CARRAMERICA REALTY CORP
Form 424B5
September 08, 2003

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SEC File No. 333-50019

Prospectus Supplement to Prospectus dated April 27, 1998.

7,000,000 Shares

CarrAmerica Realty Corporation

7.50% Series E Cumulative Redeemable Preferred Stock

(Liquidation Preference $25.00 Per Share)

We are offering 7,000,000 shares of our 7.50% Series E Cumulative Redeemable Preferred Stock, par value $.01 per share. We will receive all of the net proceeds from the sale of the shares of Series E preferred stock.

We will pay cumulative dividends on the Series E preferred stock from and including the date of original issue at the rate of 7.50% of the liquidation preference per year, or $1.8750 per share of Series E preferred stock per year. Dividends will be payable quarterly in arrears on or about the last day of February, May, August and November of each year, commencing on November 30, 2003.

We may not redeem the Series E preferred stock before September 25, 2008, except to preserve our status as a real estate investment trust. On or after September 25, 2008, we may, at our option, redeem the shares of Series E preferred stock, in whole or in part, by paying $25.00 per share, plus any accrued and unpaid dividends to and including the date of redemption. The shares of Series E preferred stock have no maturity date and will remain outstanding indefinitely unless redeemed. The shares of Series E preferred stock will not be subject to any sinking fund or mandatory redemption and will not be convertible into any of our other securities. Investors in the shares of Series E preferred stock will generally have no voting rights, but will have limited voting rights if we fail to pay dividends for six or more quarters and under certain other circumstances.

The shares of our Series E preferred stock are subject to certain restrictions on ownership and transfer designed to preserve our qualification as a real estate investment trust for federal income tax purposes. See Description of Series E Preferred Stock Restrictions on Ownership and Transfer.

Currently no market exists for the Series E preferred stock. We intend to file an application to list the Series E preferred stock on the New York Stock Exchange. If the application is approved, trading of the Series E preferred stock on the NYSE is expected to begin within 30 days after the date of initial delivery of the shares of Series E preferred stock.

See Risk Factors on page S-6 of this prospectus supplement and in our annual report on Form 10-K for the year ended December 31, 2002 to read about factors you should consider before buying shares of our Series E preferred stock.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus supplement and the accompanying prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Initial public offering price(1)	$25.0000	$ 175,000,000
Underwriting discount	$ 0.7875	$ 5,512,500
Proceeds, before expenses, to us	$24.2125	$ 169,487,500

(1) Plus accrued dividends, if any, from September 25, 2003.

To the extent that the underwriters sell more than 7,000,000 shares of Series E preferred stock, the underwriters have the option to purchase up to an additional 1,050,000 shares from us at the initial public offering price less the underwriting discount.

The underwriters expect to deliver the shares of Series E preferred stock through the facilities of The Depository Trust Company against payment in New York, New York on September 25, 2003.

Joint Bookrunning Managers

Goldman, Sachs & Co. **Wachovia Securities**

A.G. Edwards & Sons, Inc. **Legg Mason Wood Walker Incorporated** **UBS Investment Bank**

Banc of America Securities LLC

JPMorgan

Lehman Brothers

SunTrust Robinson Humphrey

U.S. Bancorp Piper Jaffray

Prospectus Supplement dated September 4, 2003.

PROSPECTUS SUPPLEMENT SUMMARY

The following summary is qualified in its entirety by the more detailed information and financial statements, including the notes thereto, appearing elsewhere in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein and therein. You should read the entire prospectus supplement, the accompanying prospectus and the documents incorporated herein and therein by reference before making a decision to invest in our Series E preferred stock. Unless otherwise noted, the information in this prospectus supplement assumes no exercise of the underwriters option to purchase additional shares. References to CarrAmerica , we, and us refer to CarrAmerica Realty Corporation and its majority-owned or controlled subsidiaries.

The Company

We are a fully integrated, self-administered and self-managed publicly-traded real estate investment trust, or REIT. We focus on the acquisition, development, ownership and operation of high-quality office properties located primarily in selected markets across the United States.

As of June 30, 2003, we owned greater than 50% interests in 261 operating office buildings and one residential property under construction. The 261 operating office buildings contain a total of approximately 20.4 million square feet of net rentable area. The stabilized operating buildings (those in operation more than one year) in which we owned a controlling interest as of June 30, 2003 were 88.9% leased. These properties had approximately 1,100 tenants. As of June 30, 2003, we also owned minority interests (ranging from 15% to 50%) in 37 operating office buildings and one office building under construction. The 37 operating office buildings contain a total of approximately 5.7 million square feet of net rentable area. The office building under construction will contain approximately 476,350 square feet of net rentable area. The stabilized operating buildings in which we owned a minority interest as of June 30, 2003 were 92.8% leased.

Our principal executive offices are located at 1850 K Street, N.W., Washington, D.C. 20006, and our telephone number is (202) 729-1700.

Recent Developments

Since June 30, 2003, we have completed the sale of a 80,609 square foot building in Orange County, California, for gross proceeds to us of approximately $10.6 million and a gain on sale of approximately $3.6 million.

We also currently have two properties located in Atlanta, Georgia and Orange County, California with a total of approximately 185,000 square feet of net rentable area under contract to be sold for aggregate gross proceeds of $19.2 million with an estimated aggregate net gain of approximately $6.2 million. These pending dispositions are expected to close prior to October 31, 2003, and are subject to customary closing conditions. We have recently entered into an agreement to purchase a building in San Francisco, California with approximately 156,000 square feet of net rentable area for a purchase price of approximately $51.0 million in cash. The building is currently 100% occupied by one tenant. The closing of the acquisition is expected to occur prior to September 30, 2003, and remains subject to customary closing conditions. We expect to fund the acquisition with borrowings under our unsecured

credit facility. There can be no assurance that these transactions will be consummated or, if consummated, that the final terms of the transactions will not be different than currently expected.

In June, 2003, a large, Washington, D.C.-based law firm entered into a 15-year lease with us to lease in excess of 400,000 square feet at our International Square building complex in Washington, D.C. The law firm is expected to begin occupancy of the space in the spring or summer of 2006. The space constitutes most of the space currently occupied by the International Monetary Fund, whose lease will expire in June 2005.

On September 3, 2003, IDT Corporation and its subsidiaries Winstar Communications, L.L.C. and Winstar of New Jersey, L.L.C. filed a complaint in the United States District Court for the District of New Jersey against a group of REITs and real estate operating companies, including us and our subsidiary CarrAmerica Development, Inc., and an industry trade association relating to Winstar s access to commercial real estate buildings for the provision of telecommunications services. The complaint alleges, among other things, that we and the other defendants engaged in anti-competitive activities and interfered with Winstar s ability to provide telecommunications services to our tenants, and seeks an unspecified amount of damages and certain injunctive relief. No answer has been filed as of the date of this prospectus supplement. Due to the inherent uncertainties of the judicial process and the early stage of this action, we are unable to predict the outcome of this matter. While we intend to defend this matter vigorously, there can be no assurance that we will prevail in this matter or, if we do not prevail, what amount of damages would be awarded to Winstar. We cannot assure you that, if this matter is not resolved in our favor, it will not have a material adverse effect on our financial condition and results of operations.

The Offering

Issuer	CarrAmerica Realty Corporation
Securities Offered	7,000,000 shares of our 7.50% Series E Cumulative Redeemable Preferred Stock (8,050,000 shares if the underwriters option to purchase additional shares is exercised in full).
Dividends	Investors will be entitled to receive cumulative cash dividends on the Series E preferred stock from the date of original issue, payable quarterly in arrears on or about the last day of February, May, August and November of each year, commencing November 30, 2003, at the rate of 7.50% of the liquidation preference per annum (equivalent to $1.8750 per annum per share). The dividend payable on the Series E preferred stock on November 30, 2003 will be a pro rata dividend from the original issue date to November 30, 2003 in the amount of $0.3385 per share. Dividends on the Series E preferred stock will accrue whether or not we have earnings, whether or not there are funds legally available for the payment of such dividends and whether or not such dividends are declared. As a result of recent changes in the tax law, dividends paid by regular C corporations to persons or entities that are taxed as individuals now are generally taxed at the rate applicable to long-term capital gains, which is a maximum of 15%, subject to certain limitations. Because we are a REIT, however, our dividends, including dividends paid on our Series E preferred stock, generally will continue to be taxed at regular ordinary income tax rates, except to the extent that the special rules relating to qualified dividend income and capital gains dividends paid by a REIT apply. See Certain Material Federal Income Tax Considerations.
Liquidation Preference	If we liquidate, dissolve or wind up, holders of the Series E preferred stock will have the right to receive $25.00 per share, plus accrued and unpaid dividends to and including the date of payment, before any payment is made to holders of our common stock and any other capital stock ranking junior to the Series E preferred stock as to liquidation rights. The rights of holders of Series E preferred stock to receive their liquidation preference will be subject to the proportionate rights of any other class or series of our capital stock ranking on a parity with the Series E preferred stock as to liquidation.
Optional Redemption	We may not redeem the Series E preferred stock prior to September 25, 2008, except in limited circumstances to

	preserve our status as a REIT. On and after September 25, 2008, the Series E preferred stock will be redeemable at our option, in whole or from time to time in part, for cash equal to $25.00 per share, plus accrued and unpaid dividends to and including the redemption date.
No Maturity	The Series E preferred stock has no maturity date and we are not required to redeem the Series E preferred stock at any time. Accordingly, the Series E preferred stock will remain outstanding indefinitely, unless we decide, at our option, to exercise our redemption right. The Series E preferred stock is not subject to any sinking fund.
Ranking	The Series E preferred stock will rank, with respect to the payment of dividends and amounts upon liquidation, dissolution or winding up of CarrAmerica, senior to all classes or series of our common stock and on a parity with our 8.57% Series B Cumulative Redeemable Preferred Stock, our 8.55% Series C Cumulative Redeemable Preferred Stock, our 8.45% Series D Cumulative Redeemable Preferred Stock, and any other class or series of capital stock issued in the future the terms of which specifically provide that such class or series ranks on a parity with the Series E preferred stock.
Voting Rights	Holders of Series E preferred stock will generally have no voting rights. However, if we do not pay dividends on the Series E preferred stock for six or more quarterly periods, whether or not consecutive, holders of the Series E preferred stock (voting together as a class with the holders of all other classes or series of parity preferred stock upon which like voting rights have been conferred, including the Series B preferred stock, Series C preferred stock and Series D preferred stock, and are exercisable) will be entitled to vote at our next annual meeting of stockholders for the election of two additional directors to serve on our board of directors until all dividend arrearages and the dividend for the then current period have been paid or declared and set apart for payment.
Listing	We intend to file an application to list the Series E preferred stock on the New York Stock Exchange. If the application is approved, trading of the Series E preferred stock on the NYSE is expected to commence within 30 days after the date of initial delivery of the Series E preferred stock. The underwriters have advised us that they intend to make a market in the Series E preferred stock prior to commencement of any trading on the NYSE. However, the underwriters will have no obligation to do so, and no assurance can be given that a market for the Series E preferred stock will develop prior to commencement of trading on the NYSE or, if developed, will be maintained.

Restrictions on Ownership and Transfer	For us to qualify as a REIT under the Internal Revenue Code, the transfer of our capital stock, which includes the Series E preferred stock, is restricted and not more than 50% in value of our outstanding capital stock may be owned, directly or constructively, by five or fewer individuals, as defined in the Internal Revenue Code. As a result, no person or persons acting as a group may own, or be deemed to own by virtue of the attribution rules of the Internal Revenue Code, subject to limited exceptions, more than 9.8% of the outstanding shares of each class or series of our capital stock. See Description of Series E Preferred Stock Restrictions on Ownership and Transfer.
Conversion	The Series E preferred stock is not convertible into or exchangeable for any other property or securities.
Use of Proceeds	We expect that the net proceeds from this offering will be approximately $169.2 million after deducting underwriting discounts and commissions and our expenses (or approximately $194.7 million if the underwriters exercise their option to purchase additional shares in full). We intend to use the net proceeds from this offering to redeem all of our outstanding 8.57% Series B Cumulative Redeemable Preferred Stock and 8.55% Series C Cumulative Redeemable Preferred Stock. We intend to use the remaining net proceeds to redeem a portion of our 8.45% Series D Cumulative Redeemable Preferred Stock, and expect to redeem the remaining portion of our Series D preferred stock with borrowings under our unsecured credit facility. See Use of Proceeds.
Risk Factors	An investment in the Series E preferred stock involves various risks, and prospective investors should carefully consider the matters discussed under the caption entitled Risk Factors beginning on page S-6 of this prospectus supplement and the section entitled Business The Company Risk Factors beginning on page 13 of our Annual Report on Form 10-K for the year ended December 31, 2002, which is incorporated herein by reference, before making a decision to invest in the Series E preferred stock.

