-K filed November 2, 2001, regarding Supplemental Financial and Operating Information of the Company as of November 2, 2001 and Press Release of the Company dated November 2, 2001.

Form 8-K filed on November 16, 2001, regarding Stock Purchase Agreement with Security Capital Group Incorporated.

Form 8-K filed on December 3, 2001, regarding the possible write-down of investment in HQ Global Holdings, Inc.

Form 8-K filed on December 12, 2001, regarding Amendment to Article 5 of the Articles of Incorporation.

Form 8-K filed on December 18, 2001, regarding Underwriting Agreement with Security Capital Group Incorporated and Goldman Sachs & Co.

Form 8-K filed on December 21, 2001, regarding Security Capital Group Incorporated consummation of public offering of 19,403,417 share of the Company's common stock.

14(C) EXHIBITS

The list of exhibits filed with this report is set forth in response to Item 14(a)(3). The required exhibit index has been filed with the exhibits.

14(D) FINANCIAL STATEMENTS

The financial statements required by this item are included in the list set forth in response to Item 14(a)(2).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registration has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the District of Columbia on March 18, 2002.

CARRAMERICA REALTY CORPORATION
a Maryland corporation

By: /s/ THOMAS A. CARR
Thomas A. Carr
Chairman of the Board, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 18, 2002.

SIGNATURE	TITLE
/s/ THOMAS A. CARR Thomas A. Carr	Chairman of the Board, President, Chief Executive Officer and Director
/s/ RICHARD F. KATCHUK Richard F. Katchuk	Chief Financial Officer
/s/ STEPHEN E. RIFFEE Stephen E. Riffee	Senior Vice President, Controller and Treasurer
* Andrew F. Brimmer	Director
* Oliver T. Carr, Jr.	Director
* A. James Clark	Director
* Timothy Howard	Director
* Robert E. Torray	Director
* Wesley S. Williams, Jr.	Director

*By: /s/RICHARD F. KATCHUK

Richard F. Katchuk
Attorney-in-fact

CARRAMERICA REALTY CORPORATION
INDEX TO FINANCIAL STATEMENTS AND SCHEDULE

The following Consolidated Financial Statements and Schedule of CarrAmerica Realty Corporation and Subsidiaries and the Independent Auditors' Report thereon are attached hereto:

CARRAMERICA REALTY CORPORATION AND SUBSIDIARIES

Independent Auditors' Report 52
Consolidated Balance Sheets as of December 31, 2001 and 2000......53
Consolidated Statements of Operations for the Years Ended December 31, 2001, 2000 and 1999............................54
Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2001, 2000 and 1999................................55
Consolidated Statements of Cash Flows for the Years Ended December 31, 2001, 2000 and 1999.............................56
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FINANCIAL STATEMENT SCHEDULE

Schedule III: Real Estate and Accumulated Depreciation as of December 31, 2001 for CarrAmerica Realty Corporation and Subsidiaries..........................75-78

All other schedules are omitted because they are not applicable, or because the required information is included in the financial statements or notes thereto.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
CarrAmerica Realty Corporation:

We have audited the consolidated financial statements of CarrAmerica Realty Corporation and subsidiaries as listed in the accompanying index. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedule as listed in the accompanying index. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our

audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CarrAmerica Realty Corporation and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/KPMG LLP

Washington, D.C.
January 31, 2002, except as to note 3 which is
as of March 13, 2002

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CARRAMERICA REALTY CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets as of December 31, 2001 and 2000

(In thousands, except for per share and share amounts)

	2001	2000
Assets		
Rental property:		
Land	$ 647,747	$ 644
Buildings	1,857,775	1,836
Tenant improvements	362,736	325
Furniture, fixtures and equipment	3,789	6
	2,872,047	2,813
Less: Accumulated depreciation	(477,694)	(381
Total rental property	2,394,353	2,432
Land held for development or sale	45,195	47
Construction in progress	19,324	48
Cash and cash equivalents	5,041	24
Restricted deposits	4,596	39
Accounts and notes receivable, net of allowance for doubtful accounts of $9,385 and $3,934, respectively	28,551	70
Investments in unconsolidated entities	118,479	269
Accrued straight-line rents	66,781	54
Tenant leasing costs, net of accumulated amortization of $53,704 and $39,899, respectively	53,894	5
Deferred financing costs, net of accumulated amortization of $16,771 and $14,031, respectively	8,698	11
Prepaid expenses and other assets, net of accumulated amortization of $17,574 and $13,665, respectively	30,688	19
	$ 2,775,600	$ 3,072

Liabilities, Minority Interest and Stockholders' Equity		
Liabilities:		
Mortgages and notes payable	$ 1,405,382	$ 1,211
Accounts payable and accrued expenses	76,692	96
Rent received in advance and security deposits	32,326	29
Total liabilities	1,514,400	1,336
Minority interest	83,393	89
Stockholders' equity:		
Preferred Stock, $0.01 par value, authorized 35,000,000 shares:		
Series A Cumulative Convertible Redeemable Preferred Stock, 80,000 and 480,000 shares issued and outstanding, respectively, with an aggregate liquidation preference of $2.0 million and $12.0 million, respectively	1	
Series B, C and D Cumulative Redeemable Preferred Stock, 8,800,000 shares issued and outstanding with an aggregate liquidation preference of $400.0 million	88	
Common Stock, $0.01 par value, authorized 180,000,000 shares, issued and outstanding 51,965,066 and 65,017,623 shares, respectively	520	
Additional paid-in capital	1,356,912	1,755
Cumulative dividends in excess of net income	(179,714)	(110
Total stockholders' equity	1,177,807	1,646
Commitments and contingencies		
	$ 2,775,600	$ 3,072

See accompanying notes to consolidated financial statements.

CARRAMERICA REALTY CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations for the Years Ended December 31, 2001, 2000 a

(In thousands, except per share amounts)

	2001	2000
Operating revenues:		
Rental revenue:		
Minimum base rent	$ 431,817	$ 448,068
Recoveries from tenants	63,906	64,344
Parking and other tenant charges	11,886	19,447
Total rental revenue	507,609	531,859
Real estate service revenue	31,037	26,172

Total operating revenues	538,646	558,031
Operating expenses:		
Property expenses:		
Operating expenses	123,488	124,119
Real estate taxes	39,329	45,864
Interest expense	82,547	98,348
General and administrative	49,457	42,796
Depreciation and amortization	127,084	128,542
Total operating expenses	421,905	439,669
Real estate operating income	116,741	118,362
Other (expense) income:		
Interest income	3,052	4,372
Equity in earnings of unconsolidated entities	9,322	7,596
Impairment loss on investment	(42,249)	-
Gain on treasury locks	-	-
Total other (expense) income	(29,875)	11,968
Income from continuing operations before income taxes, minority interest, and gain on sale of assets and other provisions, net	86,866	130,330
Income taxes	(1,338)	(3,393)
Minority interest	(9,431)	(16,149)
Gain on sale of assets and other provisions, net	2,964	36,371
Income from continuing operations	79,061	147,159
Discontinued operations - Income (loss) from executive suite operations (net of applicable income tax expense (benefit) of $1,300 in 2000 and ($816) in 1999)	-	456
Discontinued operations - Gain on sale of discontinued operations (less applicable income tax expense of $21,131)	-	31,852
Net income	$ 79,061	$ 179,467
Basic net income per common share:		
Income from continuing operations	$ 0.73	$ 1.69
Discontinued operations	-	0.01
Gain on sale of discontinued operations	-	0.48
Net income	$ 0.73	$ 2.18
Diluted net income per common share:		
Income from continuing operations	$ 0.71	$ 1.65
Discontinued operations	-	0.01
Gain on sale of discontinued operations	-	0.47

Net income	$ 0.71	$ 2.13
	===========	===========

See accompanying notes to consolidated financial statements.

CARRAMERICA REALTY CORPORATION AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity as of December 31, 2001,

(In thousands, except share amounts)	Preferred Shares	Common Shares	Preferred Stock	Common Stock	Additi Paid Capi
Balance at December 31, 1998	9,480,000	71,760,172	$ 95	$ 718	$ 1,926
Repurchase of common stock	-	(5,000,000)	-	(50)	(109
Shares issued in exchange for Unit redemptions	-	38,430	-	-	
Exercise of stock options	-	27,686	-	-	
Net income	-	-	-	-	
Dividends paid	-	-	-	-	
Balance at December 31, 1999	9,480,000	66,826,288	95	668	1,816
Repurchase of common stock	-	(3,174,100)	-	(31)	(90
Shares issued in exchange for Unit redemptions	-	593,800	-	-	14
Management incentive plan cancellation	-	(88,659)	-	-	(2
Exercise of stock options	-	660,294	-	11	16
Conversion of Series A Cumulative Preferred Stock to common stock	(200,000)	200,000	(2)	2	
Net income	-	-	-	-	
Dividends paid	-	-	-	-	
Balance at December 31, 2000	9,280,000	65,017,623	93	650	1,755
Repurchase of common stock	-	(14,744,102)	-	(147)	(428
Shares issued in exchange for Unit redemptions	-	79,100	-	1	1
Exercise of stock options	-	1,212,445	-	12	27
Conversion of Series A Cumulative Preferred Stock to common stock	(400,000)	400,000	(4)	4	
Net income	-	-	-	-	
Dividends paid	-	-	-	-	
Balance at December 31, 2001	8,880,000	51,965,066	$ 89	$ 520	$ 1,356

See accompanying notes to consolidated financial statements.

