AMERIVEST PROPERTIES INC
Form 10-K
March 16, 2005

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2004

OR

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

For the transition period from to
Commission file number 1-14462

AMERIVEST PROPERTIES INC.

(Exact name of Registrant as Specified in Its Charter)

Maryland	**84-1240264**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

1780 South Bellaire Street, Suite 100
Denver, Colorado 80222
(Address of principal executive offices and zip code)

(303) 297-1800
(Registrant' telephone number, including area code)
Securities registered under Section 12(b) of the Exchange Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $.001 par value	American Stock Exchange

Securities registered under Section 12(g) of the Exchange Act:

None.
(Title of Class)

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 ý No o

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ý No o

Based on the closing price of the registrant's common shares on June 30, 2004 (the last business day of the registrant's most recently completed second fiscal quarter), the aggregate market value of the voting common equity held by non-affiliates of the registrant was approximately $125,478,000.

At March 1, 2005, there were approximately 24,016,000 of the registrant's common shares outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the issuer's definitive proxy statement for its 2005 annual meeting of shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

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Disclosure Regarding Forward-Looking Statements And Cautionary Statements

This annual report includes "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933, as amended. All statements other than statements of historical facts included in or incorporated by reference into this annual report, including statements regarding our expected financial position, business strategy, plans and objectives of management for future operations, expected capital expenditures, expected funding sources, planned investments and forecasted dates, are forward-looking statements. These forward-looking statements are based on our current expectations, beliefs, assumptions, estimates and projections about the industry and markets in which we operate. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and variations of such words and similar expressions are often used to identify forward-looking statements. Although we believe that the expectations and assumptions reflected in the forward-looking statements are reasonable, these statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict and many of which are beyond our control. Therefore, actual outcomes and results may differ materially from what is expressed, forecasted or implied in such forward-looking statements. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

Additional cautionary statements concerning important factors that could cause actual results to differ materially from our expectations are disclosed in this annual report, including the statements contained in the "Risk Factors" section below. All written and oral forward-looking statements attributable to us or persons acting on our behalf subsequent to the date of this annual report are expressly qualified in their entirety by such cautionary statements.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

Overview

As used herein, "we", "us", "our" and "the Company" refer to AmeriVest Properties Inc., a Maryland corporation. We were incorporated in the State of Maryland in 1999. We are a fully-integrated, self-administered and self-managed Real Estate Investment Trust ("REIT") and primarily invest in and operate commercial office buildings in select markets and lease the commercial office buildings to small and medium size tenants. At December 31, 2004, we owned 30 properties, which included an aggregate of 2,732,957 square feet. The Company's core portfolio (which excludes assets in which less than 100% and smaller office buildings primarily leased to the State of Texas) included 16 properties totaling 2,450,854 square feet, at December 31, 2004, located in metropolitan Denver, Dallas, Phoenix and Indianapolis. We have elected to be taxed as a REIT for federal income tax purposes and generally will not be subject to federal income tax if we distribute at least 90% of our taxable income and comply with a number of organizational and operational requirements.

Business Strategy

Our primary business objective is to achieve sustainable long-term growth in cash flow and portfolio value to maximize shareholder value. We intend to achieve this objective by focusing our efforts on the acquisition, rehabilitation and development of multi-tenant office buildings with a targeted average smaller tenant size (generally between 2,000 and 4,000 square feet) in select cities.

We believe that office space for small to medium size businesses is a large and underserved market. According to data compiled by the Office of Advocacy of the U.S. Small Business Administration, 89% of all U.S. businesses employed fewer than 20 employees. As a result, we believe that many businesses have office space requirements of no more than 4,000 square feet.

Small to medium size businesses often have specific needs and limitations that are different from larger businesses. For example, small and medium size businesses generally cannot afford large corporate staffs to manage their office leasing requirements. These businesses have needs similar to larger firms, such as access to cutting edge technology, conference facilities, high quality telecommunications services and other amenities, but may not have a comparable budget. Our strategy is to focus on providing an office product targeted to this large market and its unmet needs in a cost effective manner. The key elements of our strategy are described below.

Provide a Superior, Consistent Product

We provide amenities for the small and medium size businesses in our office properties that usually only larger companies would be able to obtain, such as conference rooms with the latest telecommunications and presentation equipment, high levels of common area and tenant finish, including well-designed, pre-built move-in ready space, and depending on the location, various other technology and service amenities that cater to smaller tenants. Upon acquisition, we evaluate the building's architectural design, common areas, technology and amenities relative to the needs of our targeted small business tenant. Based on the results of this evaluation, a design intent package and capital improvement budget is established for each acquisition which will dictate the improvements to be made to the property over the short and long term. Although the specific improvements and amenities are customized, all are designed to enhance the experience for the tenant.

The design and technology features incorporated into some of our buildings include keyless entry card systems to allow secure access 24 hours a day to individual suites, surveillance camera systems, and common area conference rooms with the latest telecommunications and presentation equipment. Entry lobbies may feature touchpad electronic directories and, where possible, our buildings are engineered to provide control of heating and air conditioning in individual tenant suites. Many properties include a unique art program in common areas and corridors. Signage for tenant suites in many buildings allows for the tenant's individual logo to be incorporated on a common background. Many properties are wired to offer high speed voice and data service from multiple telecom providers. Over time we plan to add some of these and additional amenities to all of our buildings as market demand and capital constraints dictate.

Streamline the Leasing Process

We provide our clients with a leasing philosophy that is designed to meet the unique needs of a small to medium size tenant with limited real estate expertise. We operate our multi-tenant buildings under a "no-hassle" leasing experience, using a simplified standard lease that has been designed to be sensitive to both tenant's and landlord's rights. The lease transaction starts with our rate matrix, a standardized menu of rental rates based on lease terms and market lease rates for our submarkets, which is revised by management periodically. This rate matrix reduces negotiating time and provides a reference point for lease negotiations. We also incorporate a high quality standard tenant finish package, greatly reducing the time to design and build out finished space. In some buildings, we build completely finished suites in varying sizes on a purely speculative basis. Our streamlined process greatly reduces negotiation and space planning time and allows the tenant to move into its space sooner and with less aggravation than is typical in the leasing process, reducing the lease transaction time and cost for the tenant and us.

Provide a High Level of Service

We have developed and employ a positive, service-oriented mentality to our tenants. Our core buildings feature a local "Tenant Relations Advocate" whose job description is to interface regularly with all tenants and maximize tenant retention. The Tenant Relations Advocate is dedicated to tenant issues with a singular focus on tenant retention. The Tenant Relations Advocate personifies our service-oriented mentality and is available to resolve minor tenant service complaints before they develop into major issues.

Our Tenant Relations Advocates work with team leaders for each region, who in turn report to a senior manager in our Denver headquarters, providing direct and regular feedback on tenant concerns. We believe that our customer-focused management will improve our tenant retention rates over the long-term.