RISK FACTORS

In addition to the section titled Risk Factors in our annual report on Form 10-K for the year ended December 31, 2002 and other information in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein and therein, you should consider carefully the following risk factors before deciding to invest in the Series E preferred stock.

The Series E preferred stock will be subordinate to our indebtedness, and our indebtedness and structure could prevent us from fulfilling our obligations under the Series E preferred stock.

At June 30, 2003, our total consolidated indebtedness was approximately $1.7 billion, of which approximately $384.2 million was secured by mortgages of properties owned by us or our subsidiaries. We may also be able to borrow substantial additional secured or unsecured indebtedness in the future. The repayment of the principal and interest on our indebtedness may prevent us from being able to make dividend payments on the Series E preferred stock. In addition, in the event of a bankruptcy, liquidation, dissolution, reorganization or similar proceeding with respect to us, our indebtedness will rank senior to the Series E preferred stock, and the holders of any indebtedness will be entitled to satisfaction of any amounts owed them prior to payment of the liquidation preference of any capital stock, including the Series E preferred stock.

Further, we derive a significant portion of our operating income from our subsidiaries. We must rely to a significant extent on distributions and other payments from our subsidiaries (or must raise funds in public or private equity or debt offerings or sell assets) to generate the funds necessary to meet our obligations, including the payment of dividends on our capital stock, including the Series E preferred stock. If the dividends and other payments from our subsidiaries were insufficient to meet such obligations, there could be no assurance that our operating income would be sufficient to meet such obligations (or that we would be able to obtain such funds on acceptable terms or at all).

Our business operations may not generate the cash needed to service our indebtedness and pay dividends on our preferred stock.

Our ability to make payments on our indebtedness and pay dividends on our preferred stock, including the Series E preferred stock, and to fund planned capital expenditures will depend on our ability to generate cash in the future. We cannot assure you that we will generate sufficient cash flow in the future or that sufficient borrowings, if any, will be available to us to enable us to make payments on our indebtedness and pay dividends on the Series E preferred stock or to fund our other liquidity needs.

The Series E preferred stock is a new issue of securities and does not have an established trading market, which may negatively affect the market value of your shares and your ability to transfer or sell your shares.

The Series E preferred stock is a new issue with no established trading market. We intend to file an application to list the Series E preferred stock on the NYSE. However, we cannot assure you that the Series E preferred stock will be approved for listing on the NYSE. Even if approved, trading of the Series E preferred stock on the NYSE is not expected to begin until 30 days after the date of initial delivery of the Series E preferred stock and, in any event, we cannot assure you that an active trading market on the NYSE for the Series E preferred stock will develop or, even if one develops, will be maintained. As a result, the ability to transfer or sell the Series E preferred stock and any trading price of the Series E preferred stock could be adversely affected. The underwriters advised us that they intend to make a market in the Series E preferred stock, but they are not obligated to do so and may

discontinue market-making at any time without notice.

The market value of the Series E preferred stock could be substantially affected by various factors.

As with other publicly traded securities, the trading price of the Series E preferred stock will depend on many factors, which may change from time to time, including:

- prevailing interest rates, increases in which may have an adverse effect on the trading price of the Series E preferred stock;
- the market for similar securities issued by REITs;
- general economic and financial market conditions;
- the attractiveness of securities of REITs in comparison to other companies, taking into account, among other things, the higher tax rates imposed on dividends paid by REITs;
- the market s perception of our growth potential and potential future cash dividends;
- government action or regulation; and
- our financial condition, performance and prospects.

CAUTIONARY LANGUAGE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this prospectus supplement and accompanying prospectus, and in the documents incorporated by reference in this prospectus supplement and accompanying prospectus, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance, dividends, achievements or transactions or industry results to be materially different from any future results, performance, dividends, 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 our 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 acquisitions to close and pending developments to be completed on time and within budget);

Possible charges or payments resulting from our guarantees of certain leases of HQ Global Workplaces, Inc.;

Actions, strategies and performance of affiliates that we may not control or companies in which we have made investments;

Our ability to obtain insurance at a reasonable cost;

Our ability to maintain our status as a REIT for federal income tax purposes;

Governmental actions and initiatives; and

Environmental/safety requirements.

For a further discussion of these and other factors that could impact our future results, performance, dividends, achievements or transactions, see Risk Factors beginning on page S-6 of this prospectus supplement and the documents filed by us from time to time with the Securities and Exchange Commission, in particular the section titled Business The Company Risk Factors in our annual report on Form 10-K for the year ended December 31, 2002.

RATIO OF EARNINGS TO FIXED CHARGES AND COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

The following table sets forth our ratios of earnings to fixed charges and earnings to combined fixed charges and preferred stock dividends for the periods indicated. For this purpose, earnings consist of income from continuing operations before income taxes, minority interest and discontinued operations plus the amortization of capitalized interest and fixed charges (excluding interest cost capitalized). Fixed charges consist of interest expense (including interest costs capitalized) and the amortization of debt issuance costs. Preferred stock dividends consist of dividends on our 8.57% Series B Cumulative Redeemable Preferred Stock, 8.55% Series C Cumulative Redeemable Preferred Stock and 8.45% Series D Cumulative Redeemable Preferred Stock.

	Year Ended December 31,					Six Months Ended June 30,
	1998	1999	2000	2001	2002	2003
Ratio of Earnings to Fixed Charges	2.07	2.22	2.53	1.86	1.96	1.79
Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends	1.54	1.70	1.92	1.34	1.51	1.50

The ratio of earnings to fixed charges and the ratio of earnings to combined fixed charges and preferred stock dividends have been restated for each period presented to reflect the effect of classifying certain properties that we have disposed of as a part of discontinued operations on a retroactive basis consistent with Statement of Financial Accounting Standards No. 144 (SFAS 144). Therefore, the ratios referred to above may not be consistent with the ratios previously disclosed as a result of the disposition of additional properties and the requirements under SFAS 144 to retroactively restate our results of operations to reflect certain of the disposed properties as discontinued operations.

USE OF PROCEEDS

We expect that the net proceeds from this offering will be approximately $169.2 million after deducting underwriting discounts and commissions and our expenses (or approximately $194.7 million if the underwriters exercise their option to purchase additional shares in full). We intend to use the net proceeds from the offering to redeem all of our outstanding 8.57% Series B Cumulative Redeemable Preferred Stock and 8.55% Series C Cumulative Redeemable Preferred Stock. We intend to use the remaining net proceeds to redeem a portion of our 8.45% Series D Cumulative Redeemable Preferred Stock, and expect to redeem the remaining portion of our Series D preferred stock with borrowings under our unsecured credit facility.

As of August 31, 2003, we had outstanding 877,017 shares of our Series B preferred stock (with a liquidation preference of $25.00 per share) and 529,187 and 168,411 shares of our Series C and Series D preferred stock, respectively (each with a liquidation preference of $250.00 per share).

Pending application of the net proceeds as described above, the net proceeds from this offering will be temporarily used to repay a portion of the amounts outstanding under our unsecured credit facility. The line of credit expires in June 2004, and we can extend the line for an additional year at our option. The line carries an interest rate of 70 basis points over 30-day LIBOR, or 1.82% as of June 30, 2003. The total commitment carries a 20 basis point facility fee. As of June 30, 2003, $188.0 million was drawn on the credit facility, $2.6 million in letters of credit were outstanding and we had $309.4 million available for borrowing. Affiliates of Wachovia Capital Markets, LLC, Banc of America Securities LLC, J.P. Morgan Securities Inc., SunTrust Capital Markets, Inc., U.S. Bancorp Piper Jaffray Inc. and Wells Fargo Investments Services, LLC, underwriters of this offering, are lenders under our credit facility. These affiliates will receive their proportionate share of the amount of the credit facility to be repaid with the proceeds of this offering, if any.

RECENT ACCOUNTING CHANGE

On July 31, 2003, the Securities and Exchange Commission issued a clarification of Emerging Issues Task Force Topic D-42, The Effect on the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock. Topic D-42 provides, among other things, that any excess of the fair value of the consideration transferred to the holders of preferred stock redeemed over the carrying amount of the preferred stock should be subtracted from net earnings to determine net earnings available to common stockholders in the calculation of earnings per share. The SEC s clarification of the guidance in Topic D-42 provides that the carrying amount of the preferred stock should be reduced by the related issuance costs.

The July 2003 clarification of Topic D-42 is effective for us beginning with the quarter ending September 30, 2003. We intend to redeem all of our outstanding Series B, Series C and Series D preferred stock with the net proceeds from this offering and borrowing under our unsecured credit facility. We expect that such redemptions will result in a $0.12 reduction in our basic and diluted earnings per share (from continuing operations and in total) for the quarter in which the redemptions occur, which is expected to be in the quarter ending December 31, 2003.

CAPITALIZATION

The following table sets forth our capitalization as of June 30, 2003 and as adjusted to give effect to (i) the issuance of the 7,000,000 shares of Series E preferred stock offered hereby, (ii) redemption of all of our outstanding our Series B preferred stock, Series C preferred stock and Series D preferred stock, and (iii) additional borrowing of approximately $30.6 million under our unsecured credit facility to redeem the portion of our outstanding shares of Series D preferred stock for which the net proceeds from this offering are insufficient.

	June 30, 2003	
	Actual	As Adjusted
	(Amounts in thousands)	
Mortgages payable	$ 384,247	$ 384,247
Other indebtedness	1,289,273	1,319,919
Minority interest	74,240	74,240
Stockholders equity		
Preferred Stock, $.01 par value, authorized 35,000,000 shares:		
8.57% Series B Cumulative Redeemable Preferred Stock (liquidation preference $25.00 per share), 877,017 shares issued and outstanding as of June 30, 2003 and no shares issued and outstanding as of June 30, 2003, as adjusted	21,926	
8.55% Series C Cumulative Redeemable Preferred Stock (liquidation preference $250.00 per share), 541,832 shares issued and outstanding as of June 30, 2003 and no shares issued and outstanding as of June 30, 2003, as adjusted	135,458	
8.45% Series D Cumulative Redeemable Preferred Stock (liquidation preference $250.00 per share), 170,001 shares issued and outstanding as of June 30, 2003 and no shares issued and outstanding as of June 30, 2003, as adjusted	42,500	
% Series E Cumulative Redeemable Preferred Stock (liquidation preference $25.00 per share), no shares issued and outstanding as of June 30, 2003 and 7,000,000 shares issued and outstanding as of June 30, 2003, as adjusted		169,238
Common Stock, $.01 par value, authorized 180,000,000 shares; 52,158,129 shares issued and outstanding as of June 30, 2003 and 52,158,129 shares issued and outstanding as of June 30, 2003, as adjusted	521	521
Additional paid-in capital	953,946	953,946
Cumulative dividends in excess of net income	(234,217)	(234,217)
Total stockholders equity	920,134	889,488
Total capitalization	$ 2,667,894	$ 2,667,894

SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data at and for the three years ended December 31, 2002 are derived from our audited consolidated financial statements. The financial data at and for the six month periods ended June 30, 2003 and June 30, 2002 are derived from our unaudited consolidated financial statements. The unaudited financial statements include all adjustments, consisting of normal recurring adjustments, which we consider necessary for a fair presentation of our financial position and results of operations for these periods. Operating results for the six months ended June 30, 2003 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2003. We are providing the following financial information to aid you in your analysis of whether to make an investment in the Series E preferred stock offered by this prospectus supplement. This information is only a summary and you should read it in conjunction with the historical financial statements and related notes contained in the annual and quarterly reports and other information that we have filed with the Securities and Exchange Commission. See Available Information.