CARRAMERICA REALTY CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows for the Years Ended December 31, 2001, 2000 and

(In thousands)

	2001	2000
Cash flows from operating activities:		
Net income	$ 79,061	$ 179,
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	127,084	128,
Minority interest	9,431	16,
Gain on sale of assets and other provisions, net	(2,964)	(36,
Impairment loss on investment	42,249	
Equity in earnings of unconsolidated entities	(9,322)	(7,
Income and gain on sale of discontinued operations	-	(32,
Provision for uncollectible accounts	5,498	(2,
Stock-based compensation	2,630	2,
Other	330	(2,
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	19,737	(22,
Increase in accrued straight-line rents	(13,009)	(9,
Additions to tenant leasing costs	(13,418)	(17,
Increase in prepaid expenses and other assets	(14,798)	(4,
Decrease in accounts payable and accrued expenses	(18,508)	(15,
Increase in rent received in advance and security deposits	3,713	2,
Total adjustments	138,653	(
Net cash provided by operating activities	217,714	179,
Cash flows from investing activities:		
Acquisition and development of rental property	(49,829)	(90,
Additions to land held for development or sale	(37,661)	(26,
Additions to construction in progress	(32,443)	(97,
Acquisition and development of executive suite assets	-	(6,
Payments on notes receivable	16,542	
Issuance of notes receivable	(582)	(5,
Distributions from unconsolidated entities	91,167	7,
Contributions to unconsolidated entities	(17,194)	(29,
Acquisition of minority interest	(5,033)	(8,
Decrease (increase) in restricted deposits	34,886	(27,
Proceeds from sales of properties	101,351	474,
Proceeds from sale of discontinued operations	-	377,
Net cash provided by investing activities	101,204	567,
Cash flows from financing activities:		
Repurchase of common stock	(428,275)	(90,
Exercises of stock options	28,477	29,
Net borrowings (repayments) on unsecured credit facility (including $140,500 related to discontinued operations in 2000)	281,000	(307,
Payment of senior unsecured notes	-	(150,

Repayments of mortgages payable (including $14,449 related to discontinued operations in 2000)	(86,770)	(88,
Proceeds from refinancing of existing mortgages	-	
Proceeds from mortgages	26,628	
Dividends and distributions to minority interests	(159,641)	(169,
Deferred financing costs	-	
Contributions from minority interests	-	2,
Net cash used by financing activities	(338,581)	(773,
Foreign currency translation adjustment	-	
(Decrease) increase in cash and cash equivalents	(19,663)	(27,
Cash and cash equivalents, beginning of the period	24,704	51,
Cash and cash equivalents, end of the period	$ 5,041	$ 24,
Supplemental disclosure of cash flow information:		
Cash paid for interest (net of capitalized interest of $6,221, $12,367 and $26,485, respectively)	$ 74,996	$ 99,
Cash paid for income taxes	$ 27,361	$ 8,

See accompanying notes to consolidated financial statements.

CARRAMERICA REALTY CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(1) Description of Business and Summary of Significant Accounting Policies

(a) Business

We are a fully integrated, self-administered and self-managed publicly traded real estate investment trust ("REIT"). We focus on the acquisition, development, ownership and operation of office properties, located primarily in selected suburban markets across the United States. Based on property net operating income, our most significant markets include the San Francisco Bay area, the Washington, D.C. Metro area, Southern California and Seattle/Portland. Until June 2000, we also operated an executive suites business. As discussed in note 3, we disposed of a substantial portion of our interest in this business on June 1, 2000, and we present the executive suites business as a discontinued operation. For the last several years, our principal shareholder was Security Capital Group Incorporated and/or affiliates ("Security Capital"). In November 2001, we repurchased 9.2 million shares of our common stock from Security Capital and in December 2001, Security Capital sold its remaining shares of our common stock to the public in an underwritten offering.

(b) Basis of Presentation

Our accounts and those of our majority-owned/controlled subsidiaries and affiliates are consolidated in the financial statements. We use the equity or cost methods, as appropriate in the circumstances, to account for our investments in and our share of the earnings or losses of unconsolidated entities. These entities are not majority-owned or controlled by us. If events or changes in circumstances indicate that the fair value of an investment

accounted for using the equity method or cost method has declined below its carrying value and we consider the decline to be "other than temporary," the investment is written down to fair value and an impairment loss is recognized.

Management has made a number of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses in the financial statements, and the disclosure of contingent assets and liabilities. Estimates are required in order for us to prepare our financial statements in conformity with accounting principles generally accepted in the United States of America. Significant estimates are required in a number of areas, including the evaluation of impairment of long-lived assets and equity and cost method investments and evaluation of the collectibility of accounts and notes receivable. Actual results could differ from these estimates.

(c) Rental Property

Properties to be developed or held and used in rental operations are carried at cost less accumulated depreciation and impairment losses, where appropriate.Properties held for sale are carried at the lower of their carrying values (i.e., cost less accumulated depreciation and impairment losses, where appropriate) or estimated fair value less costs to sell. Properties are considered held for sale when they are subject to a contract of sale meeting criteria specified by senior management (e.g., contingencies are met or waived, a nonrefundable deposit is paid, etc.). Depreciation on these properties is discontinued at that time, but operating revenues, other operating expenses and interest continue to be recognized until the date of sale. As of December 31, 2001 and 2000, land with a carrying value of $6.9 million and $12.0 million, respectively, was held for sale. As of December 31, 2000, $203.0 million of rental properties were held for sale.

Depreciation of rental properties is computed on a straight-line basis over the estimated useful lives of the assets. The estimated lives of our assets by class are as follows:

Base building......................	30 to 50 years
Building components................	7 to 20 years
Tenant improvements................	Lesser of the terms of the leases or useful lives of the assets
Furniture, fixtures and equipment...	5 to 15 years

Specifically identifiable costs associated with properties and land in development are capitalized. Capitalized costs may include salaries and related costs, real estate taxes, interest, pre-construction costs essential to the development of a property, development costs, construction costs and external acquisition costs. Costs of significant

improvements, renovations and replacements to rental properties are capitalized. Expenditures for maintenance and repairs are charged to operations as they are incurred.

If events or changes in circumstances indicate that the carrying value of a rental property to be held and used or land held for development may be impaired, we perform a recoverability analysis based on estimated undiscounted cash flows to be generated from the property in the future. If the analysis

indicates that the carrying value is not recoverable from future cash flows, the property is written down to estimated fair value and an impairment loss is recognized.

We recognize gains from sales of rental properties and land at the time of sale using the full accrual method, provided that various criteria related to the terms of the transactions and any subsequent involvement by us with the properties sold are met. If the criteria are not met, we defer the gains and recognize them when the criteria are met or using the installment or cost recovery methods, as appropriate in the circumstances.

(d) Tenant Leasing Costs

We defer fees and initial direct costs incurred in the negotiation of completed leases. They are amortized on a straight-line basis over the term of the lease to which they apply.

(e) Deferred Financing Costs

We defer fees and costs incurred to obtain financing. They are amortized using the interest method over the term of the loan to which they apply.

(f) Fair Values of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts and notes receivable and accounts payable and accrued expenses approximate their fair values because of their short-term maturities. Fair value information relating to mortgages and notes payable is provided in note 2.

(g) Revenue Recognition

We recognize minimum base rental revenue under tenant leases on a straight-line basis over the terms of the related leases. Accrued straight-line rents represent the rental revenue recognized in excess of rents due under the lease agreements at the balance sheet date. We recognize revenues for recoveries from tenants of real estate taxes, insurance and other costs in the period in which the related expenses are incurred. We recognized revenues for rents that are based on a percentage of a tenant's sales in excess of levels specified in the lease agreement when the tenant's sales actually exceed the specified minimum level.

We recognize revenue for services on properties we manage, lease or develop for unconsolidated entities or third parties when the services are performed. Revenue for development and leasing services to affiliates is reduced to eliminate profit to the extent of our ownership interest.

We provide for potentially uncollectible accounts and notes receivable and accrued straight-line rents based on analysis of the risk of loss specific accounts. The analysis places particular emphasis on past-due accounts and considers information such as the nature and age of the receivable, the payment history of the tenant or other debtor, the financial condition of the tenant and our assessment of its ability to meet its lease obligations, the basis for any disputes and the status of related negotiations, etc.

(h) Income and Other Taxes

In general, a REIT that meets certain organizational and operational requirements and distributes at least 90 percent of its REIT taxable income to its shareholders in a taxable year will not be subject to income tax to the extent of the income it distributes. We qualify and intend to continue to qualify as a REIT under the Internal Revenue Code of 1986, as amended. As a result, no provision for federal income taxes on income from continuing

operations is required, except for taxes on certain property sales and on taxable income, if any, of our taxable REIT subsidiaries ("TRS"). If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax

(including any applicable alternative minimum tax) on our taxable income at regular corporate tax rates. Even if we qualify for taxation as a REIT, we may be subject to state and local income and franchise taxes and to federal income tax and excise tax on any undistributed income.