Target Select Cities

We have focused on employing our strategy in buildings or projects containing at least 100,000 square feet, within select cities where we hope to build meaningful multi-property portfolios. We target cities that possess enough total office square footage to offer the possibility of multiple acquisitions and liquidity in the event of a desired sale, a healthy number of small businesses and positive growth dynamics. Historically, in order to maximize management efficiencies, we have focused on markets in relatively close proximity to our headquarters in Denver, Colorado. Currently, we have defined our target markets as metropolitan Denver, Dallas, Phoenix and Indianapolis. As we grow, we plan to expand our radius to include cities within the United States and Canada that possess our desired characteristics.

As a result of our focused strategy, we believe that our properties provide office space that is particularly attractive for small to medium size tenants. By executing on our strategy we believe we have been able to maintain high occupancy rates while still maintaining strong rent per square foot trends in our core markets.

Significant Transactions

2005 Transactions

On March 15, 2005, the Company amended its Secured Facility and Unsecured Facility with KeyBank due to the Company not being in compliance with its leverage, interest coverage and fixed charge coverage covenants required by the Secured Facility. The amendment to the Secured Facility involved: (i) a waiver for the events of non-compliance, noted above, as of December 31, 2004, (ii) changes to the debt covenant calculations to set them at the same levels as those previously established for the Unsecured Facility, (iii) mandatory repayments of at least \$2.5 million by July 1, 2005 and at least \$10.0 million by September 1, 2005, (iv) removal of the revolving feature of the Secured Facility, and (v) the elimination of the obligation of the lender to make any further loans under the Secured Facility. The amendment to the Unsecured Facility involved: (i) a waiver for the events of non-compliance as of December 31, 2004 due to cross default provisions with the Secured Facility (ii) moving up the maturity date from November 12, 2007 to April 1, 2006, (iii) mandatory repayments of at least \$5.0 million by September 2005 and at least \$10.0 million by January 2006, (iv) removal of the revolving feature of the Unsecured Facility, (v) a requirement that any further borrowings, including borrowings to pay dividends, be subject to the approval of the lender in its sole and absolute discretion, (vi) a limitation on the incurrence of any other indebtedness by the Company without the prior written consent of the lender and (vii) a requirement that all net proceeds from a property sale, refinancing or other capital transaction be used to pay down any amounts outstanding.

On March 9, 2005, the Company's Board of Directors suspended the payment of the common dividend for the first quarter of 2005. The Board determined that suspension of the dividend would maximize the Company's ability to complete a strategic transaction in a timely manner. (See "2004 Transactions" below.) The Board intends to review and consider the resumption of a dividend for the second quarter of 2005, or thereafter, based on a number of factors, including the completion of a strategic transaction or other significant capital event, such as refinancing or asset sales, the Company's financial results, capital resources and liquidity needs at that time.

On March 2, 2005, the Company completed a Deed-In-Lieu Agreement to return our 13 non-core Texas State Buildings to the lender. The properties, consisting of 222,542 square feet, were leased primarily to various agencies of the State of Texas and are located in Temple, Clint, El Paso, Hempstead, Lubbock, Marshall, Columbus, Paris, Mission, Arlington, Bellville and Amarillo Texas. The buildings secured a loan in the amount of $5.6 million, bearing interest at 7.66% through August 1, 2028 and had a net book value of $5.2 million (excluding certain deposits maintained by the lender), subsequent to an impairment charge of $1.2 million recognized during the fourth quarter of 2004.

2004 Transactions

On November 22, 2004, the Company announced that it had retained Bear, Stearns & Co., Inc. to assist our Board of Directors in undertaking a review of a broad range of strategic alternatives for the Company. These alternatives include identifying an institutional capital partner to assist in the Company's growth going forward, a sale or recapitalization of all or a portion of the Company's properties, the potential sale or merger of the Company, and other possible transactions designed to enhance shareholder value. With the assistance of Bear Stearns, the Board is evaluating the Company's strategic alternatives; however, such an evaluation may not result in a transaction of any kind.

On November 12, 2004, the Company acquired the Hampton Court office building. Hampton Court is located in Dallas, Texas and contains approximately 108,200 square feet. The purchase price for Hampton Court was $16.3 million, which was funded with $8.4 million of cash and the assumption of a $7.9 million non-recourse five-year mortgage loan from a securitized lender.

In October 2004, KeyBank National Association (KeyBank) assumed and amended the Company's unsecured credit facility (Unsecured Facility) from Fleet Bank of Boston, increasing the immediate availability from $30 million to $40 million, and modifying other terms. KeyBank also assumed our secured credit facility (Secured Facility). All references to the Secured Facility or Unsecured Facility prior to this date pertain to the previous agreement with Fleet.

On October 25, 2004, the Company acquired the 5.2 acres of land underlying its Greenhill Park office property in Addison, Texas for $14.5 million in cash. The Greenhill Park building, purchased by the Company in December 2003, was subject to a ground lease with 80 years remaining on the term.

On September 13, 2004, the Company acquired the Parkway Centre III office building. The Parkway Centre III is located in Plano, Texas and contains approximately 152,600 square feet. The purchase price of $23.4 million was funded with $5.5 million of cash and a $15.2 million non-recourse five-year mortgage. The remaining $2.7 million of acquisition funds came from tax-deferred exchange proceeds from the disposition of our Texas Bank Buildings in March 2004.

On May 7, 2004, the Company acquired the Hackberry View office property located in Irving, Texas and contains approximately 114,600 square feet. The purchase price was $16.8 million, which was paid with approximately $12.2 million from the assumption of the existing first and second mortgage loans and the balance in cash.

On March 16, 2004, the Company acquired the Camelback Lakes office building. Camelback Lakes is located in Phoenix, Arizona and contains approximately 203,000 square feet on 12.04 acres of land. The purchase price for Camelback Lakes was $32.0 million, which was paid with $21.0 million from our Secured Facility and the balance from our Unsecured Facility (see Item 2. Properties Mortgage Loans, Notes Payable and Lines of Credit). In August 2004, the Company refinanced the property with $21.0 million of debt. The debt consists of two notes maturing in September 2014.

On March 16, 2004, the Company sold its Texas Bank Buildings for $4.1 million. The four properties are located in Clifton, Georgetown, Henderson and Mineral Wells, Texas, contain an aggregate of 60,095 square feet and had an aggregate net book value of approximately $3.2 million at disposition.

2003 Transactions

On December 4, 2003, the Company acquired the Greenhill Park office building. Greenhill Park is located in Addison, Texas and contains approximately 252,000 square feet. Greenhill Park was subject to a ground lease. See "2004 Transactions" for a discussion of the purchase of the land underlying the building. The purchase price for Greenhill Park was $10.5 million, which was paid with $5.3 million from the Secured Facility and the balance in cash from a portion of the proceeds from our 2003 public offering.