	Year Ended December 31,			Six Months Ended June 30,	
	2002	2001	2000	2003	2002
	(Amounts in thousands, except per share data)				
Income Statement Data:					
Rental revenue	$ 500,547	$ 492,130	$ 521,194	$ 248,922	$ 243,640
Real estate service revenue	24,538	31,037	26,172	13,033	11,615
Total operating revenue	525,085	523,167	547,366	261,955	255,255
Property expenses	171,694	161,911	168,516	86,872	83,056
Interest expense	99,018	83,676	100,189	51,908	49,503
General and administrative	41,650	49,457	42,796	20,943	19,118
Depreciation and amortization	125,931	119,610	123,158	65,051	61,845
Total operating expenses	438,293	414,654	434,659	224,774	213,522
Real estate operating income	86,792	108,513	112,707	37,181	41,733
Other income	1,086	3,052	4,372		
Interest income				191	410
Equity in earnings of unconsolidated entities	7,188	9,322	7,596	3,185	4,245
Impairment loss on investments	(500)	(42,249)			
Obligations under lease guaranties	(8,693)				(8,693)
Total other income (expense)	(919)	(29,875)	11,968	3,376	(4,038)
Income from continuing operations before income taxes, minority interest, and gain on sale of assets and other provisions, net	85,873	78,638	124,675	40,557	37,695
Income taxes	(257)	(1,338)	(3,393)	(372)	(94)
Minority interest	(13,801)	(9,431)	(16,149)	(5,769)	(6,007)
Gain on sale of assets and other provisions, net	13,156	2,964	36,371	544	2,015
Income from continuing operations	84,971	70,833	141,504	34,960	33,609
Discontinued operations Income from executive suites operations (net of applicable income tax expense of $1,300)			456		
Discontinued operations Gain on sale of executive suites operations (less applicable income tax expense of $21,131)			31,852		

Discontinued operations	Net operations of sold property	5,249	8,228	5,655	840	4,076
Discontinued operations	Gain on sale of property	19,085				
Net income		$ 109,305	$ 79,061	$ 179,467	$ 35,800	$ 37,685
Basic Net Income Per Common Share Data(1):						
Income from continuing operations		$ 1.04	$ 0.59	$ 1.61	$ 0.49	$ 0.31
Discontinued operations		0.10	0.14	0.09	0.01	0.08
Gain on sale of discontinued operations		0.36		0.48		
Net income		$ 1.50	$ 0.73	$ 2.18	$ 0.50	$ 0.39

	Year Ended December 31,			Six Months Ended June 30,	
	2002	2001	2000	2003	2002
	(Amounts in thousands, except per share data)				
Diluted Net Income Per Common Share Data(1):					
Income from continuing operations	$ 1.02	$ 0.57	$ 1.57	$ 0.49	$ 0.31
Discontinued operations	0.10	0.14	0.09	0.01	0.07
Gain on sale of discontinued operations	0.35		0.47		
Net income	$ 1.47	$ 0.71	$ 2.13	$ 0.50	$ 0.38
Balance Sheet Data:					
Total assets	$ 2,815,705	$ 2,775,427	$ 3,072,841	$ 2,796,570	$ 2,740,302
Debt obligations	1,603,949	1,399,230	1,204,007	1,673,520	1,391,194
Stockholders equity	997,791	1,177,807	1,646,706	920,134	1,150,679
Other Data:					
Cash flows from operating activities	$ 213,020	$ 217,714	$ 179,054	$ 85,633	$ 110,769
Cash (used in) investing activities	(44,066)	101,204	567,477	29,722	28,801
Cash flows provided by (used in) financing activities	(170,972)	(338,581)	(773,713)	(58,365)	(82,462)
Funds from operations as defined by NAREIT(2)(3)	206,571	198,284	230,478	100,635	100,014

The following table represents items and amounts being aggregated to compute funds from operations (FFO):

	Year Ended December 31,			Six Months Ended June 30,	
	2002	2001	2000	2003	2002
	(Amounts in thousands)				
Net income:	$ 109,305	$ 79,061	$ 179,467	$ 35,800	$ 37,685
Adjustments:					
Minority interest	13,801	9,431	16,149	5,769	6,007
FFO allocable to the unit holders	(17,884)	(16,901)	(16,342)	(8,779)	(8,991)
Depreciation and amortization	137,245	131,909	128,861	68,996	69,169
Minority interests (non-unit holders share of depreciation, amortization and net income)	(1,159)	(755)	(1,084)	(607)	(516)
Executive suites discontinued operations			(32,308)		
Gain on sale of assets	(34,737)	(4,461)	(44,265)	(544)	(3,340)
FFO as defined by NAREIT(2)(3)	$ 206,571	$ 198,284	$ 230,478	$ 100,635	$ 100,014

(1) On July 31, 2003, the Securities and Exchange Commission issued a clarification of Emerging Issues Task Force Topic D-42, The Effect on the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock. Topic D-42 provides, among other things, that any excess of the fair value of the consideration transferred to the holders of preferred stock redeemed over the carrying amount of the preferred stock should be subtracted from net earnings to determine net earnings available to common stockholders in the calculation of earnings per share. The SEC s clarification of the guidance in Topic D-42 provides that the carrying amount of the preferred stock should be reduced by the related issuance costs.

The July 2003 clarification of Topic D-42 is effective for us for the quarter ending September 30, 2003 and is required to be reflected retroactively in the financial statements of prior periods. We have not previously considered issuance costs in determining the carrying amount of the preferred stock we redeemed in 2003 and 2002 and, accordingly, implementation of the clarification of Topic D-42 will affect our previously reported earnings per share. In particular, our reported basic and diluted earnings per share (from continuing operations and in total) for the six months ended June 30, 2003 will be reduced by $0.03 per share, all of which relates to the quarter ended March 31, 2003, and our reported basic and diluted earnings

per share (from continuing operations and in total) for 2002 will be reduced by $0.09 per share, including $0.01 per share for the quarters ended June 30, 2002 and December 31, 2002 and $0.07 per share for the quarter ended September 30, 2002.

(2) FFO as defined by the National Association of Real Estate Investment Trusts (NAREIT) includes land impairment charges of $1.3 million for the six months ended June 30, 2002 and $2.4 million, $1.5 million and $7.9 million for the years ended December 31, 2002, 2001 and 2000, respectively, which we had previously excluded from our calculation of FFO. There were no land impairment charges for the six months ended June 30, 2003.

(3) FFO is used as a measure of operating performance for real estate companies. We provide FFO as a supplement to net income calculated in accordance with accounting principles generally accepted in the United States of America (GAAP). Although FFO is a measure of operating performance, it does not represent net income calculated in accordance with GAAP. NAREIT defines FFO as net income (computed in accordance GAAP), excluding gains on sales of property, 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 FFO on the same basis.

We believe that FFO is helpful to investors as a measure of our performance. FFO excludes various items included in net income that do not relate to or are not indicative of our operating performance, such as gains and losses on sales of real estate and real estate related depreciation and amortization, which can make periodic analyses of operating performance more difficult to compare. We also believe that FFO provides investors with an indication of our ability to incur and service debt, to make capital expenditures and to fund other cash needs.

DESCRIPTION OF SERIES E PREFERRED STOCK

This description of the particular terms of the Series E preferred stock supplements, and, to the extent inconsistent, replaces, the description of the general terms and provisions of the preferred stock set forth in the accompanying prospectus. The following summary of the terms and provisions of the Series E preferred stock does not purport to be complete and is qualified in its entirety by reference to the articles supplementary creating the Series E preferred stock, a copy of which will be made available by us, our charter, our bylaws, as amended, and applicable laws.

General

Under our charter, our board of directors is authorized without further stockholder action to establish and issue, from time to time, up to 35,000,000 shares of our preferred stock, in one or more series, with such designations, preferences, powers and relative participating, optional or other special rights, and the qualifications, limitations or restrictions thereon, including dividend rights, dividend rate or rates, conversion rights, voting rights, rights and terms of redemption (including sinking fund provisions), the redemption price or prices, and the liquidation preferences as stated in the resolution providing for the issue of a series of such stock, adopted, at any time or from time to time, by our board of directors and set forth in articles supplementary to our charter for such series of preferred stock. As of August 31, 2003, we had outstanding 877,017 shares of 8.57% Series B Cumulative Redeemable Preferred Stock, 529,187 shares of 8.55% Series C Cumulative Redeemable Preferred Stock and 168,411 shares of 8.45% Series D Cumulative Redeemable Preferred Stock. The material terms of our Series E preferred stock are described below. We intend to redeem all of the Series B preferred stock, Series C preferred stock and Series D preferred stock with the proceeds from the offering of the Series E preferred stock, including any proceeds from the exercise of the underwriters option to purchase additional shares, and funds borrowed on our unsecured credit facility.

Rank

With respect to dividend rights and rights upon liquidation, dissolution or winding up of us, the Series E preferred stock ranks:

- senior to all classes or series of our common stock, and to any other class or series of our capital stock issued by us not referred to in the second and third bullet points of this paragraph;
- on parity with the Series B preferred stock, Series C preferred stock and the Series D preferred stock and with all equity securities issued by us in the future the terms of which specifically provide that such equity securities rank on a parity with the Series E preferred stock with respect to dividend rights or rights upon liquidation, dissolution or winding up of us; and
- junior to all equity securities issued by us in the future the terms of which specifically provide that such equity securities rank senior to the Series E preferred stock with respect to dividend rights or rights upon our liquidation, dissolution or winding up.

The term capital stock does not include convertible debt securities, which rank senior to the Series E preferred stock prior to conversion.

Dividends

Subject to the preferential rights of the holders of any class or series of our capital stock ranking senior to the Series E preferred stock as to dividends, the holders of shares of the Series E preferred stock are entitled to receive, when, as, and if declared by our board of directors out of funds of CarrAmerica legally available for the payment of dividends, cumulative cash dividends at the rate of 7.50% of the liquidation preference per annum per share (equivalent to $1.8750 per annum per share).

Dividends on the Series E preferred stock are cumulative from the date of original issue and are payable quarterly in arrears on or about the last day of each February, May, August and November or, if such day is not a business day, on the next succeeding business day.

The first dividend on the Series E preferred stock is scheduled to be paid on November 30, 2003. Any dividend payable on the Series E preferred stock, including dividends payable for any partial dividend period, will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends will be payable to holders of record as they appear in our stock records at the close of business on the applicable record date, which shall be the date designated by our board of directors for the payment of dividends that is not more than 30 nor less than 10 days prior to the scheduled dividend payment date. Notwithstanding any provision to the contrary contained in this prospectus supplement, each outstanding share of Series E preferred stock will be entitled to receive a dividend with respect to any dividend record date equal to the dividend paid with respect to each other share of Series E preferred stock that is outstanding on such date.

We will not declare dividends on the Series E preferred stock, or pay or set apart for payment dividends on the Series E preferred stock if the terms of any of our agreements, including any agreements relating to our indebtedness, prohibit such a declaration, payment or setting apart for payment or provide that such declaration, payment or setting apart for payment would constitute a breach of or default under such an agreement. Likewise, no dividends will be declared by our board of directors or paid or set apart for payment if such declaration or payment is restricted or prohibited by law.