We incurred federal and state income and franchise taxes of approximately $1.6 million, $34.6 million and $1.7 million for the years ended December 31, 2001, 2000 and 1999, respectively. At December 31, 2001, we recorded a valuation allowance for the full amount ($16.3 million) of the deferred tax assets of our TRS, primarily net operating loss carryforwards, since we do not believe that it is more likely than not that these deferred tax assets will be realized.

Reconciliation of Net Income to Estimated Taxable Income (Unaudited)

Earnings and profits, which determine the taxability of distributions to stockholders, differ from net income reported for financial reporting purposes due primarily to differences in the estimated useful lives and methods used to compute depreciation of property, in the carrying value (basis) of investments in properties and unconsolidated entities and timing of recognition of certain revenues and expenses for tax and financial reporting purposes. The following table reconciles our net income to estimated taxable income for the year ended December 31, 2001:

(in thousands)	
Net income	$ 79,061
Depreciation/amortization timing differences on real estate	31,294
Straight-line rent adjustments	(8,873)
Earnings adjustment on consolidated and unconsolidated entities	(1,255)
Rents in received in advance	1,685
Tax gain on sale of real estate in excess of book gain	7,544
Book loss on securities in excess of tax	42,249
Transaction and project costs deductible for tax	(3,936)
Other	(757)
Estimated taxable net income	$ 147,012

Reconciliation Between Dividends Paid and Dividends Paid Deductions (Unaudited)

The following table reconciles cash dividends paid and the dividends paid deduction for income tax purposes for the years ended December 31, 2001, 2000 and 1999:

(in thousands)	2001	2000	1999
Cash dividends paid	$148,825	$158,453	$161,326
Dividends carried back to the prior year	(1,395)	(14,099)	-
Dividends designated from following year	-	1,395	14,099

Dividends paid deduction	$147,430	$145,749	$175,425

Characterization of distributions (Unaudited)

The following table characterizes distributions paid per common share for the years ended December 31, 2001, 2000 and 1999:

	2001	2000	1999
Ordinary income	92%	84%	78%
Capital gain	8%	16%	22%

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CARRAMERICA REALTY CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(i) EARNINGS PER SHARE AND DIVIDENDS

Our basic earnings per share (EPS) is computed by dividing earnings available to common shareholders by the weighted average number of common shares outstanding. Our diluted EPS is computed after adjusting the numerator and denominator of the basic EPS computation for the effects of all dilutive potential common shares outstanding during the period. The dilutive effects of convertible securities are computed using the "if-converted" method. The dilutive effects of options, warrants and their equivalents are computed using the "treasury stock" method.

The following table sets forth information relating to the computations of our basic and diluted EPS for income from continuing operations:

(In thousands except per share amounts)

	Year Ended December 31,2001		
	Income (Numerator)	Shares (Denominator)	Per Am
Basic EPS	$ 44,356	61,010	$
Effect of Dilutive Securities - Stock Options	-	1,432	
Diluted EPS	$ 44,356	62,442	$

	Year Ended December 31.2000		
	Income (Numerator)	Shares (Denominator)	Per Am
Basic EPS	$ 111,953	66,221	$
Effect of Dilutive Securities - Stock Options	-	1,428	
Diluted EPS	$ 111,953	67,649	$

	Year Ended December 31,1999		
	Income (Numerator)	Shares (Denominator)	Per Am
Basic EPS	$ 115,631	67,858	$
Effect of Dilutive Securities - Stock Options	-	124	
Diluted EPS	$ 115,631	67,982	$

Income from continuing operations has been reduced by preferred stock dividends of $34,705, $35,206 and $35,448 for 2001, 2000 and 1999, respectively.

The effects of convertible units in CarrAmerica Realty, L.P. and Carr Realty, L.P. and Series A Convertible Preferred Stock are not included in the calculation of diluted EPS for any year in which their effect is antidilutive.

(j) CASH EQUIVALENTS

We consider all highly liquid investments with maturities at date of purchase of three months or less to be cash equivalents except that any such investments purchased with funds on deposit in escrow or similar accounts are classified as restricted deposits.

(k) ACCUMULATED OTHER COMPREHENSIVE INCOME

We currently do not have any items of other comprehensive income. Prior to the merger of HQ Global with VANTAS (see note 3), we had foreign currency translation adjustments relating to HQ Global's foreign affiliates.

Our comprehensive income, consisting of net income and translation adjustments, was $179.5 million in 2000 and $141.7 million in 1999.

(l) SEGMENT INFORMATION

We have two reportable business segments: real estate property operations and development operations. Business activities and operating segments that are not reportable are included in other operations.

(m) STOCK/UNIT COMPENSATION PLANS

We apply the intrinsic value-based method of accounting prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations to account for our stock/unit compensation plans. Under this method, we record compensation expense for awards of stock, options or units to employees only if the market price of the unit or stock on the grant date exceeds the amount the employee is required to pay to acquire the unit or stock. Information concerning the pro forma effects on net earnings and earnings per share of using an optional fair value-method (rather than the intrinsic value method) to account for stock/unit compensation

plans is presented in note 8.

(n) NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 2001. SFAS No. 142 changes the accounting for goodwill and intangible assets with indefinite lives from an amortization approach to an impairment-only approach. Adoption of SFAS No. 142 on January 1, 2002 will not have an effect on our financial statements.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." The Statement does not change the fundamental provisions of SFAS No. 121; however, it resolves various implementation issues of SFAS No. 121 and establishes a single accounting model for long-lived assets to be disposed of by sale. It retains the requirement of Opinion No. 30 to report separately discontinued operations but extends that reporting to a component of an entity that either has been disposed of (by sale, abandonment, or in distribution to owners) or is classified as held for sale. We do not believe that adoption of SFAS No. 144 in 2002 will have a material effect on our financial statements.

(o) RECLASSIFICATIONS

Some prior years' amounts have been reclassified to conform to the current year's presentation.

(2) MORTGAGES AND NOTES PAYABLE

Our mortgages and notes payable are summarized as follows:

(In thousands)	December 31, 2001	December 31, 2000
Fixed rate mortgages	$ 473,382	$ 560,158
Unsecured credit facility	457,000	176,000
Senior unsecured notes	475,000	475,000
	$ 1,405,382	$ 1,211,158

Mortgages payable are collateralized by properties and generally require monthly principal and/or interest payments. Mortgages payable mature at various dates from June 2002 through July 2029. The weighted average interest rate of mortgages payable was 8.04% at December 31, 2001 and 8.09% at December 31, 2000.

In June 2001, we closed on a new three-year $500.0 million unsecured credit facility with J.P. Morgan Chase, as agent for a group of banks. We can extend the life of the line an additional year at our option. The line carries

an interest rate of 70 basis points over 30-day London Interbank Offered Rate (LIBOR). The new credit facility has substantially similar terms as our previous facility. As of December 31, 2001, $457.0 million was drawn on the credit facility, $2.2 million in letters of credit were outstanding and we had $40.8 million available for borrowing.

On December 21, 2001, we entered into a $150 million short-term loan to provide additional liquidity. Affiliates of Banc of America Securities LLC and J.P. Morgan Securities were the lenders under this short-term loan. The loan was to mature on April 2, 2002, but was terminated without being used in January 2002 when we issued $400 million of senior unsecured notes.

On January 11, 2002, we issued $400 million of senior unsecured notes. The notes bear interest at 7.125% per annum, payable semi-annually beginning on July 15, 2002. The notes mature on January 15, 2012. The notes are unconditionally guaranteed by CarrAmerica Realty, L.P., one of our subsidiaries. Proceeds from the notes were used to pay down our unsecured credit facility.

Our unsecured credit facility contains financial and other covenants with which we must comply. Some of these covenants include:

* A minimum ratio of annual EBITDA (earnings before interest, taxes, depreciation and amortization) to interest expense;
* A minimum ratio of annual EBITDA to fixed charges;
* A maximum ratio of total debt to tangible fair market value of our assets; and
* Restrictions on our ability to make dividend distributions in excess of 90% of funds from operations.

Availability under the unsecured credit facility is also limited to a specified percentage of the fair value of our unmortgaged properties.

We had senior unsecured notes outstanding of $475.0 million at December 31, 2001. These notes are as follows:

* $150 million of 7.20% notes due in 2004;
* $100 million of 6.625% notes due in 2005;
* $125 million of 7.375% notes due in 2007; and
* $100 million of 6.875% notes due in 2008.

Our senior unsecured notes also contain covenants with which we must comply. These include:

* Limits on our total indebtedness on a consolidated basis;

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* Limits on our secured indebtedness on a consolidated basis; and
* Limits on our required debt service payments.

CarrAmerica Realty, L.P. unconditionally guarantees the senior unsecured notes.

Debt maturities at December 31, 2001 are as follows:

(In thousands)	
2002	$ 43,944

2003	50,129
2004	628,480
2005	118,208
2006	51,935
2007 and thereafter	512,686
	$ 1,405,382

Restricted deposits consist primarily of escrow deposits. These deposits are required by lenders to be used for future building renovations or tenant improvements or as collateral for letters of credit.

The estimated fair value of our mortgages payable at December 31, 2001 and 2000 was approximately $494.5 million and $582.3 million, respectively. The estimated fair value is based on the borrowing rates available to us for fixed rate mortgages payable with similar terms and average maturities. The fair value of the unsecured credit facility at December 31, 2001 and 2000 approximates book value. The estimated fair value of our senior unsecured notes at December 31, 2001 and 2000 was approximately $489.8 million and $468.7 million, respectively. The estimated fair value is based on the borrowing rates available to us for debt with similar terms and maturities.