On October 7, 2003, the Company acquired the Scottsdale Norte office building. Scottsdale Norte is located in Scottsdale, Arizona and contains approximately 79,000 square feet on 5.45 acres of land. The purchase price for Scottsdale Norte was $12.3 million, which was paid with $6.6 million from the assumption of the existing loan from Southern Farm Bureau Life Insurance Company and the balance in cash from a portion of the proceeds from our 2003 public offering.

On September 10, 2003, the Company acquired the Financial Plaza office building. Financial Plaza is located in Mesa, Arizona and contains approximately 311,000 square feet on approximately 6.07 acres of land. The purchase price for Financial Plaza was $39.0 million, which was paid with $24.8 million from the assumption of the existing loan from Allstate Life Insurance Company and the balance in cash from a portion of the proceeds from our 2003 public offering.

During 2003, the Company completed the construction of an approximately 18,000 square foot building adjacent to the existing Keystone Office Park in Indianapolis, Indiana for approximately $1.3 million. This building was constructed to accommodate the expansion needs of some of the existing tenants as well as market demand. The building opened for occupancy in August.

On February 6, 2003, the Company acquired the Southwest Gas office building. The Southwest Gas Building is located in Phoenix, Arizona and contains approximately 148,000 square feet on 7.38 acres of land. The purchase price for the Southwest Gas Building was $17.0 million, which was paid with $11.9 million from the Secured Facility and the balance from a short-term loan from Fleet National Bank. This short-term loan was refinanced with the Unsecured Facility.

2002 Transactions

On November 25, 2002, the Company acquired the Chateau Plaza office building. Chateau Plaza is located in Dallas, Texas and contains approximately 171,000 square feet on one acre of land. The purchase price for Chateau Plaza was $22.0 million, which was paid with $15.4 million from the Secured Fleet and the balance paid in cash from a portion of the proceeds from our 2002 public offering.

On November 12, 2002, the Company acquired the Centerra office building. Centerra is located in Denver, Colorado and contains approximately 186,000 square feet on 1.15 acres of land. The purchase price for Centerra was $18.7 million, which was paid with $13.1 million from the Secured Facility and the balance paid in cash from a portion of the proceeds from our 2002 public offering.

On September 6, 2002, the Company acquired 2.55 acres of undeveloped land, adjacent to Keystone Office Park in Indianapolis, Indiana, from Sheridan Realty Partners, L.P., an affiliate, for $320,000. The purchase price was determined based on the fair market value of the land and was paid through the issuance of 52,893 shares of our common stock ($6.05 per share). In late 2002, the Company commenced construction of an approximately 18,000 square foot building on this land.

On September 5, 2002, the Company acquired the Parkway Centre II office building. Parkway Centre II is located in Plano, Texas and contains approximately 152,000 square feet on 6.4 acres of land. The purchase price for Parkway Centre II was $22.0 million, which was paid with $17.0 million from the assumption of the existing loan from J.P. Morgan Chase Commercial Mortgage Securities Corp. and the balance paid in cash from a portion of the proceeds from our 2002 public offering.

2001 Transactions

On December 21, 2001, the Company acquired the Kellogg Building. The Kellogg Building is located in Littleton, Colorado and contains approximately 112,000 square feet on five acres of land. The purchase price for the Kellogg Building was $13.6 million, which was paid with $9.5 million from the proceeds of a loan from US Bank National Association and the balance paid in cash from a portion of the proceeds from our 2001 public offering.

On December 6, 2001, the Company sold an 80% tenancy-in-common interest in the Panorama Falls building to a long-term investor affiliated with a large shareholder. Panorama Falls is located in Englewood, Colorado and contains approximately 60,000 square feet on six acres of land. The sales price for the interest in Panorama Falls was $4.9 million payable as follows: (i) $2.2 million to KeyBank National Association to pay down a portion of the mortgage loan, (ii) assumption of 80% of the remaining mortgage loan in the amount of $2.4 million, and (iii) the remainder of $304,268 in cash, less closing costs.

On November 19, 2001, the Company acquired the Arrowhead Fountains office building. Arrowhead Fountains is located in Peoria, Arizona and contains approximately 96,000 square feet on five acres of land. The purchase price for Arrowhead Fountains was $12.8 million, which was paid with $9.3 million from the assumption of the existing loan from Nationwide Life Insurance Company and the balance paid in cash from a portion of the proceeds from our 2001 public offering.

On October 23, 2001, the Company sold its office building in Odessa, Texas for $132,500. The sale resulted in a gain on sale of $12,747.

On June 1, 2001, the Company sold the Giltedge office building in Appleton, Wisconsin for $3.7 million. The sale resulted in a gain on sale of approximately $1.1 million. The cash proceeds from this transaction of $458,030 were used to complete a tax-deferred exchange under Section 1031 of the Internal Revenue Code.

On April 1, 2001, the Company acquired from Sheridan Investments, LLC, an affiliate, 100% of the ownership interests of Sheridan Plaza at Inverness, LLC. Sheridan Plaza at Inverness, LLC owns two office buildings (which are known as AmeriVest Plaza at Inverness) located in Englewood, Colorado containing approximately 119,000 square feet on 6.7 acres of land. The purchase price was $22.9 million and consisted of: (i) $705,135 for our 9.639% preferred membership interest in Sheridan Investments, LLC, the owner of all of the membership interests in Sheridan Plaza at Inverness LLC, which was transferred back to Sheridan Investments, LLC; (ii) $6.5 million paid with 1,057,346 shares of our common stock and the cash proceeds from the sale of the Giltedge building; (iii) assumption of the mortgage loan in the amount of $15.0 million; and (iv) assumption of other liabilities in the amount of $761,178.

The acquisition was structured as a tax-deferred exchange of the Giltedge office building under Section 1031 of the Internal Revenue Code. Due to the related party nature of this transaction, accounting principles generally accepted in the United States require us to record this acquisition at its historical net book value. The difference between the purchase price and the historical net book value was $4,507,557 and has been recorded as a non-cash dividend during 2001.

2000 Transactions

On September 29, 2000, we acquired a 9.639% preferred membership interest in Sheridan Investments, LLC, the sole owner of Sheridan Plaza at Inverness, LLC. The purchase price for the interest was $658,918, which we paid by issuing 131,784 shares of common stock and 65,892 common stock purchase warrants at $5.00 per share. This interest was transferred back to Sheridan Investments, LLC in April 2001 as partial consideration for the remaining interest in Sheridan Plaza at Inverness, LLC.

On August 31, 2000, we acquired Sheridan Center, a three-building office complex in southeast Denver, Colorado for $9.6 million. The buildings contain 141,008 square feet on 3.74 acres of land. Funds for closing included approximately $1.8 million held in escrow and on deposit as part of the tax-deferred exchange under Section 1031 of the Internal Revenue Code from the sale of the self-storage facilities, together with mortgage financing and a portion of the proceeds from our 2000 public offering.