Notwithstanding the foregoing, dividends on the Series E preferred stock will accrue whether or not we have earnings, whether or not there are funds legally available for the payment of those dividends and whether or not those dividends are declared. Except as described in the next paragraph, unless full cumulative dividends on the Series E preferred stock have been or contemporaneously are declared and paid in cash or declared and a sum sufficient for the payment thereof is set apart for payment for all past dividend periods and the then current dividend period, we will not:

declare or pay or set aside for payment dividends, and we will not declare or make any distribution of cash or other property, directly or indirectly, on or with respect to any shares of our common stock or shares of any other class or series of our capital stock ranking, as to dividends, on a parity with or junior to the Series E preferred stock (other than a dividend paid in shares of common stock or in shares of any other class or series of capital stock ranking junior to the Series E preferred stock as to dividends and upon liquidation), for any period; or

redeem, purchase or otherwise acquire for consideration, or make any other distribution of cash or other property, directly or indirectly, on or with respect to, or pay or make available any monies for a sinking fund for the redemption of, any common stock or on shares of any other class or series of our capital stock ranking, as to dividends and upon liquidation, on a parity with or junior to the Series E preferred stock (except by conversion into or exchange for other shares of any class or series of capital stock ranking junior to the Series E preferred stock and in accordance with certain provisions of our charter, under which Series E preferred stock owned by a stockholder in excess of the ownership limit discussed under Restrictions on Ownership and Transfer will be transferred to a trust for the exclusive benefit of one or more charitable beneficiaries and may be purchased by us under certain circumstances).

When we do not pay dividends in full (or we do not set apart a sum sufficient to pay them in full) upon the Series E preferred stock and the shares of any other class or series of capital stock ranking, as to dividends, on a parity with the Series E preferred stock, we will declare any dividends upon the Series E preferred stock and each such other class or series of capital stock ranking, as to dividends, on a parity with the Series E preferred stock proportionately so that the amount of dividends declared

per share of Series E preferred stock and such other class or series of capital stock will in all cases bear to each other the same ratio that accrued dividends per share on the Series E preferred stock and such other class or series of preferred stock (which will not include any accrual in respect of unpaid dividends on such other class or series of capital stock for prior dividend periods if such other class or series of capital stock does not have a cumulative dividend) bear to each other. No interest, or sum of money in lieu of interest, will be payable in respect of any dividend payment or payments on the Series E preferred stock which may be in arrears.

Holders of shares of Series E preferred stock are not entitled to any dividend, whether payable in cash, property or shares of capital stock, in excess of full cumulative dividends on the Series E preferred stock as described above. Any dividend payment made on the Series E preferred stock will first be credited against the earliest accrued but unpaid dividends due with respect to those shares which remain payable. Accrued but unpaid dividends on the Series E preferred stock will accumulate as of the due date for the dividend payment on which they first become payable.

As a result of recent changes in the tax law, dividends paid by regular C corporations to persons or entities that are taxed as individuals now are taxed at the rate applicable to long-term capital gains, which is a maximum of 15%, subject to certain limitations. Because we are a REIT, however, our dividends, including dividends paid on our Series E preferred stock, generally will continue to be taxed at regular ordinary income tax rates, except to the extent that the special rules relating to qualified dividend income and capital gains dividends paid by a REIT apply. See Certain Material Federal Income Tax Considerations.

If, for any taxable year, we elect to designate as capital gain dividends (as defined in Section 857 of the Internal Revenue Code of 1986, as amended, or any successor revenue code or section) any portion, which we refer to as the Capital Gains Amount, of the total dividends (as determined for federal income tax purposes) paid or made available for such taxable year to holders of all classes and series of capital stock, then the portion of the Capital Gains Amount that will be allocable to holders of Series E preferred stock shall be in the same proportion that the total of the dividends (as determined for federal income tax purposes) paid or made available to the holders of Series E preferred stock for the year bears to the total of all such dividends for the year paid with respect to all classes and series of our outstanding capital stock.

Liquidation Preference

Upon any voluntary or involuntary liquidation, dissolution or winding-up of our affairs, the holders of shares of Series E preferred stock are entitled to be paid out of our assets legally available for distribution to our stockholders a liquidation preference of $25.00 per share, plus an amount equal to any accrued and unpaid dividends (whether or not declared) to the date of payment, before any distribution or payment may be made to holders of shares of our common stock or any other class or series of our capital stock ranking, as to liquidation rights, junior to the Series E preferred stock. If, upon our voluntary or involuntary liquidation, dissolution or winding up, our available assets are insufficient to pay the full amount of the liquidating distributions on all outstanding shares of Series E preferred stock and the corresponding amounts payable on all shares of each other class or series of capital stock ranking, as to liquidation rights, on a parity with the Series E preferred stock, then the holders of the Series E preferred stock and each such other class or series of capital stock ranking, as to liquidation rights, on a parity with the Series E preferred stock will share proportionately in any distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled.

Holders of Series E preferred stock will be entitled to written notice of any liquidation. After payment of the full amount of the liquidating distributions to which they are entitled, the holders of Series E preferred stock will have no right or claim to any of our remaining assets. Our consolidation or

merger with or into any other corporation, trust or other entity, or the sale, lease, transfer or conveyance of all or substantially all of our property or business, will not be deemed to constitute our liquidation, dissolution or winding up.

Redemption

The Series E preferred stock is not redeemable prior to September 25, 2008. We are entitled, however, pursuant to the articles supplementary relating to the Series E preferred stock, to purchase shares of the Series E preferred stock in order to preserve our status as a REIT for federal or state income tax purposes at any time. See Restrictions on Ownership and Transfer. On and after September 25, 2008, we may, at our option, redeem the Series E preferred stock, in whole or from time to time in part, for cash at a redemption price of $25.00 per share, plus accrued and unpaid dividends to and including the date fixed for redemption, without interest, to the extent we have funds legally available for that purpose.

In order to redeem their shares of Series E preferred stock, holders must surrender their shares at the place designated in the notice of redemption. Holders will then be entitled to the redemption price and any accrued and unpaid dividends payable upon redemption. If a notice of redemption has been given and if the funds necessary for the redemption have been set aside by us in trust for the benefit of the holders of any shares of Series E preferred stock called for redemption, then from and after the redemption date, dividends will cease to accrue on such shares of Series E preferred stock and such shares of Series E preferred stock will no longer be deemed outstanding. At such time all rights of the holders of such shares will terminate, except the right to receive the redemption price. If less than all of the outstanding Series E preferred stock is to be redeemed, we will select the Series E preferred Stock to be redeemed pro rata (as nearly as may be practicable without creating fractional shares) or by any other equitable method that we determine. See Description of Preferred Stock Redemption in the accompanying prospectus.

Unless full cumulative dividends on all shares of Series E preferred stock have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof set apart for payment for all past dividend periods and the then current dividend period, no shares of Series E preferred stock shall be redeemed unless all outstanding shares of Series E preferred stock are simultaneously redeemed and we will not purchase or otherwise acquire directly or indirectly any shares of Series E preferred stock (except by exchange for our capital stock ranking junior to the Series E preferred stock as to dividends and upon liquidation); provided, however, that we may purchase shares of Series E preferred stock in order to ensure that we continue to meet the requirements for qualification as a REIT for federal and/or state income tax purposes, and may purchase or acquire shares of Series E preferred stock pursuant to a purchase or exchange offer made on the same terms to holders of all outstanding shares of Series E preferred stock. See Restrictions on Ownership and Transfer below. So long as no dividends are in arrears, we may at any time and from time to time repurchase shares of Series E preferred stock in open-market transactions duly authorized by our board of directors and effected in compliance with applicable laws.

Notice of redemption will be mailed, postage prepaid, not less than 30 nor more than 60 days prior to the redemption date, addressed to the respective holders of record of the Series E preferred stock to be redeemed at their respective addresses as they appear on the stock transfer records of the transfer agent. No failure to give such notice or any defect therein or in the mailing thereof will affect the validity of the proceedings for the redemption of any shares of Series E preferred stock except as to the holder to whom notice was defective or not given. Each notice will state:

the redemption date;

the redemption price;

the number of shares of Series E preferred stock to be redeemed;

the place or places where the Series E preferred stock is to be surrendered for payment of the redemption price; and

that dividends on the shares to be redeemed will cease to accrue on such redemption date.

If less than all of the Series E preferred stock held by any holder is to be redeemed, the notice mailed to such holder will also specify the number of shares of Series E preferred stock held by such holder to be redeemed.

If a redemption date falls after a dividend record date and on or prior to the corresponding dividend payment date, each holder of shares of the Series E preferred stock at the close of business of such dividend record date will be entitled to the dividend payable on such shares on the corresponding dividend payment date notwithstanding the redemption of such shares on or prior to such dividend payment date and each holder of shares of Series E preferred stock that surrenders such shares on such redemption date will be entitled to the dividends accruing after the end of the applicable distribution period. Except as described above, we will make no payment or allowance for unpaid dividends, whether or not in arrears, on Series E preferred stock for which a notice of redemption has been given.

Any shares of the Series E preferred stock that we redeem or repurchase will be retired and restored to the status of authorized but unissued shares of preferred stock.

No Maturity, Sinking Fund or Mandatory Redemption

The Series E preferred stock has no maturity date and we are not required to redeem the Series E preferred stock at any time. Accordingly, the Series E preferred stock will remain outstanding indefinitely, unless we decide, at our option, to exercise our redemption right. The Series E preferred stock is not subject to any sinking fund.

Voting Rights

Holders of the Series E preferred stock generally do not have any voting rights, except as set forth below.

If dividends on the Series E preferred stock are in arrears for six or more quarterly periods, whether or not consecutive, holders of the Series E preferred stock (voting together as a class with all other classes or series of preferred stock upon which like voting rights have been conferred, including the Series B preferred stock, Series C preferred stock and Series D preferred stock, and are exercisable) will be entitled to vote at our next annual meeting and each subsequent annual meeting of stockholders, for the election of two additional directors to serve on our board of directors, until all dividend arrearages and the dividend for the then current period have been paid or declared and a sum sufficient for the payment thereof set aside for payment. In such a case, the number of directors serving on the board of directors will be increased by two members.

So long as any shares of Series E preferred stock remain outstanding, we will not, without the consent or the affirmative vote of the holders of at least two-thirds of the outstanding shares of Series E preferred stock and each other class or series of preferred stock ranking on a parity with respect to the payment of dividends or the distribution of assets upon our liquidation, dissolution or winding up, voting as a single class, given in person or by proxy, either in writing or at a meeting:

authorize, create or issue, or increase the authorized or issued amount of, any class or series of stock ranking prior to such Series E preferred stock with respect to payment of dividends,

or the distribution of assets on liquidation, dissolution or winding up, or reclassify any authorized stock of CarrAmerica into any such shares, or create, authorize or issue any obligation or security convertible into or evidencing the right to purchase any such shares; or

amend, alter or repeal the provisions of our articles of incorporation or articles supplementary, whether by merger, consolidation, transfer or conveyance of substantially all of its assets or otherwise, so as to materially and adversely affect any right, preference, privilege or voting power of the Series E preferred stock or its holders;

except that with respect to the occurrence of any of the events described in the second bullet point immediately above, so long as the Series E preferred stock remains outstanding with the terms of the Series E preferred stock materially unchanged, taking into account that, upon the occurrence of an event described in the second bullet point above, we may not be the surviving entity, the occurrence of such event will not be deemed to materially and adversely affect the rights, preferences, privileges or voting power of holders of Series E preferred stock, and in such case such holders shall not have any voting rights with respect to the events described in the second bullet point immediately above.

Holders of shares of Series E preferred stock shall not be entitled to vote with respect to any increase in total number of authorized shares of our common stock or preferred stock, any increase in the amount of the authorized Series E preferred stock or the creation or issuance of any other class or series of capital stock, or any increase in the number of authorized shares of Series E preferred stock or any other class or series of capital stock, in each case ranking on a parity with or junior to the Series E preferred stock with respect to the payment of dividends and the distribution of assets upon liquidation, dissolution or winding up.

The holders of such Series E preferred stock will not have any voting rights with respect to, and the consent of the holders of Series E preferred stock is not required for, the taking of any corporate action, including any merger or consolidation involving CarrAmerica or a sale of all or substantially all of the assets of CarrAmerica, regardless of the effect that such merger, consolidation or sale may have upon the powers, preferences, voting power or other rights or privileges of the Series E preferred stock, except as set forth in the second bullet point above. Except as expressly set forth in the articles supplementary that relate to the Series E preferred stock, the Series E preferred stock will not have any relative, participatory, optional or other special voting rights and powers.