(3) DISCONTINUED OPERATIONS

On January 20, 2000, we, along with HQ Global Workplaces, Inc. (HQ Global), VANTAS Incorporated (VANTAS) and FrontLine Capital Group (FrontLine), entered into several agreements that contemplated several transactions including (i) the merger of VANTAS with and into HQ Global, (ii) the acquisition by FrontLine of shares of HQ Global common stock from us and other stockholders of HQ Global, and (iii) the acquisition by VANTAS of our debt and equity interests in OmniOffices (UK) Limited and OmniOffices LUX 1929 Holding Company S.A. On June 1, 2000, we consummated the transactions. We recognized an after tax gain of $31.9 million. Following the transactions, we owned approximately 16% of the equity of HQ Global on a fully diluted basis and our investment had a carrying value of $42.2 million.

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

On January 30, 2002, FrontLine reiterated that HQ Global was in active negotiations with its lenders and certain other investors in HQ Global with respect to the restructuring of its long-term indebtedness with an objective of reaching an agreement on terms that would provide HQ Global with sufficient liquidity to operate its business through the current economic downturn. Unsuccessful in these attempts, on March 13, 2002, HQ Global filed for bankruptcy protection under Chapter 11 of the federal bankruptcy laws.

During 1997 and 1998, we provided guarantees of HQ Global's performance

under four office leases. In connection with the HQ Global/VANTAS merger transaction, FrontLine agreed to indemnify us against any losses incurred with respect to these guarantees. However, at this time, FrontLine's principal asset is its interest in HQ Global, and therefore our ability to recover any resulting losses from FontLine under this indemnity likely will be limited.

As part of the initial filings made in the bankruptcy proceedings, HQ Global filed a motion to reject one of these four leases. As a result, we may be liable to the lessor with respect to payments due under this lease from and after February 2002. This lease is for space in San Jose, California. The lease term extends to October 2008, with total aggregate remaining lease payments as of February 1, 2002 of approximately $6.2 million (approximately $706,000 of which is payable in 2002). Our liability under the guarantee relating to this lease is limited to approximately $2 million.

HQ Global has not filed a motion to reject the remaining three leases that we have guaranteed, although it could do so in the future or otherwise fail to make timely payments due under the leases. One of the leases is for space in midtown Manhattan, and our liability under the guarantee is currently limited to approximately $630,000; the limit decreases over the life of the lease until its expiration in September 2007. The second lease is a sublease for space in downtown Manhattan. The lease term extends to March 2008, with total aggregate remaining lease payments as of February 1, 2002 of approximately $5.4 million (approximately $755,000 of which is payable in 2002). The third lease is for space in San Mateo, California. The lease term extends to January 2013, with total aggregate remaining lease payments as of March 1, 2002 of approximately $10.4 million (approximately $612,000 of which is payable in 2002).

We currently are evaluating a number of options with respect to these leases in an attempt to reduce or eliminate our possible exposure under these lease guarantees. These options include, among other things, seeking to sublease certain of these lease locations to third parties or assuming the lease as a primary tenant and conducting executive suites or other business activities at these locations.

(4) MINORITY INTEREST

At the time we were incorporated and our majority-owned subsidiary, Carr Realty, L.P. was formed, those who contributed interests in properties to Carr Realty, L.P. had the right to elect to receive either our common stock or units of limited partnership interest in Carr Realty, L.P. In addition, we have acquired assets since our formation by issuing distribution paying units and non-distribution paying units of Carr Realty, L.P. and CarrAmerica Realty, L.P.

The non-distribution paying units cannot receive any distributions until they automatically convert into distribution paying units in the future. During the years ended December 31, 2001 and 2000, 89,357 and 163,598 non-distribution paying units were converted to distribution paying units, respectively. A distribution paying unit, subject to restrictions, may be redeemed at any time for either one share of our common stock, or, cash equal to the fair market value of a share of our common stock at our option at the redemption date. When a Unitholder redeems a distribution paying unit for a share of common stock or cash, minority interest is reduced and our investment in Carr Realty, L.P. or CarrAmerica Realty, L.P., as appropriate, is increased. During the years ended December 31, 2001, 2000 and 1999, 61,432, 292,739 and 38,430

distribution paying units, respectively, of Carr Realty, L.P. were redeemed for our common stock. During the years ended December 31, 2001, 2000 and 1999, 52,782, 146,151 and no units, respectively, of CarrAmerica Realty, L.P. were redeemed for cash or our common stock. Minority interest in the financial statements relates primarily to Unitholders.

The following table summarizes the outstanding shares of our common stock, preferred stock which is convertible into our common stock and outstanding units of Carr Realty, L.P. and CarrAmerica Realty, L.P.:

(In thousands)

As of December 31,	Common Stock Outstanding	Convertible Preferred Stock Outstanding	Distribution Paying Units Outstanding	Non-Distribu Paying Units Outstandi
2001	51,965	80	5,794	179
2000	65,018	480	5,656	268
1999	66,826	680	6,048	432
Weighted average for:				
2001	61,010	256	5,809	231
2000	66,221	495	5,916	405
1999	67,858	680	6,003	495

(5) OTHER INVESTMENTS IN UNCONSOLIDATED ENTITIES AND AFFILIATE TRANSACTIONS

We utilize joint venture arrangements on projects characterized by large dollar-per-square foot costs and/or when we desire to limit capital deployment in certain of our core markets. We own interests ranging from 15% to 50% in real estate property operations and development operations through unconsolidated entities. We had eleven investments at December 31, 2001 and 2000 and six investments at December 31, 1999 in these entities. Adjustments are made to equity in earnings of unconsolidated entities to account for differences in the amount at which the investment is carried and the amount of underlying equity in the net assets.

The combined condensed financial information for the unconsolidated entities accounted for under the equity method is as follows:

(In thousands)

Balance Sheets	December 31, 2001	2000
Assets		

Rental property, net	$ 647,294	$ 569,500
Land and construction in progress	161,959	123,540
Cash and cash equivalents	17,607	20,140
Other assets	54,493	37,201
	$ 881,353	$ 750,381
Liabilities and Partners' Capital		
Liabilities:		
Notes payable	$ 497,493	$ 184,991
Other liabilities	36,582	15,697
Total liabilities	534,075	200,688
Partners' capital	347,278	549,693
	$ 881,353	$ 750,381

	Year Ended December 31,		
Statements of Operations	2001	2000	1999
Revenue	$ 109,441	$ 64,423	$ 39,825
Depreciation and amortization expense	27,890	14,733	7,370
Interest expense	22,034	19,529	19,464
Other expenses	37,627	21,302	11,371
Gain on sale of assets	--	63,984	--
Net income	$ 21,890	$ 72,843	$ 1,620

In addition to making investments in these ventures, we provide construction management, leasing, development and architectural and other services to them. We earned fees for these services of $6.2 million in 2001, $8.9 million in 2000 and $7.9 million in 1999. Accounts receivable from joint ventures and other affiliates were $4.2 million at December 31, 2001 and $4.8 million at December 31, 2000.

Other material related party transactions include general contracting and other services from Clark Enterprises, Inc., an entity in which one of our directors is the majority stockholder. We, including our unconsolidated affiliates, paid $25.8 million in 2001, $10.0 million in 2000 and $20.1 million in 1999 to Clark Enterprises, Inc. for these services. Substantially all of the payments related to our unconsolidated affiliates.

As of December 31, 2001, we guaranteed $8.0 million of debt related to a joint venture and $5.2 million of debt related to a development project we have undertaken with a third party.

In November 2001, we repurchased 9.2 million shares of our common stock from Security Capital for a total of $265.4 million or $28.85 per share.

(6) LEASE AGREEMENTS

Space in our rental properties is leased to approximately 1,000 tenants. In addition to minimum rents, the leases typically provide for other rents which reimburse us for specific property operating expenses. The future minimum base rent to be received under noncancellable tenant leases and the percentage of total rentable space under leases expiring each year, as of December 31, 2001 are summarized as follows:

(Dollars in thousands)	Future Minimum Rent	Percentage of Total Space Under Lease Expiring
2002	$ 413,681	10.4
2003	374,390	14.1
2004	313,732	15.7
2005	262,005	12.8
2006	202,502	11.2
2007 & thereafter	544,693	35.8
	$ 2,111,003	

Leases also provide for additional rent based on increases in the Consumer Price Index (CPI) and increases in operating expenses. Increases are generally payable in equal installments throughout the year.

We lease land for two office properties located in metropolitan Washington, D.C. and one office property located in Santa Clara, California. We also lease land adjacent to an office property in Chicago, Illinois and office space in metropolitan Washington, D.C. for our own use, with part of this space being subleased to tenants. The initial terms of these leases range from 5 years to 99 years. The longest lease matures in 2086. The minimum base annual rental payment for these leases is $5.5 million.

(7) COMMON AND PREFERRED STOCK

In 2000 and 2001, our Board of Directors authorized us to spend up to $325 million to repurchase our common shares. During these years, we acquired approximately 8.7 million shares for $253.1 million, an average price of $29.03 per share, exclusive of 9.2 million shares repurchased from Security Capital at $28.85 per share under a separate authorization in November 2001.