On August 25, 2000, we sold four self-storage facilities in the metropolitan Denver, Colorado area for $8.4 million. This sale resulted in a gain on sale of approximately $2.6 million. The net proceeds of approximately $1.8 million were used to complete a tax-deferred exchange under Section 1031 of the Internal Revenue Code for office building assets.

On May 25, 2000, we acquired Panorama Falls for $5.9 million. Funds for closing included approximately $514,000 being held in escrow and on deposit as part of the tax-deferred exchange under Section 1031 of the Internal Revenue Code from the sale of the Broadway Property completed in December 1999, together with mortgage financing and short-term financing, which was partially repaid in August 2000 with proceeds from our 2000 public offering.

Competition

The leasing of real estate is highly competitive. We compete for tenants in our markets primarily on the basis of property location, rents, services provided and the design and condition of improvements. In addition, we also experience competition when attempting to acquire or divest ownership in real estate, including competition from larger and better capitalized domestic and foreign financial institutions, other REITs, life insurance companies, pension trusts, partnerships and individual investors. This competition could limit our ability to lease our properties, increase or maintain rental rates, or secure attractive investment opportunities. We believe that our niche focus on multi-tenant office buildings with smaller average tenant sizes will improve our ability to compete in the marketplace.

Employees

We currently employ approximately 60 individuals that provide real estate operations, leasing, financial and accounting, acquisition and marketing expertise. We consider our relationship with our employees to be good.

Environmental Matters

Under various federal, state and local laws and regulations, an owner or operator of real property may be liable for the costs of removal or remediation of certain hazardous or toxic substances on that property. These laws often impose such liability regardless of whether the owner caused or knew of the presence of hazardous or toxic substances and regardless of whether the storage of those substances was in violation of a tenant's lease. Furthermore, the costs of remediation or removal of those substances may be substantial, and the presence of hazardous or toxic substances, or the failure to promptly remediate those substances, may adversely affect the owner's ability to sell the property or to borrow money using the property as collateral. In connection with the ownership and operation of the properties, we may be potentially liable for such costs.

We have obtained an environmental assessment of each of our properties. These environmental assessments have not revealed any environmental conditions that management believes will subject us to material liability. In addition, we have not been, nor do we have knowledge that any of the previous owners of the properties have been, notified by any governmental authority of any material noncompliance, liability or claim relating to hazardous or toxic substances or other environmental substances in connection with any of the properties. Although we have obtained environmental assessments of the properties, and although we are not aware of any notifications by any governmental authority of any material noncompliance, it is possible that our assessments do not reveal all environmental liabilities or that there are material environmental liabilities of which we are unaware. For a description of pending legal proceedings involving environmental issues, see "Legal Proceedings."

After the acquisition of the Sheridan Center buildings in Denver, we embarked on an asbestos remediation program in accordance with applicable federal and state requirements, using licensed contractors to remove, wherever accessible or otherwise required, asbestos-containing materials in the buildings, including ceiling tiles, drywall joint compound, wood and metal fire doors, wall texture, mudded pipe elbows and valves, thermal systems insulation, floor tile and mastic and boiler insulation. Most of the remediation has been completed, except for one building, which is expected to be completed over the next few years as tenants vacate spaces, allowing access to the asbestos materials.

Additional Information and Code of Ethics

Our website is http://www.AMVproperties.com. We make available free of charge, on or through our web site, our annual, quarterly, and current reports, as well as any amendments to these reports, as soon as reasonably practicable after electronically filing these reports with the Securities and Exchange Commission. The reference to our web site does not incorporate by reference the information contained in the web site and such information should not be considered a part of this report. We have adopted a code of ethics and business conduct applicable to our Board and officers and employees. A copy of our code of ethics and business conduct is available through our web site. In addition, copies of the code of ethics and business conduct can be obtained, free of charge, upon written request to Investor Relations, 1780 South Bellaire Street, Suite 100, Denver, Colorado 80222.

Risk Factors

Our access to capital may be extremely limited and may affect our ability to execute our business plan.

As a result of the amendments to our Secured Facility and Unsecured Facility entered into on March 15, 2005, our ability to borrow additional amounts under the Secured Facility has been terminated and our ability to incur additional borrowings under the Unsecured Facility is subject to the approval of the lender in its sole and absolute discretion. Moreover, the amendments to the Unsecured Facility restrict our ability to incur any additional indebtedness from any other party without the prior written consent of the lender. To the extent that we are unable to borrow additional funds, we may be unable to make any additional acquisitions of office properties and could be limited in our ability to fund tenant improvements or make other necessary or desirable portfolio capital expenditures unless we issue additional equity in the Company or sell one or more of our existing properties. In addition, we would be dependent upon cash flow from our operations to cover these capital expenditures and our corporate operating expenses. As a result, there can be no assurance that we will be able to execute our business plan, and our limited access to capital could have a material adverse effect on our financial condition and our operations.

Our decision to actively pursue strategic alternatives may affect our ability to execute our business plan, result in unanticipated costs, and distract management.

On November 22, 2004, we announced that our Board of Directors would undertake a review of a broad range of strategic alternatives for the company, including the identification of an institutional capital partner to assist in the company's growth going forward, a sale or recapitalization of all or a portion of the company's properties, the potential sale or merger of the company and other possible transactions designed to enhance shareholder value. As of the date of this report, we are continuing to review and will pursue all viable strategic alternatives.

As a result of our review, and any pursuit, of strategic alternatives, we face considerable uncertainty. This uncertainty may disrupt our business operations and may result in the loss of business opportunities we would otherwise pursue. Our management team may be distracted from the day-to-day operations of our business as a result of this uncertainty and some members of management may decide to leave their employment with us. This distraction or loss of services could have a material adverse effect on our operations. Finally, we have incurred and expect to continue to incur significant costs for financial, advisory, legal and other consulting services expended in reviewing and pursuing strategic alternatives.

Our variable rate debt subjects us to interest rate risk.

At December 31, 2004, approximately $57.8 million, or 24%, of our total debt was at variable rates ranging from 275 to 350 basis points over LIBOR. The weighted-average interest rate on this variable rate debt was approximately 5.3% at December 31, 2004. At December 31, 2004, approximately $32.9 million of this debt was maturing in 2005 and the remaining $24.9 million matures in 2007 (see "Future Sources of Capital" for information on the amendments to the Secured and Unsecured Facilities). Increases in interest rates could increase our interest expense, which would adversely affect net earnings and cash available for payment of our debt obligations and distributions to our stockholders.

We face a competitive market, which could limit our ability to lease our properties or secure attractive investment opportunities.

Our business strategy contemplates expansion through acquisition. The commercial real estate industry is highly competitive, and we compete with substantially larger companies, including substantially larger REITs, for the acquisition, development and operation of properties. Some of these companies are national or regional operators with far greater resources than we have. As a result, we may not be able or have the opportunity to make suitable investments on favorable terms in the future. Competition in a particular area also could adversely affect our ability to lease our properties or to increase or maintain rental rates. Thus, the presence of these competitors may impede the continuation and development of our business.