In any matter in which the Series E preferred stock may vote (as expressly provided in the articles supplementary or as may be required by law), each share of Series E preferred stock shall be entitled to one vote per $25.00 of liquidation preference. As a result, each share of Series E preferred stock will be entitled to one vote.

The voting provisions above will not apply if, at or prior to the time when the act with respect to which the vote would otherwise be required would occur, we have redeemed or called for redemption upon proper procedures all outstanding shares of Series E preferred stock.

Restrictions on Ownership and Transfer

Our charter contains certain restrictions on the number of shares of capital stock that individual shareholders may own. For us to qualify as a REIT under the Internal Revenue Code of 1986, as amended, no more than 50% in value of our outstanding capital stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the Internal Revenue Code to include certain entities) during the last half of a taxable year (other than the first REIT year) or during a proportionate part of a shorter taxable year. Our capital stock also must be beneficially owned by 100 or more

persons during at least 335 days of a taxable year or during a proportionate part of a shorter taxable year. Because we intend to maintain our qualification as a REIT, our charter contains certain restrictions on the ownership and transfer of capital stock, including the Series E preferred stock, intended to ensure compliance with these requirements.

Subject to certain exceptions specified in our charter, no holder may own, through either actual ownership or deemed ownership by virtue of certain attribution provisions of the Internal Revenue Code, more than (A) 9.8% of the issued and outstanding shares of common stock (Common Stock Ownership Limit) or (B) 9.8% of any class or series of preferred stock (Preferred Stock Ownership Limit). The Common Stock Ownership Limit and the Preferred Stock Ownership Limit, together with the Non-U.S. Shareholders Limit, as described below, are referred to collectively herein as the Ownership Limits. Furthermore, all holders are prohibited from acquiring any capital stock if such acquisition would cause five or fewer beneficial owners of capital stock (determined taking into account the relevant attribution provisions of the Internal Revenue Code) who are treated as individuals for purposes of relevant provisions of the Internal Revenue Code to own in the aggregate more than 50% in value of the outstanding capital stock.

In addition to the above restrictions on ownership of our shares of capital stock, in order to assist us in qualifying as a domestically controlled REIT, the charter contains certain provisions preventing any Non-U.S. Shareholder, as defined below, from acquiring additional shares of our capital stock, if, as a result of such acquisition, we would fail to qualify as a domestically controlled REIT (Non-U.S. Shareholder Limit). A Non-U.S. Shareholder is a nonresident alien individual, foreign corporation, foreign partnership and any other foreign shareholder. For a discussion of the taxation of a Non-U.S. Shareholder and the requirements for us to qualify as a domestically controlled REIT, see Material Federal Income Tax Considerations U.S. Taxation of Non-U.S. Stockholders and Taxation of CarrAmerica as a REIT in our Current Report on Form 8-K filed with the SEC on September 3, 2003 and incorporated by reference into this prospectus supplement and the accompanying prospectus.

Our charter provides that, if any holder of our capital stock purports to transfer shares to a person or there is a change in our capital structure and either the transfer or the change in capital structure would result in our failing to qualify as a REIT, or such transfer or the change in capital structure would cause the transferee to hold shares in excess of the applicable Ownership Limit, then the capital stock being transferred (or in the case of an event other than a transfer, the capital stock beneficially owned) that would cause one or more of the restrictions on ownership or transfer to be violated will be automatically transferred to a trust for the benefit of a designated charitable beneficiary. The purported transferee of such shares will have no right to receive dividends or other distributions with respect to such shares and will have no right to vote such shares. Any dividends or other distributions paid to such purported transferee prior to the discovery by us that the shares have been transferred to a trust will be paid by the purported transferee upon demand to the trustee of the trust for the benefit of the charitable beneficiary. The trustee of the trust will have all rights to dividends with respect to the shares of capital stock held in trust, which rights will be exercised for the exclusive benefit of the charitable beneficiary. Any dividends or distributions paid over to the trustee will be held in trust for the charitable beneficiary. The trustee will designate a transferee of such stock so long as such shares of stock would not violate the Ownership Limitations in the hands of such designated transferee. Upon the sale of such shares, the purported transferee will receive the lesser of (A) (i) the price per share such purported transferee paid for the capital stock in the purported transfer that resulted in the transfer of shares of capital stock to the trust, or (ii) if the transfer or other event that resulted in the transfer of shares of capital stock to the trust was not a transaction in which the purported record transferee of shares of capital stock gave full value for such shares, a price per share equal to the market price on the date of the purported transfer or other event that resulted in the transfer of the shares to the trust, or (B) the price per share received by the trustee from the sale or disposition of the shares held in the trust.

All certificates representing the Series E preferred stock will bear a legend referring to the restrictions described above.

Every beneficial owner of more than 5% (or such lower percentage as required by the Internal Revenue Code or regulations thereunder) of the issued and outstanding shares of Series E preferred stock must file a written notice with us containing the information specified in our charter no later than December 31 of each year. In addition, any person who acquires or attempts or intends to acquire shares of Series E preferred stock in violation of the Preferred Stock Ownership Limit shall immediately give written notice to the us of such event and shall provide to us such other information as we may request in order to determine the effect, if any, of such transfer or attempted or intended transfer on our status as a REIT.

Conversion

The Series E preferred stock is not convertible into or exchangeable for any property or other securities.

Global Securities

Rather than issue the Series E preferred stock in the form of physical certificates, we will generally issue the shares in book-entry form evidenced by one or more global securities. We anticipate that any global securities will be deposited with, or on behalf of, The Depository Trust Company, or DTC, and registered in the name of Cede & Co., as DTC s nominee.

DTC holds securities for its participants to facilitate the clearance and settlement of securities transactions, such as transfers and pledges, among participants through electronic book-entry changes to accounts of its participants, thereby eliminating the need for physical movement of securities certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and other organizations. Some of the participants, or their representatives, together with other entities, own DTC.

Purchases of Series E preferred stock under the DTC system must be made by or through participants, which will receive a credit for the shares on DTC s records. Holders who are DTC participants may hold their interests in global securities directly through DTC. Holders who are not DTC participants may beneficially own interests in a global security held by DTC only through DTC participants, or through banks, brokers, dealers, trust companies and other parties that clear through or maintain a custodial relationship with a participant and have indirect access to the DTC system. The ownership interest of each actual purchaser is recorded on the participant s and indirect participants records. Purchasers will not receive written confirmation from DTC of their purchase, but should receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the participant or indirect participant through which the purchasers entered into the transaction.

So long as Cede & Co. is the registered owner of any global security, Cede & Co. for all purposes will be considered the sole holder of the global security. The deposit of shares of Series E preferred stock with DTC and their registration in the name of Cede & Co. will not change the beneficial ownership of the shares. DTC has no knowledge of the actual beneficial owners of the shares. DTC s records reflect only the identity of the participants to whose accounts the notes are credited, which may or may not be the beneficial owners. The participants are responsible for keeping account of their holdings on behalf of their customers.

Neither DTC nor Cede & Co. consents or votes with respect to the shares. Under its usual procedures, DTC mails a proxy to the issuer as soon as possible after the record date. The proxy

assigns Cede & Co. s consenting or voting rights to the participants whose accounts are credited with the shares on the record date. DTC has advised us that it will take any action permitted to be taken by a holder of shares only at the direction of participants whose accounts are credited with DTC interests in the relevant global security.

Unless our use of the book-entry system is discontinued, owners of beneficial interests in a global security will not be entitled to have certificates registered in their names, will not receive or be entitled to receive physical delivery of certificates in definitive form, and will not be considered the holders of the global security. The laws of some jurisdictions require that some purchasers of securities take physical delivery of securities in definitive form. These laws may impair the ability of those holders to transfer their beneficial interests in the global security.

Delivery of notices and other communications by DTC to participants, by participants to indirect participants and by participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements that may be in effect from time to time.

Redemption notices will be sent to Cede & Co. If less than all of the principal amount of the global securities of the same series is being redeemed, DTC s practice is to determine by lot the amount of the interest of each participant in the global securities to be redeemed.

Redemption proceeds, distributions and dividend payments on the Series E preferred stock will be made to Cede & Co. by wire transfer of immediately available funds. DTC s practice is to credit participants accounts on the payment date in accordance with their respective holdings shown on DTC s records unless DTC believes that it will not receive payment on the payment date. Payments by participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in a street name, and will be the responsibility of the participants and indirect participants.

DTC has advised us that it is a limited purpose trust company organized under the New York Banking Law, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code and a clearing agency registered pursuant to the provisions of Section 17A of the Exchange Act.

The information in this section concerning DTC and DTC s book-entry system has been obtained from sources that we believe to be reliable, but we are not responsible for its accuracy. The rules applicable to DTC and its participants are on file with the SEC. Neither we nor any transfer agent, registrar or paying agent are responsible for the performance by DTC or their participants or indirect participants under the rules and procedures governing their operations or for any aspect of the records relating to or payments made on account of beneficial ownership interests in the global securities or for maintaining, supervising or reviewing any records relating to beneficial ownership interests.

Transfer Agent and Registrar

The transfer agent, registrar and dividend disbursement agent for shares of Series E preferred stock is American Stock Transfer and Trust Company.

CERTAIN MATERIAL FEDERAL INCOME TAX CONSIDERATIONS

The following discussion is a description of certain federal income tax considerations pertaining to the acquisition, ownership and disposition of the Series E preferred stock. The following description relates solely to the tax consequences relevant specifically to the acquisition, ownership and disposition of the Series E preferred stock that are different from the consequences of the ownership of our stock generally. This discussion is general in nature and not exhaustive of all possible tax considerations, nor does the discussion address any state, local, or foreign tax considerations.

As you review this discussion, you should keep in mind that:

- the tax consequences to you may vary depending on your particular tax situation;
- special rules that are not discussed below may apply to you if, for example, you are:
  - a tax-exempt organization,
  - a broker-dealer,
  - a non-U.S. person,
  - a trust, an estate, a regulated investment company, a financial institution, an insurance company, or S Corporation,
  - subject to the alternative minimum tax provisions of the Internal Revenue Code of 1986, as amended,
  - holding the stock as part of a hedge, straddle, conversion or other risk-reduction or constructive sale transaction,
  - a person with a functional currency other than the U.S. dollar,
  - beneficially or constructively holding 10% or more (by vote or value) of our stock,
  - a U.S. expatriate, or
  - otherwise subject to special tax treatment under the Internal Reveue Code;
- this summary does not address state, local or non-U.S. tax considerations;

this summary deals only with Series E preferred stockholders that hold the Series E preferred stock as a capital asset, within the meaning of Section 1221 of the Internal Reveue Code; and

this discussion is not intended to be, and should not be construed as, tax advice.

You are urged both to review the following discussion and to consult with your own tax advisor to determine the effect of ownership and disposition of Series E preferred stock on your individual tax situation, including any state, local or non-U.S. tax consequences.

You also are urged to review the discussion of the taxation of CarrAmerica and the tax consequences relevant to our stockholders generally, which is set forth under the heading Material Federal Income Tax Considerations in our Form 8-K filed with the SEC on September 3, 2003 and incorporated by reference into this prospectus supplement and the accompanying prospectus. That discussion supercedes and replaces the discussion in the accompanying prospectus under the caption Federal Income Tax Considerations, which no longer should be relied upon.

The information in this section is based on the Internal Revenue Code, current, temporary and proposed regulations, the legislative history of the Internal Revenue Code, current administrative interpretations and practices of the IRS and court decisions. The reference to IRS interpretations and practices includes IRS practices and policies as endorsed in private letter rulings, which are not binding

on the IRS except with respect to the taxpayer that receives the ruling. In each case, these sources are relied upon as they exist on the date of this prospectus supplement. We cannot assure you that future legislation, regulations, administrative interpretations and court decisions will not significantly change current law or adversely affect existing interpretations of existing law. Any change of this kind could apply retroactively to transactions preceding the date of the change. Therefore, we cannot assure you that the statements made in the following discussion, which do not bind the IRS or the courts, will not be challenged by the IRS or will be sustained by a court if so challenged. Each prospective holder of Series E preferred stock is advised to consult with its own tax advisor regarding the specific federal income tax considerations to it in light of its specific or unique circumstances of the acquisition, ownership and sale of the Series E preferred stock in an entity electing to be taxed as a REIT, any state, local and foreign tax considerations, and potential changes in applicable tax laws.