We are authorized to issue 35 million shares of preferred stock. On October 25, 1996, we issued 1,740,000 shares of Series A Cumulative Convertible Redeemable Preferred Stock ("Series A Preferred Stock") at $25 per share. Dividends for the Series A Preferred Stock are cumulative and payable quarterly in arrears in an amount per share equal to the greater of $1.75 per share per year or the cash dividend paid on the number of shares of our common stock into which a share of Series A Preferred Stock is convertible. Series A Preferred Stock has a liquidation preference of $25 per share. Each share of Series A Preferred Stock is convertible into one share of common stock (subject to conversion adjustments), at the option of the holder. As of December 31, 2001,

1,660,000 shares of Series A Preferred Stock had been converted into common stock. After October 25, 1999, each outstanding share of Series A Preferred Stock became redeemable at our option. The redemption price is $25 per share plus accrued and unpaid dividends.

As of December 31, 2001, we had the following additional preferred stock issued and outstanding:

	Shares	Issue Date	Liquidation Preference	Dividend Rate
Series B	8,000,000	August 1997	$25.00	8.57%
Series C	6,000,000	November 1997	$25.00	8.55%
Series D	2,000,000	December 1997	$25.00	8.45%

The Series C and D shares are Depositary Shares. They each represent a 1/10 fractional interest in a share of preferred stock. Dividends for the Series B, C and D shares are cumulative from the date of issuance and are payable quarterly in arrears on the last day of February, May, August and November. These preferred shares are redeemable at our option after the following dates:

Series B - August 12, 2002
Series C - November 6, 2002
Series D - December 19, 2002

(8) STOCK/UNIT COMPENSATION PLANS

As of December 31, 2001, we had three option plans. Two plans are for the purpose of attracting and retaining executive officers and other key employees (1997 Employee Stock Option and Incentive Plan and the 1993 Carr Realty Option Plan). The other plan is for the purpose of attracting and retaining directors who are not employees (1995 Non-Employee Director Stock Option Plan).

The 1997 Employee Stock Option and Incentive Plan ("Stock Option Plan") allows for the grant of options to purchase our common stock at an exercise price equal to the fair market value of the common stock at the date of grant. At December 31, 2001, we had options and units to purchase 10,000,000 shares of common stock and units reserved so we could issue them under the Stock Option Plan. At December 31, 2001, 6,173,225 options were outstanding. All of the outstanding options have a 10-year term from the date of grant. 3,771,096 options vest over a four-year period, 25% per year, 450,000 options vest at the end of five years, 92,500 options vest over a three-year period, 33.3% per year and 29,364 vest within the first year after grant. The balance of the options vests over a five-year period, 20% per year.

The 1993 Carr Realty Option Plan allows for the grant of options to purchase units of Carr Realty, L.P. (unit options). These options are exercisable at the fair market value of the units at the date of grant, which is equivalent to the fair market value of our common stock on that date. Units

(following exercise of unit options) are redeemable for cash or common stock, at our option. At December 31, 2001, we had options to purchase 1,266,900 units authorized for grant under this plan, of which 159,422 were outstanding. All of the outstanding options have a 10-year term from the date of grant and vest over five years, 20% per year.

The 1995 Non-Employee Director Stock Option Plan provides for the grant of options to purchase our common stock at an exercise price equal to the fair market value of the common stock at the date of grant. Under this plan, newly elected non-employee directors are granted options to purchase 3,000 shares of common stock when they start serving as a director. In connection with each annual election of directors, a continuing non-employee director will receive options to purchase 7,500 shares of common stock. The stock options have a 10-year term from the date of grant and vest over three years, 33 1/3% per year. At December 31, 2001, we had 270,000 options on shares of common stock authorized for grant under this plan with 137,193 outstanding.

The per share weighted-average fair values of Unit options and stock options granted during 2001, 2000 and 1999 were $3.07, $2.24 and $2.25, respectively, on the date of grant. This value is determined using the Black-Scholes option-pricing model. The following assumptions were used:

	Expected Dividend Yield	Risk Free Interest Rate	Expected Stock Volatility	Expected Option Life
2001	7.94%	5.12%	23.97%	5.22
2000	8.64%	6.77%	22.47%	5.00
1999	7.54%	5.16%	22.78%	3.95

If we had applied a fair-value based method (rather than the intrinsic value method) to recognize compensation cost for our unit and stock options, our net income and earnings per share of common stock would have been adjusted as indicated below:

(In thousands, except per share data)	2001	2000	1999
Pro forma net income	$ 74,811	$ 176,364	$ 140,507
Pro forma basic EPS	$ 0.66	$ 2.13	$ 1.55
Pro forma diluted EPS	$ 0.64	$ 2.09	$ 1.55

Unit and stock option activity during 2001, 2000 and 1999 is summarized as follows:

1993 Plan		1995 Plan		
Shares Under Option	Weighted Average Exercise Price	Shares Under Option	Weighted Average Exercise Price	S U O

Outstanding at					
December 31, 1998	894,622	$ 23.242	190,892	$ 24.995	5,
Granted	-	-	52,500	24.250	
Exercised	16,200	23.480	-	-	
Forfeited	30,800	24.643	42,999	24.882	
Outstanding at					
December 31, 1999	847,622	23.186	200,393	24.824	4,
Granted	-	-	7,500	24.688	2,
Exercised	593,600	22.932	-	-	
Forfeited	15,500	23.831	-	-	
Outstanding at					
December 31, 2000	238,522	23.778	207,893	24.819	6,
Granted	-	-	-	-	1,
Exercised	79,100	22.939	70,700	23.626	1,
Forfeited	-	-	-	-	
Outstanding at					
December 31, 2001	159,422	$ 24.194	137,193	$ 25.435	6,
Options exercisable at:					
December 31, 1999	803,188	$ 22.998	91,533	$ 24.601	1,
December 31, 2000	218,766	23.400	141,378	24.884	1,
December 31, 2001	151,544	23.947	114,693	25.648	1,

The following table summarizes information about our stock options outstanding at December 31, 2001:

	Options Outstandng			Options Ex	
Range of Exercise Prices	Outstanding as of 12/31/01	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Exercisable as of 12/31/01	W
$17.00-$20.00	21,750	7.3	$ 18.8276	9,250	
$20.01-$23.00	2,051,685	7.7	20.8972	282,247	
$23.01-$26.00	1,490,150	7.0	23.7521	469,900	
$26.01-$29.00	1,355,087	8.7	28.5947	158,659	
$29.01-$32.00	1,551,168	6.0	29.6279	965,618	
	6,469,840	7.3	$ 25.2533	1,885,674	

We have also granted to key executives 726,294 restricted stock units under the 1997 Stock Option Plan. The stock units were granted at a zero exercise price and are convertible to common stock as they vest at the option of the executive. The fair market values of the units at the dates of grant range from $20.69 to $28.94 per unit. The units vest over five years, at 20% per year. We recognize the fair value of the units awarded at dates of grant as compensation cost on a straight-line basis over the terms of the awards. Compensation expense related to these awards was $2.6 million in 2001, $2.9 million in 2000 and $2.0 million in 1999.

CARRAMERICA REALTY CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(9) GAIN ON SALE OF ASSETS AND OTHER PROVISIONS, NET

The following table summarizes our gain on sale of assets and other provisions, net:

(in thousands)	2001	2000	1999
Sales of land/development properties	$ (473)	$ (3,655)	$ 662
Sales of rental properties	4,937	33,399	54,791
Sale of properties to Carr Office Park, L.L.C.	-	33,197	-
Impairment loss	(1,500)	(7,894)	-
Income taxes	-	(18,676)	(631)
Total	$ 2,964	$ 36,371	$ 54,822

We dispose of assets (sometimes using tax-deferred exchanges) that are inconsistent with our long-term strategic or return objectives or where market conditions for sale are favorable. The proceeds from the sales are redeployed into other properties or used to fund development operations or to support other corporate needs. During 2001, we disposed of seven operating properties, one property under development and three parcels of land held for development. We recognized a gain of $4.5 million on these transactions. We also recognized an impairment loss of $1.5 million on certain parcels of land held for development.

During 2000, we disposed of 16 operating properties (including one property in which we held an interest through an unconsolidated entity) and four parcels of land that were being held for development. We recognized a gain of $24.1 million on these transactions, net of taxes of $5.6 million, including a net gain of $8.8 million relating to our share of gain on a sale of property in which we held an interest through an unconsolidated entity.

On August 17, 2000, we closed on a joint venture transaction with New York State Teachers' Retirement System ("NYSTRS"). At closing, we and some affiliates contributed properties to the joint venture, Carr Office Park, L.L.C., and NYSTRS contributed cash of approximately $255.1 million. The joint venture encompasses five suburban office parks (including 26 rental properties and land held for development of additional properties) in four markets. We received approximately $249.6 million and a 35% interest in the joint venture in exchange for the properties contributed and recognized a gain on the partial sale of $20.1 million, net of taxes of $13.1 million.

In 2000 we recognized an impairment loss of $7.9 million on land. For various reasons, we determined that we would not proceed with planned development of rental properties on certain of our land holdings and decided to market the land for sale. As a result, we evaluated the recoverability of the carrying amounts of the land. We determined that the carrying amounts would not be recovered from estimated net sale proceeds in certain cases and, in those

cases, we recognized impairment losses.