We may not be able to pay dividends to our stockholders regularly.

Our ability to pay dividends in the future depends on our ability to operate profitably and to generate cash from our operations in excess of debt service obligations and required capital expenditures. Because we have had to finance our growth, we have not been able to generate sufficient cash from our operations to cover all these obligations and have had to fund certain capital expenditures from external sources, including borrowings and equity offerings. The payment of dividends is in the sole discretion of our Board of Directors. On March 9, 2005, we suspended our dividend payment for the first quarter of 2005. Our Board will review and consider the resumption of a dividend on our common stock for the second quarter of 2005, or thereafter, based on a number of factors, including the completion of a strategic transaction or other significant capital event, such as a refinancing or asset sales, the Company's financial results, capital resources and liquidity needs at that time. We cannot assure you that we will be able to resume the payment of dividends or if resumed, to pay dividends consistently with historical payments. The amendments to our lines of credit described above precluded any further indebtedness without the consent of our lender for any purpose, including the payment of dividends.

Our debt level may have a negative impact on our income and our ability to pay dividends.

We have incurred indebtedness in connection with the acquisition of our properties, and we may incur new indebtedness in the future in connection with our acquisition, development and operating activities. At December 31, 2004, we had approximately $236.6 million of long-term indebtedness, of which approximately $53.5 million in the aggregate is due in 2005 and 2006 (see "Future Sources of Capital" for information on the amendments to the Secured and Unsecured Facilities). As a result of our use of debt, we are subject to the risks normally associated with debt financing, including:

- that our cash flow will be insufficient to make required payments of principal and interest;
- that we will be unable to refinance some or all of our indebtedness or that any refinancing will not be on terms as favorable as those of the existing indebtedness;
- that required payments on mortgages and on our other indebtedness are not reduced if the economic performance of any property declines;
- that debt service obligations will reduce funds available for distribution to our stockholders; and
- that any default on our indebtedness could result in acceleration of those obligations.

If the economic performance of any of our properties declines, our ability to make debt service payments would be adversely affected. If a property is mortgaged to secure payment of indebtedness and we are unable to meet mortgage payments, we may lose that property to lender foreclosure with a consequent loss of income and asset value.

We do not have a policy limiting the amount of debt that we may incur; however, our Secured Facility limits our total liabilities to 70% of gross assets, as calculated in accordance with the loan agreement. Our total liabilities to total market capitalization ratio was approximately 62% at December 31, 2004. Our leverage levels may make it difficult to obtain any additional financing based on our current portfolio or to refinance existing debt on favorable terms or at all. Our leverage levels also may adversely affect the market value of our stock if we are perceived as more risky than our peers.

Some of our buildings are subject to special income tax considerations, which could result in substantial tax liability upon their sale.

If we sell any of our Sheridan Center buildings before 2006 (ten years after the original acquisition date of the property or the property exchanged for that property), we will be required to pay tax at the highest applicable corporate rate on the excess of the buildings' fair market value at the effective time of our REIT election over its adjusted basis at such time (or, if lesser, the excess of the fair market value of the building at the time of the sale over its adjusted basis at the time of the sale).

Because we used proceeds from the sale of a small office building in Wisconsin to purchase AmeriVest Plaza in an exchange qualifying under Section 1031 of the Internal Revenue Code, we may also be required to hold AmeriVest Plaza until 2006 in order to avoid corporate tax on the appreciation of the exchanged property as of the effective date of our REIT election. If we are subject to tax on any such gain at the highest corporate rate, the amount of this corporate tax could be substantial. We may not have sufficient cash available to pay the corporate taxes resulting from the sale of these properties.

Because we used proceeds from the sale of our Texas Bank Buildings to purchase Parkway Centre III in an exchange qualifying under Section 1031 of the Internal Revenue Code, we may also be required to hold Parkway Centre III until 2007 in order to avoid corporate tax on the appreciation of the exchanged property as of the effective date of our REIT election. If we are subject to tax on any such gain at the highest corporate rate, the amount of this corporate tax could be substantial. We may not have sufficient cash available to pay the corporate taxes resulting from the sale of these properties.

New developments and acquisitions may fail to perform as we expect.

Over the last few years, we have focused our efforts on the acquisition and redevelopment of multi-tenant office buildings. Subject to the results of our strategic alternatives review and the availability of capital, we may continue to seek to selectively develop and acquire office properties. In deciding whether to acquire or develop a particular property, we make assumptions regarding the expected future performance of that property. In particular, we estimate the return on our investment based on expected occupancy and rental rates. If the property is unable to achieve the expected occupancy and rental rates, it may fail to perform as we expected in analyzing our investment. When we acquire a property, we often reposition or redevelop that property with the goal of increasing profitability. Our estimate of the costs of repositioning or redeveloping an acquired property may prove inaccurate, which may result in our failure to meet our profitability goals. Additionally, we may acquire new properties not fully leased and the cash flow from existing operations may be insufficient to pay the operating expenses and debt service associated with that property until the property is fully leased. If one or more of these new properties do not perform as expected or we are unable to successfully integrate new properties into our existing operations, our financial performance may be adversely affected.

Development and construction risks could adversely affect our profitability.

We are currently improving several of our properties and may develop new properties in the future. Our renovation, redevelopment, development and related construction activities may subject us to the following risks:

- We may be unable to obtain, or suffer delays in obtaining, necessary zoning, land-use, building, occupancy and other required governmental permits and authorizations, which could result in increased costs or our abandonment of these projects.

- We may incur construction costs for a property that exceed our original estimates due to increased costs for materials or labor or other costs, such as asbestos or mold abatement, which we did not anticipate.

- We may not be able to obtain financing on favorable terms, which may make us unable to proceed with our development activities.

- We may be unable to complete construction and lease-up of a property on schedule, which could result in increased debt service expense or construction costs.

Additionally, the time frame required for development, construction and lease-up of these properties means that we may have to wait years for a significant cash return. Because we are required to make cash distributions to our stockholders to maintain our REIT tax status, if the cash flow from operations or refinancing is not sufficient, we may be forced to borrow additional money to fund such distributions.

Failure to succeed in new markets may limit our growth.

We may make selected acquisitions outside our current market areas from time to time as appropriate opportunities arise. Our historical core experience is in metropolitan Denver, Dallas, Phoenix and Indianapolis, and we may not be able to operate successfully in other market areas new to us. We may be exposed to a variety of risks if we choose to enter into new markets. These risks include:

- a lack of market knowledge and understanding of the local economies;

- an inability to identify acquisition or development opportunities;

- an inability to attract tenants to our properties in these new markets;
- an inability to obtain construction trades people; and
- an unfamiliarity with local government and permitting procedures.