As used in this section of this prospectus supplement, CarrAmerica refers solely to CarrAmerica Realty Corporation.

Dividends and Other Distributions; Backup Withholding

For a discussion of the taxation of the CarrAmerica, the treatment of dividends and other distributions with respect to shares of CarrAmerica common stock and the various withholding rules (including backup withholding) applicable to a holder of CarrAmerica common stock, which treatment, except as described herein, will apply as well to the Series E preferred stock, see the discussions in the Form 8-K filed with the SEC on September 3, 2003 that is incorporated by reference into this prospectus supplement and the accompanying prospectus under the captions Material Federal Income Tax Considerations Taxation of CarrAmerica as a REIT, Tax Aspects of CarrAmerica s Ownership of Interests in Partnerships, Taxation of U.S. Stockholders, Taxation of Tax-Exempt Stockholders, Taxation of Non-U.S. Stockholders, Information Reporting and Backup Withholding Tax Applicable to Stockholder, Other Tax Consequences for CarrAmerica and Its Stockholders, Sunset of Reduced Tax Rate Provisions, and Tax Shelter Reporting. In determining the extent to which a distribution on the Series E preferred stock constitutes a dividend for tax purposes, our earnings and profits will be allocated first to distributions with respect to the Series E preferred stock and all other series of preferred stock that are equal in rank as to distributions and upon liquidation with the Series E preferred stock, and second to distributions with respect to any other CarrAmerica capital stock ranking junior to the Series E preferred stock as to distributions and upon liquidation. If we have net capital gains and designate some or all of our distributions as capital gain dividends, the capital gain dividends will be allocated among different classes of stock in proportion to the allocation of earnings and profits as described above.

Sale or Exchange of Series E Preferred Stock

For a discussion of the tax consequences relevant to the sale, exchange, or other disposition (other than redemption) of the CarrAmerica common stock, which consequences will apply as well upon the sale, exchange or other disposition (other than redemption) of the Series E preferred stock, see Material Federal Income Tax Considerations Taxation of U.S. Stockholders, Taxation of Tax-Exempt Stockholders, Taxation of Non-U.S. Stockholders, and Sunset of Reduced Tax Rate Provisions in the Form 8-K filed with the SEC on September 3, 2003 that is incorporated by reference into this prospectus supplement and the accompanying prospectus.

Redemption of Series E Preferred Stock

The treatment accorded to any redemption by CarrAmerica (as distinguished from a sale, exchange or other disposition) of Series E preferred stock can only be determined on the basis of particular facts as to each holder of the Series E preferred stock at the time of redemption. In general, a holder of the Series E

preferred stock will recognize ordinary income (unless such dividends are treated as capital gain dividends or qualified dividends income) to the extent of accrued but unpaid dividends and will recognize capital gain or loss measured by the difference between the amount received upon the redemption (less the amount attributable to accrued but unpaid dividends) and the holder s adjusted basis in the Series E preferred stock redeemed (provided the stock is held as a capital asset) if such redemption (i) results in a complete termination of a holder s interest in all classes of CarrAmerica stock under Section 302(b)(3) of the Internal Revenue Code or (ii) is not essentially equivalent to a dividend with respect to the holder under Section 302(b)(1) of the Internal Revenue Code. In applying these tests, there must be taken into account not only any Series E preferred stock owned by the holder, but also such holder s ownership of the CarrAmerica common stock, other series of CarrAmerica preferred stock and any options (including stock purchase rights) to acquire any of the foregoing. The holder also must take into account any such securities (including options) which are considered to be owned by such holder by reason of the constructive ownership rules set forth in Sections 318 and 302(c) of the Internal Revenue Code. If a particular holder owns (actually or constructively) no common stock or an insubstantial percentage of CarrAmerica common stock or preferred stock, based upon current law, it is probable that the redemption of the Series E preferred stock from such holder would be considered not essentially equivalent to a dividend. However, whether a distribution is not essentially equivalent to a dividend depends on all of the facts and circumstances, and a holder of the Series E preferred stock intending to rely on any of these tests at the time of redemption should consult its tax advisor to determine their application to its particular situation.

If the redemption does not meet any of the tests under Section 302 of the Internal Revenue Code that are described above, then the redemption proceeds received from the Series E preferred stock will be treated as a distribution on the Series E preferred stock, with the consequences described under Material Federal Income Tax Considerations Taxation of U.S. Stockholders, Taxation of Tax-Exempt Stockholders, Taxation of Non-U.S. Stockholders, and Sunset of Reduced Tax Rate Provisions in the Form 8-K filed with the SEC on September 3, 2003 and incorporated by reference into this prospectus supplement and the accompanying prospectus. If the redemption is taxed as a dividend, the holder s adjusted basis in the Series E preferred stock redeemed will be transferred to any other stockholdings of the holder in CarrAmerica. If the holder of the Series E preferred stock owns no other stock in CarrAmerica, under certain circumstances, such basis may be transferred to a related person, or it may be lost entirely.

Dividends Taxed at Regular Ordinary Rates, Not Capital Gain Rates

As a result of recent changes in the tax law, dividends paid by regular C corporations to persons or entities that are taxed as individuals now are generally taxed at the rate applicable to long-term capital gains, which is a maximum of 15%, subject to certain limitations. Because we are a REIT, however, our dividends, including dividends paid on our Series E preferred stock, generally will continue be taxed at regular ordinary income tax rates, except to the extent that the special rules relating to qualified dividend income and capital gains dividends paid by a REIT apply. See Material Federal Income Tax Considerations Taxation of U.S. Stockholders, Taxation of Tax-Exempt Stockholders, Taxation of Non-U.S. Stockholders, and Sunset of Reduced Tax Rate Provisions in the Form 8-K filed with the SEC on September 3, 2003 and incorporated by reference into this prospectus supplement and the accompanying prospectus.

UNDERWRITING

We and the underwriters for the offering named below have entered into an underwriting agreement with respect to the Series E preferred stock. Subject to certain conditions, each underwriter has severally agreed to purchase the number of shares of Series E preferred stock indicated in the following table. Goldman, Sachs & Co. and Wachovia Capital Markets, LLC are the representatives of the underwriters.

Underwriters	Number of shares of Series E preferred stock
Goldman, Sachs & Co.	1,107,750
Wachovia Capital Markets, LLC	1,107,750
A.G. Edwards & Sons, Inc.	1,107,750
Legg Mason Wood Walker, Incorporated	1,107,750
UBS Securities LLC	1,107,750
Banc of America Securities LLC	131,250
J.P. Morgan Securities Inc.	131,250
Lehman Brothers Inc.	131,250
SunTrust Capital Markets, Inc.	131,250
U.S. Bancorp Piper Jaffray Inc.	131,250
Bear, Stearns & Co. Inc.	70,000
McDonald Investments Inc., A KeyCorp Company	70,000
Oppenheimer & Co. Inc.	70,000
RBC Dain Rauscher Inc.	70,000
Stifel, Nicolaus & Company, Incorporated	70,000
Wells Fargo Investments Services, LLC.	70,000
Advest, Inc.	35,000
BB&T Capital Markets, a division of Scott & Stringfellow, Inc.	35,000
Robert W. Baird & Co. Incorporated	35,000
D.A. Davidson & Co.	35,000
Ferris, Baker Watts, Incorporated	35,000
J.J.B. Hilliard, W.L. Lyons, Inc.	35,000
Janney Montgomery Scott LLC	35,000
Mesirow Financial, Inc.	35,000
Morgan Keegan & Company, Inc.	35,000
Quick & Reilly, Inc.	35,000
Ryan, Beck & Co.	35,000
Total	7,000,000

The underwriters are committed to take and pay for all of the shares being offered, if any are taken, other than the shares covered by the option described below unless and until this option is exercised.

If the underwriters sell more shares than the total number set forth in the table above, the underwriters have an option to buy up to an additional 1,050,000 shares from us to cover such sales. They may exercise this option for 30 days following the date of this prospectus supplement. If any shares are purchased pursuant to this option, the underwriters will severally purchase shares in approximately the same proportion as set forth in the table above.

The following table shows the per share and total underwriting discounts and commissions to be paid to the underwriters by us. Such amounts are shown assuming both no exercise and full exercise of the underwriters option to purchase 1,050,000 additional shares.

	Paid by Us	
	No Exercise	Full Exercise
Per Share	$ 0.7875	$ 0.7875
Total	$ 5,512,500	$ 6,339,375

Shares of Series E preferred stock sold by the underwriters to the public will initially be offered at the initial public offering price set forth on the cover of this prospectus supplement. Any shares of Series E preferred stock sold by the underwriters to securities dealers may be sold at a discount of up to $0.5000 per share from the initial public offering price. Any such securities dealers may resell any shares of Series E preferred stock purchased from the underwriters to certain other brokers or dealers at a discount of up to $0.4500 per share from the initial public offering price. If all the shares of Series E preferred stock are not sold at the initial offering price, the underwriters may change the offering price and the other selling terms.

The shares of Series E preferred stock are a new issue of securities with no established trading market. We have been advised by the underwriters that the underwriters intend to make a market in the shares of Series E preferred stock but are not obligated to do so and may discontinue market making at any time without notice. No assurance can be given as to the liquidity of the trading market for the shares of Series E preferred stock.

In connection with the offering, the underwriters may purchase and sell shares of Series E preferred stock in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in the offering. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the shares while the offering is in progress.

The underwriters also may impose a penalty bid. This occurs when a particular underwriter repays to other underwriters a portion of the underwriting discount received by it because the representatives have repurchased shares sold by or for the account of such underwriter in stabilizing or short covering transactions.

These activities by the underwriters may stabilize, maintain or otherwise affect the market price of the shares of Series E preferred stock. As a result, the price of the shares of Series E preferred stock may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the underwriters at any time. These transactions may be effected in the over-the-counter market or otherwise.

We expect that the delivery of the Series E preferred stock will be made against payment therefor on or about the closing date specified on the cover page of this prospectus supplement, which will be the fifteenth business day following the date hereof. Under Rule 15c6-1 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, trades in the secondary market generally are required to settle in three business days, unless the parties to that trade expressly agree otherwise.

Accordingly, purchasers who wish to trade the Series E preferred stock before September 25, 2003 will be required, by virtue of the fact that any such trade would otherwise settle in more than three business

days, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement, and should consult their own advisor with respect to these matters.

We estimate that our expenses of the offering, excluding underwriting discounts and commissions and after reimbursement by the underwriters of certain of our expenses incurred in connection with this offering, will be approximately $250,000.

We have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

Some of the underwriters or their affiliates have provided investment and commercial banking, investment research and financial advisory services to us in the ordinary course of business for which they have received and may continue to receive customary fees and commissions. In addition, affiliates of certain of the underwriters, including Wachovia Capital Markets, LLC, Banc of America Securities LLC, J.P. Morgan Securities Inc., SunTrust Capital Markets, Inc., U.S. Bancorp Piper Jaffray Inc. and Wells Fargo Investments Services, LLC, are lenders under our line of credit. These affiliates, as applicable, will receive their proportionate share of the amount of the credit facility, if any, to be repaid with the proceeds of this offering. Because more than ten percent of the net proceeds of the offering may be paid to members or affiliates of members of the National Association of Securities Dealers, Inc. participating in the offering, the offering will be conducted in accordance with NASD Conduct Rule 2710(c)(8).

LEGAL MATTERS

Hogan & Hartson L.L.P. will pass upon the legality of the Series E preferred stock offered hereby for us. Certain legal matters will be passed upon for the underwriters by Clifford Chance US LLP, New York, New York.