During 1999, we disposed of 63 properties and two parcels of land being held for development. We recognized a gain of $54.8 million, net of District of Columbia franchise tax of $0.6 million.

(10) COMMITMENTS AND CONTINGENCIES

At December 31, 2001, we were liable on $2.2 million in letters of credit. We were contingently liable for letters of credit related to various completion escrows and on performance bonds amounting to approximately $1.4 million to ensure completion of required public improvements on our construction projects.

In 1998, we entered into forward treasury agreements (treasury locks) in order to hedge against the impact of interest rate fluctuations on planned future debt issuances. At December 31, 1998, we determined that these positions no longer represented effective hedges. At that time, we recognized a loss of $13.7 million in anticipation of terminating the agreements. These contracts were settled in February 1999 for $9.2 million in cash, resulting in a gain of $4.5 million in 1999.

We have a 401(k) plan for employees under which we match 75% of employee contributions up to the first 6% of pay. We also make a base contribution of 3% of pay for participants who remain employed on December 31 (end of the plan year). Our contributions to the plan are subject to four-year vesting, 25% per year. Prior to 2001, the

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vesting schedule was a five-year graduated vesting schedule, and our contribution was 50% of employee contributions up to the first 4% of pay. Our contributions to the plan were $3.0 million in 2001, $1.6 million in 2000 and $1.1 million in 1999.

We are currently involved in two separate lawsuits with two stockholders of HQ Global. The first lawsuit involves the September 1998 conversion of an approximately $111 million loan that we made to HQ Global into stock of HQ Global. We, along with HQ Global, initiated this lawsuit in the United States District Court for the District of Columbia in February 1999, asking the court to declare that the terms of the debt conversion were fair, after two minority stockholders threatened to challenge the terms of the conversion. These stockholders had claimed that both the conversion price used and the methods by which the conversion price was agreed upon between HQ Global and us were not fair to HQ Global or these stockholders. Thereafter, these two stockholders filed their own counterclaims against HQ Global, the board of directors of HQ Global and us. The stockholders asked the court to declare the conversion void, or in the alternative for compensatory and punitive damages. On September 12, 2001, the trial court granted these stockholders' motion for summary judgment, declaring that the shares issued in connection with the conversion were null and void. We believe that the trial court incorrectly interpreted Delaware law in this case. We appealed this decision on October 2, 2001. We recognize that, in light of the trial court's finding, there is a reasonable possibility that we will be unsuccessful in overturning the court's decision. In that event, there are a number of possible outcomes, including a reduction in our equity interest in HQ Global or a cash payment by us to these stockholders. We currently believe that the value of any loss we may incur from this decision

should not exceed $10 million, although we cannot assure you that this will be the case.

The second lawsuit involves claims filed by these two stockholders in April 2000 arising out of the June 2000 merger transaction involving HQ Global and VANTAS Incorporated. In this lawsuit, these two stockholders have brought claims against HQ Global, the board of directors of HQ Global, FrontLine Capital Group and us in Delaware Chancery Court. The two stockholders allege that, in connection with the merger transaction, we breached our fiduciary duties to the two stockholders and breached a contract with the stockholders. The claim relates principally to the allocation of consideration paid to us with respect to our interest in an affiliate of HQ Global that conducts international executive suites operations. The stockholders asked the court to rescind the transaction, or in the alternative for compensatory and rescissory damages. The court recently determined that it would not rescind the merger transaction, but held open the possibility that compensatory damages could be awarded or that another equitable remedy might be available. We believe that these claims are without merit and that we will ultimately prevail in this action, although we cannot assure you that the court will not find in favor of these stockholders. We believe, however, that, even if the court finds in favor of these stockholders, any such adverse result will not have a material adverse effect on our financial condition or results of operations.

In the course of our normal business activities, various lawsuits, claims and proceedings have been or may be instituted or asserted against us. Based on currently available facts, we believe that the disposition of matters that are pending or asserted will not have a material adverse effect on our consolidated financial position, results of operations or liquidity.

(11) SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following is a summary of the quarterly results of operations for 2001 and 2000:
(In thousands, except per share data)

2001	First Quarter	Second Quarter	Third Quarter
Rental revenue	$ 123,789	$ 123,823	$ 126,762
Real estate service revenue	10,137	9,703	6,682
Real estate operating income	26,232	31,148	30,514
Net income (loss)	30,266	32,560	28,944
Basic net income (loss) per common share	0.34	0.39	0.33
Diluted net income (loss) per common share	0.32	0.38	0.32
2000			

Rental revenue	$ 136,625	$ 139,127	$ 131,690
Real estate service revenue	4,941	5,312	7,667
Real estate operating income	28,527	27,651	30,678
Income from continuing operations	33,152	29,825	49,910
(Loss) income from discontinued operations	(1,380)	1,836	-
Gain on sale of discontinued operations	-	31,852	-
Net income	31,772	63,513	49,910
Basic net income per common share:			
Income from continuing operations	0.36	0.31	0.62
(Loss) income from discontinued operations	(0.02)	0.03	-
Gain on sale of discontinued operations	-	0.48	-
Net income	0.34	0.82	0.62
Diluted net income per common share:			
Income from continuing operations	0.36	0.31	0.60
(Loss) income from discontinued operations	(0.02)	0.03	-
Gain on sale of discontinued operations	-	0.43	-
Net income	0.34	0.77	0.60

Note: Net loss for the fourth quarter of 2001 includes an impairment loss of $42.2 million ($0.74 per share, basic and diluted) on our investment in HQ Global.

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(12) SEGMENT INFORMATION

Our reportable operating segments are real estate property operations and development operations. Other business activities and operating segments that are not reportable are included in other operations. The real estate property operations segment includes the operation and management of rental properties. The development operations segment includes the development of new rental properties for us and for unaffiliated companies. Our reportable segments offer different products and services and are managed separately because each requires different business strategies and management expertise.

Our operating segments' performance is measured using funds from operations. Funds from operations is defined by the National Association of Real Estate Investment Trusts (NAREIT) as follows:

* Net income (loss) - computed in accordance with accounting principles generally accepted in the United States of America (GAAP);

* Less gains (or plus losses) from sales of depreciable operating properties and items that are classified as extraordinary items under GAAP;

* Plus depreciation and amortization of assets uniquely significant to the real estate industry;

* Plus or minus adjustments for unconsolidated partnerships and joint ventures (to reflect funds from operations on the same basis).

Funds from operations does not represent net income or cash flow generated from operating activities in accordance with GAAP. As such, it should not be considered an alternative to net income as an indication of our performance or to cash flows as a measure of our liquidity or our ability to make distributions.

Operating results of our reportable segments and our other operations are summarized as follows:

	As of and for the year ended December 31, 2001			
(In millions)	Real Estate Property Operations	Development Operations	Other Operations	Total
Operating revenue	$ 507.6	$ 14.2	$ 16.8	$ 53
Segment expense	162.8	6.6	42.9	21
Net segment revenue (expense)	344.8	7.6	(26.1)	32
Interest expense	44.0	-	38.5	8
Other income (expense), net	19.8	0.4	(47.3)	(2
Funds from operations	$ 320.6	$ 8.0	$(111.9)	21
Adjustments:				
Depreciation and amortization				(13
Income from continuing operations before gain on sale of assets and minority interest				8
Minority interest and gain on sale of assets				(
Net income				$ 7
Total assets	$ 2,682.7	$ 49.8	$ 43.1	$2,77
Expenditures for long-lived assets	$ 63.2	$ 70.1	$ -	$ 13

CARRAMERICA REALTY CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(In millions)	Real Estate Property Operations	Development Operations	Other Operations	Total
	As of and for the year ended December 31, 2000			
Operating revenue	$ 531.9	$ 10.6	$ 15.5	$ 558.0
Segment expense	170.0	4.5	41.6	216.1
Net segment revenue (expense)	361.9	6.1	(26.1)	341.9
Interest expense	49.2	-	49.1	98.3
Other income (expense), net	14.5	0.2	(3.6)	11.1
Funds from operations	$ 327.2	$ 6.3	$(78.8)	254.7
Adjustments:				
Depreciation and amortization				(128.4
Other, net				0.5
Income from continuing operations before gain on sale of assets and minority interest				126.8
Minority interest and gain on sale of assets				20.3
Discontinued operations, net of income tax				0.5
Gain on sale of discontinued operations, net of tax				31.9
Net income				$ 179.5
Total assets	$2,711.9	$ 96.3	$264.6	$3,072.8
Expenditures for long-lived assets	$ 107.5	$123.2	$ -	$ 230.7

CARRAMERTCA REALTY CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(In millions)	Real Estate Property Operations	Development Operations	Other Operation
	As of and for the year ended December 31,		
Operating revenue	$ 498.9	$ 6.6	$ 10.4

Segment expense	167.2	4.6	34.3
Net segment revenue (expense)	331.7	2.0	(23.9
Interest expense	50.5	-	38.6
Other income (expense), net	8.9	0.2	(3.2
Funds from operations	$ 290.1	$ 2.2	$ (65.7
Adjustments:			
Depreciation and amortization			
Gain on settlement of treasury locks			
Other, net			
Income from continuing operations before gain on sale of assets and minority interest			
Minority interest and gain on sale of assets			
Discontinued operations, net of income tax			
Net income			
Total assets of continuing operations	$ 2,991.8	$ 220.1	$ 59.5
Net asscts of discontinued operations			
Total assets			
Expenditures for lon&-lived assets	$ 92.0	$ 279.1	$ -

(13) SUPPLEMENTAL CASH FLOW INFORMATION

In April 2001, we exercised an option under a loan agreement to acquire two office buildings and related land located in the San Francisco Bay area. For financial reporting purposes, we had classified the loan as an investment in an unconsolidated entity and accounted for it using the equity method. The investment, which had a carrying value of approximately $50.3 million at the date the option was exercised, was reclassified to rental property in connection with this transaction.