Any of these factors could adversely affect the profitability of projects outside our current markets and limit the success of our acquisition, development and leasing strategy.

Real estate investments are inherently risky, which could adversely affect our profitability and our ability to make distributions to our stockholders.

Real estate investments are subject to varying degrees of risk. If we acquire or develop properties and they do not generate sufficient operating cash flow to meet operating expenses, including debt service, capital expenditures and tenant improvements, our income and ability to pay dividends to our stockholders will be adversely affected. Income from properties may be adversely affected by:

- decreases in rent and/or occupancy rates due to competition, economic or other factors;
- increases in operating costs such as real estate taxes, insurance premiums, site maintenance and utilities;
- changes in interest rates and the availability of financing; and
- changes in laws and governmental regulations, including those governing real estate usage, zoning and taxes.

Future terrorist attacks in the United States and international hostilities may result in declining economic activity, which could reduce the demand for and the value of our properties.

Future terrorist attacks in the United States, such as the attacks that occurred in New York and Washington, D.C. on September 11, 2001, and other acts of terrorism or war, whether in the United States or abroad, may result in declining economic activity and reduced demand for our properties. A decrease in demand would make it difficult for us to renew or re-lease our properties at lease rates equal to or above historical rates. Terrorist activities also could directly impact the value of our properties through damage, destruction or loss. We have obtained insurance coverage with respect to some of these risks. We cannot predict whether such coverage will actually cover such risks or whether the risks for which we obtained insurance will actually occur. To the extent that our tenants are impacted by future attacks, their businesses similarly could be adversely affected, including their ability to continue to honor obligations under their existing leases.

These types of events also may adversely affect the markets in which our securities trade. These acts may cause further erosion of business and consumer confidence and spending and may result in increased volatility in national and international financial markets and economies. Any one of these events may cause a decline in the demand for real estate, delay the time in which our new or renovated properties reach stable occupancy, increase our operating expenses due to increased physical security and insurance costs for our properties and limit our access to capital or increase our cost of raising capital.

General economic conditions may adversely affect our financial condition and results of operations.

Periods of economic slowdown or recession in the United States and in other countries, rising interest rates or declining demand for real estate, or the public perception that any of these events may occur, could result in a general decline in rents or an increased incidence of defaults by our tenants under existing leases, which would adversely affect our financial position, results of operations and cash flow, as well as the trading price of our securities and our ability to satisfy our debt service obligations and to make distributions to our stockholders.

Unfavorable changes in local market and economic conditions could hurt occupancy or rental rates.

Currently, our core properties are located in metropolitan Denver, Dallas, Phoenix and Indianapolis. Economic conditions in our local markets may significantly affect occupancy and rental rates. Occupancy and rental rates, in turn, may significantly affect our profitability and our ability to satisfy our financial obligations. The economic condition of our local markets may depend on one or more industries and, therefore, an economic downturn in one of these industry sectors may adversely affect our performance in that market. Local real estate market conditions may include a large supply of competing space, and we compete for tenants based on rental rates, attractiveness and location of a property, and quality of maintenance and management services.

We are subject to the credit risk of our tenants, which could result in lease payments not being made and a significant decrease in our revenues.

Many of our tenants are small companies with nominal net worth. We cannot assure you that our tenants will not default on their leases and fail to make rental payments to us. In particular, local economic conditions and factors affecting the industries in which our tenants operate may affect our tenants' ability to make lease payments to us. Moreover, we may be unable to locate a replacement tenant in a timely manner or on comparable or better terms if a tenant defaults on its lease. The loss of rental revenues from a number of our tenants may adversely affect our profitability and our ability to meet our financial obligations.

We may be unable to renew leases or re-lease space on a timely basis or on comparable or better terms, which could significantly decrease our revenues.

A significant number of our leases on our 100%-owned properties, representing approximately 24% of our annualized lease revenue, expire on or before December 31, 2005. Current tenants may elect not to renew their leases upon the expiration of their terms. Alternatively, current tenants may attempt to terminate their leases prior to the expiration of their current terms. Many of our leases are for relatively short terms of a few years. If non-renewals or terminations occur, we may not be able to locate a qualified replacement tenant and, as a result, we would lose a source of revenue while remaining responsible for the payment of our obligations. Moreover, the terms of a renewal or new lease may be less favorable than current lease terms. This may cause affected properties to be impaired.

Loss of a significant tenant could lead to a substantial decrease in our cash flow and an impairment of the value of our real estate.

Although we target tenants seeking 2,000 to 4,000 square feet of office space, we may have several significant tenants from time to time, the loss of any of which could adversely affect our cash flow and may cause affected properties to be impaired.

Chateau Plaza in Dallas, Texas is approximately 70% (120,607 square feet) leased to a single tenant, Dean Foods Company, under a direct lease through December 2005. However, the tenant has the option to terminate the lease upon eight months written notice. Should the tenant elect to terminate the lease early, it is obligated to pay a termination penalty equal to three months of the current base rent plus any unamortized tenant improvement and leasing costs. The loss of this tenant could adversely affect our cash flow until we are able to re-lease the vacated space. Our lease with Dean Foods Company accounts for approximately $2,820,000 of our annual revenue, based on their 2004 base rent and excludes any adjustments for straight-line rent or expense recoveries.

Our uninsured and underinsured losses could result in loss of value of our properties.

There are certain types of losses, generally of a catastrophic nature, such as earthquakes and floods, that may be uninsurable or not economically insurable, as to which our facilities are at risk in their particular locations. Our management uses its discretion in determining amounts, coverage limits and deductibility provisions of insurance, with a view to obtaining appropriate insurance on our investments at a reasonable cost and on suitable terms. These decisions may result in our having insurance coverage that, in the event of a substantial loss, would not be sufficient to repay us for the full current market value or current replacement cost. Also, due to inflation, changes in codes and ordinances, environmental considerations, and other factors, it may not be feasible to use insurance proceeds to replace a building after it has been damaged or destroyed.

The success of our company depends on the continuing contributions of our key personnel.

We have a highly skilled management team and specialized workforce managing our properties. Although, in December 2004, we entered into change of control agreements with our Chief Executive Officer, President, Chief Financial Officer and Chief Investment Officer, we do not have employment agreements with any of our executive officers or key employees and, thus, any executive officer or key employee may terminate his or her relationship with us at any time.

There is limited liquidity in our real estate investments, which could limit our flexibility.

Real estate investments are relatively illiquid. Our ability to vary our portfolio in response to changes in economic and other conditions will be limited. We may not be able to dispose of an investment when we find disposition advantageous or necessary, and the sale price of any disposition may not recoup or exceed the amount of our investment. In addition, federal tax laws limit our ability to sell properties that we have owned for fewer than four years, and this may affect our ability to sell properties without adversely affecting returns to our stockholders.

Furthermore, certain of our mortgage loans provide for penalties upon the early termination of the respective loan. This may restrict our ability to sell or refinance those properties.