EXPERTS

The consolidated financial statements and schedules of CarrAmerica as of December 31, 2002 and 2001 and for each of the years in the three-year period ended December 31, 2002, have been incorporated by reference herein and in the registration statement on Form S-3, of which this prospectus supplement forms a part, in reliance upon the report of KPMG LLP, independent accountants, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing.

AVAILABLE INFORMATION

We are subject to the informational requirements of the Securities Exchange Act of 1934 and, in accordance therewith, file reports and other information with the SEC. Such reports and other information can be inspected and copied at the Public Reference Section of the SEC located at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, and information on the operation of the Public Reference Room can be obtained by calling 1-800-SEC-0330. Copies of such material can be obtained from the Public Reference Section of the SEC at prescribed rates. Such material may also be accessed electronically by means of the SEC s home page on the internet (*http://www.sec.gov*).

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The SEC allows us to incorporate by reference information that we file with it, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this prospectus supplement. This prospectus supplement and the information that we file later with the SEC may update and supersede the information we incorporated by reference. We incorporate by reference the documents listed below:

Annual Report on Form 10-K for the fiscal year ended December 31, 2002;

Quarterly Report on Form 10-Q for the quarter ended March 31, 2003;

Quarterly Report on Form 10-Q of for the quarter ended June 30, 2003;

Proxy Statement on Schedule 14A relating to the 2003 annual meeting of stockholders filed on March 31, 2003; and

Current Report on Form 8-K dated September 2, 2003 and filed on September 3, 2003.

In addition, except as specified below, any filings made by us with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 prior to the termination of this offering, are hereby deemed to be incorporated by reference.

Information furnished under Items 9 or 12 of any of our Current Reports on Form 8-K is not incorporated by reference in this prospectus supplement or the registration statement.

We will provide to each person to whom this prospectus supplement is delivered a copy of any or all of the information that we have incorporated by reference into this prospectus supplement but not delivered with this prospectus supplement. To receive a free copy of any of the documents incorporated by reference in this prospectus supplement, other than exhibits, unless they are specifically incorporated by reference in those documents, call or write to our Secretary, CarrAmerica Realty Corporation, 1850 K Street, N.W., Suite 500, Washington, D.C. 20006 ((202) 729-1700). The information relating to us contained in this prospectus supplement does not purport to be comprehensive and should be read together with the information contained in the documents incorporated or deemed to be incorporated by reference in this prospectus supplement.

You should rely only upon the information provided in this document or incorporated in this document by reference. We have not authorized anyone to provide you with different information. You should not assume that the information in this document, including any information incorporated by reference, is accurate as of any date other than the date indicated on the front cover.

PROSPECTUS

$1,000,000,000

CARRAMERICA REALTY CORPORATION

DEBT SECURITIES, PREFERRED STOCK, COMMON STOCK,

COMMON STOCK WARRANTS AND DEPOSITARY SHARES

CarrAmerica Realty Corporation (the Company) may from time to time offer in one or more series its (i) unsecured debt securities (Debt Securities), (ii) preferred stock (Preferred Stock), (iii) common stock, par value $0.01 per share (Common Stock), (iv) warrants exercisable for Common Stock (Common Stock Warrants), and (v) shares of Preferred Stock represented by depositary shares (Depositary Shares) with an aggregate public offering price of up to $1,000,000,000 (or its equivalent based on the exchange rate at the time of sale) in amounts, at prices and on terms to be determined at the time of offering. The Debt Securities, Preferred Stock, Common Stock, Common Stock Warrants and Depositary Shares (collectively, the Securities) may be offered, separately or together, in separate series, in amounts, at prices and on terms to be described in one or more supplements to this Prospectus (each a Prospectus Supplement).

The specific terms of the Securities in respect of which this Prospectus is being delivered will be set forth in the applicable Prospectus Supplement and will include, where applicable: (i) in the case of Debt Securities, the specific title, aggregate principal amount, currency, form (which may be registered or bearer, or certificated or global), authorized denominations, maturity, rate (or manner of calculation thereof) and time of payment of interest, any terms for redemption at the option of the Company or repayment at the option of the holder, any terms for any sinking fund payments, any terms for conversion into Preferred Stock or Common Stock of the Company, covenants and any public offering price; (ii) in the case of Preferred Stock, the specific title and stated value, any dividend, liquidation, redemption, conversion, voting and other rights, and any public offering price; (iii) in the case of Common Stock, any public offering price; (iv) in the case of Common Stock Warrants, the specific title and aggregate number, the issue price and the exercise price; and (v) in the case of Depositary Shares, the fractional shares of Preferred Stock represented by each such Depositary Share. In addition, such specific terms may include limitations on direct or beneficial ownership and restrictions on transfer of the Securities, in each case as may be appropriate to preserve the status of the Company as a real estate investment trust for federal income tax purposes.

The applicable Prospectus Supplement also will contain information, where applicable, about certain U.S. federal income tax considerations relating to, and any listing on a securities exchange of, the Securities covered by such Prospectus Supplement.

The Securities may be offered directly, through agents designated from time to time by the Company, or to or through underwriters or dealers. If any agents or underwriters are involved in the sale of any of the Securities, their names, and any applicable purchase price, fee, commission or discount arrangement with, between or among them, will be set forth, or will be calculable from the information set forth, in an accompanying Prospectus Supplement. See Plan of Distribution. No Securities may be sold without delivery of a Prospectus Supplement describing the method and terms of the offering of such Securities.

SEE RISK FACTORS BEGINNING ON PAGE 2 FOR CERTAIN FACTORS

RELATING TO AN INVESTMENT IN THE SECURITIES.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND

EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES

AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS ANY REPRESENTATION TO THE CONTRARY IS A

CRIMINAL OFFENSE.

THE DATE OF THIS PROSPECTUS IS APRIL 27, 1998.

THE COMPANY

The Company is a fully integrated, self-administered and self-managed publicly traded real estate investment trust (a REIT) that focuses primarily on the acquisition, development, ownership and operation of office properties in select suburban markets across the United States.

The Company s principal executive offices are located at 1700 Pennsylvania Avenue, N.W., Washington, D.C. 20006, and its telephone number is (202) 624-7500. The Company was organized as a Maryland corporation on July 9, 1992.

RISK FACTORS

Prospective investors should carefully consider, among other factors, the matters described below.

Real Estate Investment Risks

General. Investments in real property are subject to varying degrees of risk. The yields available from equity investments in real estate and the Company s ability to service debt will depend in large part on the amount of income generated, expenses incurred and capital expenditures required by its real property investments. The Company s income from office properties may be adversely affected by a number of factors, including the general economic climate and local real estate conditions, an over-supply of, or a reduction in demand for, office space in the areas where its properties are located and the attractiveness of the properties to tenants. Income from properties and real estate values also are affected by such factors as the cost of compliance with government regulation, including zoning and tax laws and the potential for liability under applicable laws. Certain significant expenditures associated with each equity investment by the Company in a property (such as operating expenses and capital expenditures costs) may not be reduced when circumstances cause a reduction in income from the property.

Renewal of Leases and Reletting of Space. The Company is subject to the risks that upon expiration of leases for space located at its properties, the space may not be relet or, if relet, the terms of the renewal or reletting (including the cost of required renovations or concessions to tenants) may be less favorable than current lease terms. Although the Company has established an annual budget for renovation and reletting costs that it believes is reasonable in light of each property s situation, no assurance can be given that this budget will be sufficient to cover these costs. If the Company is unable promptly to relet or renew leases for all or substantially all of the space at its properties, if the rental rates upon such renewal or reletting are significantly lower than expected, or if the Company s reserves for these purposes prove inadequate, then the Company s cash provided by operating activities and ability to make expected distributions to stockholders or debt service payments may be adversely affected.

Possible Environmental Liabilities. Under various federal, state and local laws, ordinances and regulations, a current or previous owner or operator of real estate may be required to investigate and clean up certain hazardous substances released at the property, and may be held liable to a governmental entity or to third parties for property damage and for investigation and cleanup costs incurred by such parties in connection with the contamination. In addition, some environmental laws create a lien on the contaminated site in favor of the government for damages and costs it incurs in connection with the contamination. The presence of contamination or the failure to remediate contamination may adversely affect the owner s ability to sell or lease real estate or to borrow using the real estate as collateral. The owner or operator of a site may be liable under common law to third

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parties for damages and injuries resulting from environmental contamination emanating from the site. The Company has not been notified by any governmental authority of any material non-compliance, liability or other claim in connection with any of its properties, and the Company is not aware of any other material environmental condition with respect to any of its properties. No assurance, however, can be given that no prior owner created any material environmental condition not known to the Company, that no material environmental condition with respect to any property has occurred during the Company s ownership thereof, or that future uses or conditions (including, without limitation, changes in applicable environmental laws and regulations) will not result in imposition of environmental liability against the Company.

Real Estate Financing Risks

Debt Financing. The Company is subject to the risks associated with debt financing, including the risk that the cash provided by the Company s operating activities will be insufficient to meet required payments of principal and interest, the risk of rising interest rates on the Company s floating rate debt that is not hedged, the risk that the Company will not be able to repay or refinance existing indebtedness (which generally will not have been fully amortized at maturity) or that the terms of such refinancing will not be as favorable as the terms of existing indebtedness. In the event the Company is unable to secure refinancing of such indebtedness on acceptable terms, the Company might be forced to dispose of properties upon disadvantageous terms, which might result in losses to the Company, or to obtain financing at unfavorable terms, either of which might adversely affect the cash flow available for distribution to stockholders or meet debt service obligations. In addition, if a property or properties are mortgaged to secure payment of indebtedness and the Company is unable to meet required mortgage payments, the mortgage securing the property could be foreclosed upon by, or the property could be otherwise transferred to, the mortgagee with a consequent loss of income and asset value to the Company.

Degree of Leverage. At February 28, 1998, on a consolidated basis, the Company s total indebtedness was approximately $1.188 billion and the ratio of its total indebtedness to total assets (excluding intangibles) was 38.8%. The degree to which the Company is leveraged could have important consequences to holders of the Securities, including affecting the Company s ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, development or other general corporate purposes and making the Company more vulnerable to a downturn in its business or the economy generally.

Acquisition and Development Risks

The Company intends to continue acquiring and developing office properties in markets where it believes that such acquisition or development is consistent with the business strategies of the Company. Acquisitions entail risks that investments will fail to perform in accordance with expectations and that judgments with respect to the costs of improvements to bring an acquired property up to standards established for the market position intended for that property will prove inaccurate, as well as general investment risks associated with any new real estate investment. See Real Estate Investment Risks above. New office development also is subject to a number of risks, including, but not limited to, construction delays or cost overruns that may increase project costs, financing risks as described above, the failure to meet anticipated occupancy or rent levels, failure to receive required zoning, occupancy and other governmental permits and authorizations and changes in applicable zoning and land use laws, which may result in the incurrence of development costs in connection with projects that are not pursued to completion. In addition, because the Company must distribute 95% of its taxable income in order to maintain its qualification as a REIT, the Company anticipates that new acquisitions and developments will be financed primarily through periodic equity and debt offerings, lines of credit or other forms of secured

or unsecured financing. If permanent debt or equity financing is not available on acceptable terms, further acquisitions or development activities may be curtailed or cash available for distribution to stockholders or to meet debt service obligations may be adversely affected.

Change in Business Strategy; Risks Associated With the Acquisition of Substantial New Properties

In November 1995, the Company shifted its emphasis from downtown Washington, D.C. properties toward a more national business strategy, focusing primarily on office properties in suburban growth markets across the United States. This change represented a significant shift in the business strategy of the Company. Although the Company s Board of Directors (the Board) believes that such a shift in strategy was warranted in light of the opportunities available to the Company, there is no assurance that the Company s efforts to implement its national business strategy will continue to be successful. Consistent with the Company s strategy of acquiring office properties in suburban growth markets, the Company has significantly expanded its portfolio of office properties since November 1995. These properties have a relatively short operating history under the Company s management and they may have characteristics or deficiencies unknown to the Company affecting their valuation or revenue potential.