On June 29, 2001, we contributed land subject to a note payable of approximately $26.0 million to a joint venture in exchange for a 30% ownership interest. Our initial investment in the joint venture amounted to $7.3 million, the net book value of the asset and liability contributed.

In the second quarter of 2001, 400,000 shares of our Series A Cumulative Convertible Redeemable Preferred Stock were converted to shares of common stock.

In August 2000, we contributed $332.1 million of assets to an unconsolidated joint venture, Carr Office Park, L.L.C.

Schedule III: Real Estate and Accumulated Depreciation as of Decemb

(In thousands)

Properties	Encumbrances	Initial Costs Land	Initial Costs Buildings and Improvements	Costs Capitalized Subsequent to Acquisition/3/
Downtown Washington, D.C.:				
International Square/2/	182,176/6/	69,651	100,921	19,010
900 19th Street	15,305	1,985	13,358	3,239
2550 M Street	--	2,340	11,348	14,353
1730 Pennsylvania Avenue	--	2,196	11,013	13,768
1255 23rd Street	37,982	10,793	40,214	4,154
1747 Pennsylvania Avenue	14,042	1,636	8,157	7,144
1775 Pennsylvania Avenue	11,735	--	19,000	2,463
675 E Street/1/	--	--	--	1,372
Suburban Washington, D.C.:				
One Rock Spring Plaza	--	--	18,409	2,068
Reston Town Center	--	--	2,150	--
Sunrise Corporate Center	--	8,250	34,322	7,743
Reston Crossing East & West	--	8,379	--	59,165
Orange County/Los Angeles:				
Scenic Business Park	--	2,469	4,503	1,900
Harbor Corporate Park	--	2,191	5,784	2,774
Plaza PacifiCare	--	3,493	6,392	78
Katella Corporate Center	--	2,671	4,314	1,254
Warner Center	--	16,490	33,698	5,643
South Coast Executive Center	14,871	3,324	17,212	3,746
Warner Premier	--	3,252	6,040	1,375
Von Karman	--	3,731	12,493	1,234
2600 W. Olive	18,913	3,855	25,054	3,092
Bay Technology Center	--	2,442	11,164	753
Pacific Corporate Plaza 1, 2, 3	--	5,756	--	12,738
Alton Deere Plaza	--	5,666	17,967	1,441
Westlake Spectrum	--	4,371	13,105	97
San Diego:				
Del Mar Corporate Plaza	--	2,860	13,252	1,407
Wateridge Pavilion	3,308	881	5,509	447
Towne Center Technology Park 1, 2, 3	--	4,929	--	21,852
Lightspan	--	1,438	5,710	847
La Jolla Spectrum 1 & 2	--	6,447	--	26,666
Palomar Oaks Technology Park	9,636	4,698	12,495	614
Jaycor	10,861	5,123	11,754	4,416
Highlands Corporate Center	--	10,156	30,369	1,365
San Francisco Bay Area:				
CarrAmerica Corporate Center	--	33,035	75,720	8,950
Valley Business Park I	--	3,859	3,155	442
Bayshore Centre 2	--	8,525	6,969	1,401
Rincon Centre	--	12,464	10,188	1,702

(In thousands)

Properties	Total	Accumulated Depreciation	Date of Construction	Year Acquis

Downtown Washington, D.C.:			
International Square/2/	189,582	69,633	1977, 1979, 1982
900 19th Street	18,582	8,061	1986
2550 M Street	28,041	11,956	1978
1730 Pennsylvania Avenue	26,977	14,242	1972
1255 23rd Street	55,161	19,194	1983
1747 Pennsylvania Avenue	16,937	8,846	1970
1775 Pennsylvania Avenue	21,463	4,694	1975
675 E Street/1/	1,372	--	N/A
Suburban Washington, D.C.:			
One Rock Spring Plaza	20,477	8,047	1989
Reston Town Center	2,150	518	N/A
Sunrise Corporate Center	50,315	2,497	1987-1989
Reston Crossing East & West	67,544	4,986	1987-1989
Orange County/Los Angeles:			
Scenic Business Park	8,872	2,255	1985
Harbor Corporate Park	10,749	2,597	1987
Plaza PacifiCare	9,963	1,527	1986
Katella Corporate Center	8,239	1,493	1982
Warner Center	55,831	9,503	1981-1985
South Coast Executive Center	24,282	4,097	1987
Warner Premier	10,667	1,344	1990
Von Karman	17,458	2,128	1981
2600 W. Olive	32,001	5,046	1986
Bay Technology Center	14,359	1,679	1985
Pacific Corporate Plaza 1, 2, 3	18,494	2,032	1998
Alton Deere Plaza	25,074	2,506	1989
Westlake Spectrum	17,573	820	1988-1989
San Diego:			
Del Mar Corporate Plaza	17,519	3,575	1986
Wateridge Pavilion	6,837	1,055	1987
Towne Center Technology Park 1, 2, 3	26,781	5,882	1998
Lightspan	7,995	1,348	1985
La Jolla Spectrum 1 & 2	33,113	2,812	1999-2001
Palomar Oaks Technology Park	17,807	1,526	1989
Jaycor	21,293	1,645	1989
Highlands Corporate Center	41,890	2,450	N/A
San Francisco Bay Area:			
CarrAmerica Corporate Center	117,705	30,211	1988
Valley Business Park I	7,456	756	1981
Bayshore Centre 2	16,895	1,405	1984
Rincon Centre	24,354	2,518	1984

CarrAmerica Realty Corporation and Subsidiaries

Schedule III: Real Estate and Accumulated Depreciation as of December 31, 2

(In thousands)	Initial Costs	Costs Capitalized
	Buildings and	Subsequent to

Properties	Encumbrances	Land	Improvements	Acquisition/3
Valley Centre II	-	13,658	11,164	(148)
Valley Office Centre	-	6,134	5,014	568
Valley Centre	-	6,051	4,945	822
Valley Business Park II	-	8,753	7,155	1,484
Rio Robles	-	16,655	29,598	1,036
First Street Technology Center	-	3,388	4,884	420
Baytech Business Park	-	14,958	-	23,130
3571 North First Street	-	6,297	8,862	418
San Mateo Center I	-	5,703	9,126	899
Oakmead West Land A-G	-	22,842	-	41,583
San Mateo II & III	-	9,723	15,556	1,922
Hacienda West	-	6,468	24,062	2,246
Sunnyvale Technology Center	28,875/4/	12,098	16,131	149
Clarify Corporate Center 1, 2, 3, 4	-	17,574	-	31,042
Valley Technology Center 1, 2, 3, 4, 5, 6, 7	-	32,910	-	45,179
Golden Gateway Commons	-	21,112	51,689	3,443
Techmart Commerce Center	-	-	36,594	2,119
Fremont Technology Park 1, 2, 3	-	10,122	10,797	(557)
Mountain View Gateway Center	-	13,637	37,946	-
Denver, CO:				
Harlequin Plaza	-	4,746	21,344	8,742
Quebec Court I & II	-	2,368	19,819	10,414
Quebec Centre	-	1,423	5,659	1,489
Dry Creek Corporate Center/1/	-	10,575	-	19,256
Seattle, WA:				
Redmond East	26,141	6,957	32,390	3,085
Redmond Hilltop B & C	-	2,511	-	7,952
Canyon Park	-	7,643	23,624	3,391
Willow Creek	-	1,709	6,972	79
Willow Creek Corp. Center 1, 2, 3, 4, 5, 6	-	6,485	-	39,966
Canyon Park Commons 1, 2, 4	4,923	5,592	9,958	20,613
Canyon Point	-	6,225	-	3,075
Salt Lake City, UT:				
Sorenson Research Park	3,721	4,389	25,304	3,553
Sorenson XI	-	1,490	-	4,884
Wasatch Corporate Center	12,016	3,318	15,495	509
Wasatch Corporate Center 17, 18	-	2,636	-	11,611
Wasatch Corporate Center 16	-	1,172	-	1,213
Creekside/1/	-	-	3,150	8,488
Chicago, IL:				
Parkway North I	24,164	3,727	29,146	2,674
Unisys	-	6,387	45,111	5,475

(In thousands)

Properties	Total	Accumulated Depreciation	Date of Construction	Year of Acquisition
Valley Centre II	24,674	2,375	1980	1996
Valley Office Centre	11,716	1,033	1981	1996
Valley Centre	11,818	1,264	1980	1996