We may suffer environmental liabilities that could result in substantial costs.

Under various environmental laws, a current or previous owner or operator of real property may be liable for the costs of removal or remediation of hazardous or toxic substances, including asbestos-containing materials and mold, that are located on or under the property. These laws often impose liability whether the owner or operator knew of, or was responsible for, the presence of those substances. In connection with our ownership and operation of properties, we may be liable for these costs, which could be substantial. Also, our ability to arrange for financing secured by that real property might be adversely affected because of the presence of hazardous or toxic substances or the failure to properly remediate any contamination. In addition, we may be subject to claims by third parties based on damages and costs resulting from environmental contamination at or emanating from our properties. In particular, two lawsuits have been filed against our AmeriVest Properties Texas Inc. subsidiary alleging that our Mission, Texas property is contaminated with airborne contaminants. Our insurance company is defending us in these lawsuits. These lawsuits, or similar lawsuits, if adversely determined, could have a material adverse effect on our business and financial condition, and we cannot assure you that other lawsuits will not be filed against us with respect to this building or our other buildings.

After the acquisition of the Sheridan Center buildings, we embarked on an asbestos remediation program in accordance with applicable federal and state requirements, using licensed contractors to remove, wherever accessible or otherwise required, asbestos-containing materials in the buildings, including ceiling tiles, drywall joint compound, wood and metal fire doors, wall texture, mudded pipe elbows and valves, thermal systems insulation, floor tile and mastic and boiler insulation. Most of the remediation has been completed, except for one building, that is expected to be completed over the next few years as tenants vacate spaces, allowing access to the asbestos materials.

Non-compliance with the Americans with Disabilities Act could result in compliance costs and fines.

Under the Americans with Disabilities Act of 1990, or the ADA, all public accommodations are required to meet certain federal requirements related to physical access and use by disabled persons. While we believe we are in compliance with the ADA requirements, a determination that we are not in compliance with the ADA could require capital expenditures to remove access barriers and non-compliance could result in the imposition of fines or an award of damages to private litigants. If we were required to make modifications to comply with the ADA or other governmental rules and regulations, our ability to make expected distributions to our stockholders could be adversely affected.

The ability of our stockholders to control our policies or effect a change in control of our company is limited, which may not be in our stockholders' best interests.

Charter and Bylaws Provisions. Some provisions of our charter and bylaws may delay or prevent a change in control of our company or other transactions that could provide our stockholders with a premium over the then-prevailing market price of our common or preferred stock or that might otherwise be in the best interests of our stockholders. These provisions include:

Two-thirds stockholder vote required to approve some amendments to the charter. Some amendments to our charter must be approved by the affirmative vote of stockholders holding at least $66^2/_3$% of the outstanding shares of our common stock, voting together as a single class. These voting requirements may make amendments to our charter that stockholders believe desirable more difficult to effect.

Issuance of preferred stock without stockholder approval. Our Board of Directors has the ability to authorize the issuance of preferred stock without stockholder approval and to set or change the designation, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications, or terms or conditions of redemption of the preferred stock. Our Board of Directors could therefore authorize series of preferred stock that 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 stockholders.

Ownership Limitation. In order to assist us in maintaining our qualification as a REIT, our Articles of Incorporation contain provisions generally limiting the ownership of shares of our capital stock by any single stockholder to 9% of our outstanding shares, unless waived by our Board of Directors. These provisions could also delay or prevent an acquisition or change in control of our company that could benefit our stockholders.

Maryland Business Statutes. As a Maryland corporation, we are subject to the provisions of the Maryland General Corporation Law. Maryland law imposes restrictions on some business combinations and requires compliance with statutory procedures before some mergers and acquisitions can occur. These provisions of Maryland law may have the effect of discouraging offers to acquire us even if the acquisition would be advantageous to our stockholders. These provisions include:

Unsolicited takeover provisions. Maryland law provides that the Board of Directors of a Maryland corporation is not subject to higher duties with regard to actions taken in a takeover context. These provisions may make it more difficult to effect an unsolicited takeover of a Maryland corporation. Maryland law also allows publicly held corporations with at least three independent directors to elect to be governed, without shareholder approval, by all or any part of Maryland law provisions relating to extraordinary actions and unsolicited takeovers.

Business combination with interested stockholders. The Maryland Business Combination Act provides that, unless exempted, a Maryland corporation may not engage in business combinations, including mergers, dispositions of 10% or more of its assets, issuances of shares and other specified transactions, with an "interested stockholder" or its affiliates, for five years after the most recent date on which the interested stockholder became an interested stockholder and thereafter unless specified criteria are met.

Control share acquisition. The Maryland Control Shares Acquisition Act provides that shares acquired by any person over one-tenth, one-third and a majority of the voting power of a corporation do not have voting rights, except to the extent approved by the vote of two-thirds of the shares of common stock entitled to be cast on the matter.

Other constituencies. Maryland law expressly authorizes a Maryland corporation to include in its charter a provision that allows the Board of Directors to consider the effect of a potential acquisition of control on stockholders, employees, suppliers, customers, creditors and communities in which offices or other establishments of the corporation are located. Our current charter does not include a provision of this type. Maryland law also provides, however, that the inclusion or omission of this type of provision in the charter of a Maryland corporation does not create an inference concerning factors that may be considered by the Board of Directors regarding a potential acquisition of control. This law may allow our Board of Directors to reject an acquisition proposal even though the proposal is in the best interests of our stockholders.

Other Maryland laws. Maryland law also permits the Board of Directors, without stockholder approval, and even if contrary to a company's bylaws or charter, to classify the Board of Directors, require a two-thirds vote for the removal of directors and give the Board of Directors sole power to fill Board vacancies occurring for any reason.

There is a limited market for our common stock, which could hinder the ability of our stockholders to sell our shares.

Historically, there has been limited trading volume for our common stock and, in the event that we issue preferred stock, there may be a limited trading volume for our preferred stock. Our equity market capitalization places us at the low end of market capitalization among all REITs. Because of our small market capitalization, most of our investors are individuals. We cannot assure you that the market for our securities will remain at current levels or expand. Due to our limited trading volume and small market capitalization, many investors may not be interested in owning our securities because of the inability to acquire or sell a substantial block of our stock at one time. This illiquidity could have an adverse effect on the market price of our securities. In addition, a stockholder may not be able to borrow funds using our securities as collateral because lenders may be unwilling to accept the pledge of securities having such a limited market. Any substantial sale of our securities could have a material adverse effect on the market price of our securities.

We may incur tax liabilities if we fail to qualify as a REIT.

We believe that we have been organized and operated so as to qualify as a REIT under the Internal Revenue Code of 1986, as amended, since our taxable year ended December 31, 1996. However, we cannot assure you that we will continue to be qualified as a REIT. Qualification as a REIT involves the application of highly technical and complex Internal Revenue Code provisions for which there are only limited judicial or administrative interpretations. The determination of various factual matters and circumstances not entirely within our control may affect our ability to qualify as a REIT. In addition, legislation, new regulations, administrative interpretations or court decisions may significantly change the requirements for qualification as a REIT or the federal income tax consequences of that qualification.