Valley Business Park II	17,392	1,770	1979	1996
Rio Robles	47,289	5,252	1985	1996
First Street Technology Center	8,692	981	1984	1997
Baytech Business Park	38,088	3,975	1998	1997
3571 North First Street	15,577	1,346	1985	1997
San Mateo Center I	15,728	1,341	1986	1997
Oakmead West Land A-G	64,425	8,381	1998	1997
San Mateo II & III	27,201	2,725	1985	1997
Hacienda West	32,776	3,852	1987	1998
Sunnyvale Technology Center	28,378	2,148	1971-1975	1998
Clarify Corporate Center 1, 2, 3, 4	48,616	5,204	1999	1998
Valley Technology Center 1, 2, 3, 4, 5, 6, 7	78,089	5,270	1998	1998
Golden Gateway Commons	76,244	7,436	1980-1984	1998
Techmart Commerce Center	38,713	5,232	1987	1998
Fremont Technology Park 1, 2, 3	20,362	2,189	1999	1998
Mountain View Gateway Center	51,583	895	1998	2001
Denver, CO:				
Harlequin Plaza	34,832	7,026	1981	1996
Quebec Court I & II	32,601	6,845	1979-1980	1996
Quebec Centre	8,571	1,832	1985	1996
Dry Creek Corporate Center/1/	29,831	634	1999-2001	1998
Seattle, WA:				
Redmond East	42,432	8,448	1988-1992	1996
Redmond Hilltop B & C	10,463	2,548	1998	1996
Canyon Park	34,658	6,350	1989	1997
Willow Creek	8,760	1,088	1981	1997
Willow Creek Corp. Center 1, 2, 3, 4, 5, 6	46,451	9,315	1998	1997
Canyon Park Commons 1, 2, 4	36,163	3,651	1988,2000	1997
Canyon Point	9,300	-	N/A	2000
Salt Lake City, UT:				
Sorenson Research Park	33,246	4,795	1988-1997	1997
Sorenson XI	6,374	710	1999	1997
Wasatch Corporate Center	19,322	2,362	1996	1997
Wasatch Corporate Center 17, 18	14,247	2,228	1998-1999	1997
Wasatch Corporate Center 16	2,385	-	N/A	1999
Creekside/1/	11,638	530	2001	2000
Chicago, IL:				
Parkway North I	35,547	6,511	1986-1989	1996
Unisys	56,973	10,011	1984-1985	1996

CarrAmerica Realty Corporation and Subsidiaries
Schedule III: Real Estate and Accumulated Depreciation as of December 31, 2001

(In thousands)

		Initial Costs		Costs Capitalized
Properties	Encumbrances	Land	Buildings and Improvements	Subsequent to Acquisition/3/

The Crossings	-	5,268	34,215	3,900
Bannockburn I & II	-	3,448	22,928	4,764
Bannockburn IV	-	1,914	12,729	701
Austin, TX:				
City View Centre	-	1,718	13,854	1,706
City View Center	-	1,890	-	13,713
Braker Pointe/1/	-	6,602	-	21,763
Tower of the Hills	-	1,633	13,625	1,355
Dallas, TX:				
Cedar Maple Plaza	-	1,220	10,982	1,856
Quorum North	-	1,357	9,078	1,699
Quorum Place	-	1,941	14,234	1,937
Tollway Plaza 1, 2	-	2,960	-	47,739
Tollway Plaza 3	-	2,522	-	178
Royal Ridge IV & V	-	6,586	-	1,015
Two Mission Park	-	823	4,326	1,120
Commons @ Las Colinas 1, 3	-	9,990	-	95,402
5000 Quorum	-	1,774	15,616	1,507
Phoenix, AZ:				
Qwest Communications	35,901	18,517	74,069	786
Portland, OR:				
Sunset Corporate Park	-	4,932	-	13,566
Rock Creek Corp Center	-	2,614	-	15,980
Atlanta, GA:				
Glenridge	-	1,423	4,871	478
Century Springs West	18,718 /5/	1,642	7,646	(1,023)
Holcomb Place	-	1,419	4,574	347
Midori	-	1,802	6,715	3,007
Parkwood	-	2,080	12,678	4,280
Lakewood	-	1,040	6,789	653
The Summit	-	2,237	15,027	1,238
Spalding Ridge	-	1,550	4,950	8,045
2400 Lake Park Drive	-	805	6,539	1,311
680 Engineering Drive	-	559	3,420	543
Embassy Row	-	7,916	36,907	6,223
Embassy 100, 500	-	4,328	-	28,843
Waterford Centre	-	1,110	7,737	694
Forum/1/	-	1,732	-	9,915
Boca Raton, FL:				
Peninsula Corporate Center	-	2,933	-	3,936
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(In thousands)

Properties	Total	Accumulated Depreciation	Date of Construction	Year of Acquisition
The Crossings	43,383	7,479	1985	1997
Bannockburn I & II	31,140	5,265	1980	1997
Bannockburn IV	15,344	2,177	1988	1997
Austin, TX:				
City View Centre	17,278	3,848	1985	1996

City View Center	15,603	2,980	1998	1996
Braker Pointe/1/	28,365	772	2001	1997
Tower of the Hills	16,613	2,161	1986	1997
Dallas, TX:				
Cedar Maple Plaza	14,058	2,215	1985	1997
Quorum North	12,134	2,059	1983	1997
Quorum Place	18,112	3,270	1981	1997
Tollway Plaza 1, 2	50,699	7,031	1998	1997
Tollway Plaza 3	2,700	-	N/A	1997
Royal Ridge IV & V	7,601	-	N/A	2000
Two Mission Park	6,269	1,120	1983	1997
Commons @ Las Colinas 1, 3	105,392	9,514	1999	1998
5000 Quorum	18,897	2,476	1984	1998
Phoenix, AZ:				
Qwest Communications	93,372	10,068	1988	1997
Portland, OR:				
Sunset Corporate Park	18,498	1,768	1999	1998
Rock Creek Corp Center	18,594	1,762	1999	1998
Atlanta, GA:				
Glenridge	6,772	1,171	1986	1996
Century Springs West	8,265	1,427	1982	1996
Holcomb Place	6,340	914	1982	1996
Midori	11,524	1,600	1989	1996
Parkwood	19,038	3,496	1985	1996
Lakewood	8,482	1,411	1985	1996
The Summit	18,502	3,219	1986	1996
Spalding Ridge	14,545	3,029	1998	1996
2400 Lake Park Drive	8,655	1,521	1982	1997
680 Engineering Drive	4,522	814	1985	1997
Embassy Row	51,046	8,163	1983	1997
Embassy 100, 500	33,171	3,398	1998-1999	1997
Waterford Centre	9,541	1,216	1985	1998
Forum/1/	11,647	-	N/A	2000
Boca Raton, FL:				
Peninsula Corporate Center	6,869	-	N/A	1997
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CarrAmerica Realty Corporation and Subsidiaries
Schedule III: Real Estate and Accumulated Depreciation as of
December 31, 2001

(In thousands)		Initial Costs		Costs Capitalized
Properties	Encumbrances	Land	Buildings and Improvements	Subsequent to Acquisition/
PROPERTY TOTALS	473,288	677,077	1,446,743	852,114

Intercompany elimination	-	-	-	(39,368
TOTAL	$ 473,288	$ 677,077	$ 1,446,743	$ 812,746

(In thousands)	Gross Amount at Which Carried at Close of Period				
Properties	Land	Building and Improvements	Total	Accumulated Depreciation	C
PROPERTY TOTALS	692,988	2,282,946	2,975,934	479,801	
Intercompany elimination	(46)	(39,322)	(39,368)	(2,107)	
TOTAL	$ 692,942	$ 2,243,624	$2,936,566	$ 477,694	

Depreciation of rental properties is computed on a straight-line basis over the estimated useful lives of the assets. The estimated lives of our assets by class are as follows:

Base building	30 to 50 years
Building components	7 to 20 years
Tenant improvements	Lesser of the terms of the lease
Leasehold improvements, furniture, fixtures and equipment	5 to 15 years

The aggregate cost for federal income tax purposes was approximately $2,483,444,000 at December 31, 2001.
The changes in total real estate assets and accumulated depreciation for the three years ended December 31, 2001, 2000 and 1999 are as follows:

	Real Estate Assets		
(In thousands)	2001	2000	1999
Balance, beginning of period	$2,909,604	$ 3,287,885	$3,401,088
Discontinued operations	-	-	(56,471)
Acquisitions	51,583	36,791	40,525
Improvements	86,821	176,866	345,716
Sales, retirements and write-offs	(111,442)	(591,938)	(442,973)
Balance, end of period	$2,936,566	$ 2,909,604	$3,287,885

	Accumulated Depreciation		
(In thousands)	2001	2000	1999
Balance, beginning of period	$ 381,260	$ 323,455	$ 257,215
Discontinued operations	-	-	(11,264)

Depreciation for the period	107,557	110,052	114,388
Sales, retirements and write-offs	(11,123)	(52,247)	(36,884)
Balance, end of period	$ 477,694	$ 381,260	$ 323,455

/1/ Under construction as of December 31, 2001. Construction costs are shown under building and improvements until completion. At completion, costs will be allocated between land and building and improvements.
/2/ We lease approximately 63,000 square feet of office space for our headquarters.
/3/ Costs capitalized are offset by retirements and writeoffs.
/4/ Secured by Sunnyvale Technology Center, Highland Corporate Center and Hacienda West.
/5/ Secured by Century Springs West, Glenridge, Midori, Lakewood and Parkwood.
/6/ Secured by International Square, 1730 Pennsylvania Avenue and 1255 23rd Street.