In order to qualify as a REIT, at all times during the second half of each taxable year following our first taxable year, no more than 50% in value of our shares may be owned, directly or indirectly and by applying constructive ownership rules, by five or fewer individuals, including some tax-exempt entities. Our Articles of Incorporation provide restrictions regarding the transfer of shares, including a 9% limitation on the ownership of our shares by any stockholder, that are intended to assist us in continuing to satisfy this share ownership requirement.

If we were unable to qualify as a REIT in any taxable year, we would not be allowed a deduction for distributions to stockholders in computing our taxable income and would be subject to federal income tax on our taxable income at regular corporate rates and possibly to the alternative minimum tax. Unless we are entitled to relief under certain Internal Revenue Code provisions, we also would be disqualified from treatment as a REIT for the four taxable years following the year during which REIT qualification was lost. As a result, the funds available for distribution to our stockholders would be reduced for each of the years involved. In addition, we may have to incur substantial indebtedness or may have to liquidate substantial investments in order to pay the resulting federal income tax liabilities if differences in timing exist between the receipt of income and payment of our tax obligations. Although we currently intend to operate in a manner designed to qualify as a REIT, it is possible that future economic, market, legal, tax or other considerations may cause us to revoke our REIT election.

We may have to borrow money to make required distributions to our stockholders.

In order to qualify as a REIT, we generally are required each year to distribute to our stockholders at least 90% of our REIT taxable income, excluding any net capital gains. To the extent that we satisfy the distribution requirement, but distribute less than 100% of our taxable income, we will be subject to federal corporate income tax on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible excise tax on the amount, if any, by which certain distributions paid by us with respect to any calendar year are less than the sum of 85% of our ordinary income for that year plus 95% of our capital gain net income for that year plus any undistributed taxable income from prior periods. On March 9, 2005, we suspended our dividend payment for the first quarter of 2005. Our Board will review and consider the resumption of a dividend on our common stock for the second quarter of 2005, or thereafter, based on a number of factors, including the completion of a strategic transaction or other significant capital event, such as a refinancing or asset sales, the Company's financial results, capital resources and liquidity needs at that time. However, we intend to make distributions to our stockholders to comply with the 90% distribution requirement and to avoid corporate income tax and the nondeductible excise tax. We may have to borrow funds on a short-term basis to meet the 90% distribution requirement and to avoid corporate income tax and the nondeductible excise tax if differences in timing between taxable income and cash available for distribution exist. As noted above, we may not be able to borrow these funds. Additionally, any such borrowings may not be at favorable interest rates.

Adverse legislative or regulatory tax changes may affect the tax treatment of us or our stockholders.

At any time, the federal income tax laws governing REITs or the administrative interpretations of those laws may be amended. Any of those new laws or interpretations thereof may take effect retroactively and could adversely affect our company or you, as a shareholder. For example, on May 28, 2003, the President signed into law tax legislation that reduced the federal tax rate on both dividends and long-term capital gains for individuals to 15% through 2008. Because REITs generally are not subject to corporate income tax, this reduced tax rate generally does not apply to ordinary REIT dividends, which continue to be taxed at the higher tax rates applicable to ordinary income. The 15% tax rate applies to:

- long-term capital gains recognized on the disposition of REIT shares;

- REIT capital gain distributions (except to the extent attributable to real estate depreciation, in which case such distributions continue to be subject to a 25% tax rate);

- REIT dividends attributable to dividends received by a REIT from non-REIT corporations, such as taxable REIT subsidiaries; and

- REIT dividends attributable to income that was subject to corporate income tax at the REIT level (e.g., to the extent that a REIT distributes less than 100% of its taxable income).

This law could be causing shares in non-REIT corporations to be a relatively more attractive investment to individual investors than shares in REITs. The legislation also could be having an adverse effect on the market price of our securities.

ITEM 2. PROPERTIES

At December 31, 2004, we owned and operated 30 office properties which included an aggregate of 2,732,957 square feet. The Company's core portfolio (which excludes assets in which it owns less than 100% and smaller office buildings primarily leased to the State of Texas) included 16 properties totaling 2,450,854 square feet, at December 31, 2004, located in metropolitan Denver, Dallas, Phoenix and Indianapolis.

The following table provides certain information about each of our office properties at December 31, 2004:

Building/ Location	Year Acquired	Rentable Area(1)	December 31, 2004 Occupancy Rate(2)	December 31, 2004 Average Rent Per SF(3)	December 31, 2003 Occupancy Rate(2)	December 31, 2003 Average Rent Per SF(3)
Same Store						
Keystone Office Park Indianapolis, IN	1999/2003	114,822	76.8%	$ 17.69	86.4%	$ 17.71
Sheridan Center Denver, CO	2000	139,578	82.0%	15.94	82.7%	16.36
AmeriVest Plaza at Inverness Englewood, CO	2001	118,720	93.9%	21.03	91.3%	23.10
Arrowhead Fountains Peoria, AZ	2001	96,090	100.0%	21.85	100.0%	21.85
Kellogg Building Littleton, CO	2001	110,852	93.0%	19.56	85.8%	21.04
Parkway Centre II Plano, TX	2002	151,968	94.8%	19.01	95.4%	20.61
Centerra Denver, CO	2002	186,582	85.2%	18.09	72.9%	19.89
Chateau Plaza Dallas, TX	2002	171,294	99.5%	23.42	100.0%	22.70
Southwest Gas Building Phoenix, AZ	2003	146,048	87.1%	22.64	80.4%	22.10
Financial Plaza, Mesa, AZ	2003	310,838	83.0%	23.51	80.5%	23.02
Scottsdale Norte Scottsdale, AZ	2003	78,811	94.4%	22.74	80.9%	23.16
Greenhill Park Addison, TX	2003	247,264	77.0%	17.71	76.7%	18.84
	Subtotal	1,872,867	87.4%	$ 20.44	84.7%	$ 20.93
2004 Acquisitions						
Camelback Lakes Phoenix, AZ	2004	203,179	98.9%	$ 21.97	N/A	N/A
Hackberry View of Las Colinas Irving, TX	2004	114,598	100.0%	19.78	N/A	N/A
Parkway Centre III Plano, TX	2004	152,027	93.8%	20.94	N/A	N/A
Hampton Court Dallas, TX	2004	108,183	100.0%	21.13	N/A	N/A
	Subtotal	577,987	98.0%	$ 21.11	N/A	N/A
Joint Ventures						
Panorama Falls(4) Englewood, CO	2000	59,561	64.8%	$ 19.84	78.0%	$ 19.01
	Subtotal	59,561	64.8%	$ 19.84	78.0%	$ 19.01
Non-Core						