Substantial Ownership of Common Stock

As of April 13, 1998, Security Capital Holdings S.A., a wholly owned subsidiary of Security Capital U.S. Realty (together with Security Capital U.S. Realty, SC-USREALTY), owned approximately 40.0% of the outstanding shares of the Company s Common Stock (36.2% of the Common Stock on a fully diluted basis), and SC-USREALTY has the right to nominate a proportionate number of the directors of the Board based upon its ownership of stock on a fully-diluted basis, rounded down to the nearest whole number (but in no event more than 40% of the directors). As a result, SC-USREALTY is the largest single stockholder of the Company, while no other stockholder is permitted to own more than 5% of the Company s Common Stock, subject to certain exceptions set forth in the Articles of Incorporation or approved by the Board. Although certain standstill provisions preclude SC-USREALTY from increasing its percentage interest in the Company above 45% until at least April 30, 2001 (subject to certain exceptions) and the Articles of Incorporation preclude it from increasing such percentage interest thereafter, and SC-USREALTY agreed to certain limitations on its voting rights with respect to its shares of Common Stock, SC-USREALTY nonetheless has a substantial influence over the affairs of the Company. This concentration of ownership in one stockholder could potentially be disadvantageous to other stockholders interests. In addition, so long as SC-USREALTY owns at least 25% of the outstanding Common Stock of the Company on a fully diluted basis, SC-USREALTY will be entitled (except in certain limited circumstances), upon compliance with certain specified conditions, to a participation right to purchase or subscribe for, either as part of such issuance or in a concurrent issuance, a total number of shares of Common Stock or Preferred Stock, as the case may be, equal to up to 30% (or 35% in certain circumstances) of the total number of shares or of Common Stock or Preferred Stock, as applicable, proposed to be issued by the Company.

Limitations on Corporate Actions

In conjunction with the transaction in which SC-USREALTY acquired its initial interest in the Company (the SC-USREALTY Transaction), the Company agreed to certain limitations on its operations, including restrictions relating to incurrence of additional indebtedness, retention of third-party managers for the Company s properties, investments in properties other than office buildings, issuances of limited partnership interests (CRLP Units) of Carr Realty, L.P., a partnership that owns certain of the Company s properties, and certain other matters. The Company may take actions relating to these matters only with the consent of SC-USREALTY. In addition, the Company is

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contractually obligated to abide by certain limitations on the amount of assets that it owns indirectly through other entities and the manner in which it conducts its business (including the types of assets that it can acquire and own and the manner in which such assets are operated). The Company also is obligated to use reasonable efforts to effect all dispositions of assets in transactions that are tax-free exchanges and do not generate capital gain dividends to stockholders of the Company. These limitations (which generally were designed to address special U.S. tax considerations applicable to foreign corporations such as SC-USREALTY under the Internal Revenue Code) limit the flexibility of the Company to structure transactions that might otherwise be advantageous to the Company, and may impair the Company s ability to conduct its business in the future.

In addition, in connection with the acquisition of certain properties by CarrAmerica Realty, L.P. and Carr Realty, L.P., the Company is restricted in its ability to dispose of such properties in taxable transactions or to refinance such properties.

Conflicts of Interest

Certain members of the Board and officers of the Company own CRLP Units and, thus, may have interests that conflict with stockholders with respect to business decisions affecting the Company and Carr Realty, L.P. In particular, a holder of CRLP Units may suffer different and/or more adverse tax consequences than the Company upon the sale or refinancing of some of the properties owned by Carr Realty, L.P. as a result of unrealized gain attributable to certain properties. These CRLP Unit holders and the Company, therefore, may have different objectives regarding the appropriate pricing and timing of a sale or refinancing of properties. Although the Company, as the sole general partner of Carr Realty, L.P., has the exclusive authority to determine whether and on what terms to sell or refinance an individual property, these CRLP Unit holders might seek to influence the Company not to sell or refinance a property, even though such sale might otherwise be financially advantageous to the Company, or may seek to influence the Company to refinance a property with a higher level of debt than would be in the best interests of the Company.

Management, Leasing and Brokerage Risks

The Company is subject to the risks associated with the property management, leasing and brokerage businesses. These risks include the risk that management contracts or service agreements with third-party owners will be lost to competitors, that a property will be sold and the Company will lose the contract, that contracts will not be renewed upon expiration or will not be renewed on terms consistent with current terms and that leasing and brokerage activity generally may decline. Each of these developments could adversely affect the ability of the Company to make expected distributions to stockholders or debt service payments.

Lack of Voting Control of Operating Subsidiaries; Other Special Considerations Related to Omnioffices

Lack of Voting Control. The Company does not have voting control of Carr Real Estate Services, Inc. (Carr Services, Inc.), CarrAmerica Development, Inc. (CarrAmerica Development) or OmniOffices, Inc. (OmniOffices), and may acquire economic interests in similarly structured companies in the future (collectively, the Operating Subsidiaries). (Certain provisions in the Code prohibit the Company from owning a significant portion of the voting stock of an Operating Subsidiary, as described in Administration s Proposed Changes to REIT Asset Test below.) Carr Services, Inc., which conducts primarily fee-based management and leasing, has capital stock which is divided into two classes: voting common stock, approximately 92% and 8% of which is held by The Oliver Carr

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Company (OCCO) and Carr Realty, L.P., respectively; and nonvoting common stock, approximately 96% and 4% of which is held by Carr Realty, L.P. and OCCO, respectively. OCCO, as the holder of 92% of the voting common stock, has the ability to elect the board of directors of Carr Services, Inc. CarrAmerica Development, which conducts primarily fee-based development, has capital stock which is divided into two classes: voting common stock, 96% and 4% of which is held by OCCO and the Company, respectively; and nonvoting common stock, 100% of which is held by the Company. OCCO, as the holder of 96% of the voting common stock, has the ability to elect the board of directors of CarrAmerica Development. Oliver T. Carr, Jr., who is Chairman of the Board of the Company and a significant stockholder of the Company, beneficially owns a majority of the voting stock of OCCO, which controls the election of directors of Carr Services, Inc. and CarrAmerica Development. OmniOffices, which provides executive office suites to commercial customers, has capital stock which is divided into two classes: voting common stock and nonvoting common stock. The voting stock is owned 17% by OCCO, 35% by SC-USREALTY and 48% by an entity owned by the Company s six current executive officers. The nonvoting common stock is owned entirely by the Company. The holders of the voting common stock control the ability to elect the board of directors of OmniOffices.

Although neither the right of Carr Realty, L.P. or the Company, as applicable, to receive distributions with respect to its equity interest in each Operating Subsidiary nor the terms of the promissory notes made by such Operating Subsidiary and held by Carr Realty, L.P. or the Company, as applicable, can be changed by the holder of the majority of the voting common stock of such Operating Subsidiary, the Company will not be able to elect directors of any Operating Subsidiary, and its ability to influence the day-to-day decisions of each Operating Subsidiary is limited. As a result, the board of directors and management of each Operating Subsidiary may implement business policies or decisions that might not have been implemented by persons elected by the Company and that are adverse to the interests of the Company or that lead to adverse financial results, which could adversely impact the Company s operating income and funds from operations.

Lack of Liquidity for Stock. None of the Operating Subsidiaries is a public company, and there is no market for the equity securities held by the Company or Carr Realty, L.P. in any Operating Subsidiary. Consequently, neither the Company nor Carr Realty, L.P. has ready ability to liquidate its holdings in any Operating Subsidiary.

Constraints on Growth of OmniOffices. Certain provisions in the Code prohibit the Company from having an investment in any Operating Subsidiary that has a value in excess of 5% of the value of the Company s gross assets. These provisions will limit the ability of OmniOffices to grow its business without jeopardizing the Company s REIT qualification or, alternatively, incurring third party debt (which may have to be guaranteed by the Company) or bringing into OmniOffices additional investors. As of March 31, 1998, the Company s investment in OmniOffices was such that the Company currently is precluded from making substantial additional investments (either in the form of equity or a loan) in OmniOffices. There can be no assurance that OmniOffices will be able to obtain such third-party financing (or obtain it on attractive terms) or that suitable additional investors can be identified. Limitations on the Company s ability to fund additional growth of OmniOffices may preclude (or delay) OmniOffices from pursuing growth opportunities that might otherwise be in its best interest.

It is possible that the Company could elect in the future to dispose of part or all of its equity interest in OmniOffices, including through a distribution of the stock of OmniOffices to the Company s stockholders; however, the Company is subject to certain contractual restrictions with SC-USREALTY that could preclude or restrict such a distribution or other disposition. In addition, the income from such a disposition would not qualify for purposes of the 75% gross income test applicable to REITs, which could limit the ability of the Company to dispose of all of its interest in OmniOffices (through a distribution to stockholders or otherwise) in a single transaction. (For a more detailed description of the income tests applicable to REITs, see Federal Income Tax Considerations Taxation of the

Company.) Finally, because of tax-related considerations specific to SC-USREALTY and SC-USREALTY s indirect interest in OmniOffices through the Company, OmniOffices has agreed to conduct its business subject to certain constraints, even though these constraints may have the effect of precluding OmniOffices from undertaking transactions that would be in the best interests of its other stockholders, including the Company. Any reduction by the Company of its investment in OmniOffices would correspondingly reduce the Company s right to receive distributions from OmniOffices.

Administration s Proposed Changes to REIT Asset Test. In order for the Company to qualify as a REIT, the Company, at the close of each quarter of its taxable year, must not own more than 10% of the outstanding voting securities of any issuer, other than a qualified REIT subsidiary (a QRS) or another REIT (for a more detailed discussion of this and other REIT qualification requirements, see Federal Income Tax Considerations Taxation of the Company). The Clinton Administration s February 1998 budget proposal includes a proposal to amend the 10% voting securities test by prohibiting a REIT from owning more than 10% of the vote or value of all classes of stock of any corporation (other than a QRS or another REIT). Stock owned by the Company in corporations prior to the effective date of the proposal generally would be grandfathered (i.e., with respect to such grandfathered stock, the REIT would be subject only to the existing 10% voting securities test described above). However, if the corporation in which such grandfathered stock is held were to engage in a new trade or business or acquire substantial new assets, the grandfathered status would terminate with respect to such stock.

Because the Company owns the majority of the nonvoting stock of each of the Operating Subsidiaries, the Company would not satisfy the proposed 10% value limitation with respect to its stock interests in the Operating Subsidiaries. However, as the Clinton Administration s proposal is currently drafted, stock currently held by the Company in the Operating Subsidiaries should be grandfathered. If any of the Operating Subsidiaries, however, were to engage in new trades or businesses or acquire substantial new assets (or the Company were to make a significant additional equity investment in an Operating Subsidiary), then the stock held by the Company in such Operating Subsidiary would lose its grandfathered status and the Company would fail to qualify as a REIT. Moreover, the Company would not be able to own more than 10% of the vote or value of any corporation (other than a QRS or another REIT) formed after the effective date of the proposal. Thus, if enacted as currently drafted, the proposal would materially impede the ability of the Company to engage in new activities or to expand substantially its current activities, such as the executive office suites business and the property development and management businesses.

Changes in Policies

The major policies of the Company, including its policies with respect to development, acquisitions, financing, growth, operations, debt capitalization and distributions, are determined by its Board. The Board may amend or revise these and other policies from time to time without a vote of the stockholders of the Company. A change in these policies could adversely affect the Company s financial condition, results of operations, funds available for distributions to stockholders, debt service or the market price of the Securities. The Company cannot change its policy of seeking to maintain its qualification as a REIT without the approval of the holders of a majority of the Common Stock.

Certain Tax Risks

Tax Liabilities as a Consequence of the Failure to Qualify as a REIT. The Company believes that it has been organized and has operated so as to qualify for taxation as a REIT under the Internal Revenue Code of 1986, as amended (the Code), commencing with its taxable year ended December 31, 1993, and intends to continue to so operate. No assurance, however, can be given that the Company has qualified for taxation as a REIT or will be able to remain so qualified. Qualification as a

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REIT involves the application of highly technical and complex Code provisions as to which there are only limited judicial and administrative interpretations. Certain facts and circumstances that may be wholly or partially beyond the Company s control may affect its ability to qualify or to continue to qualify as a REIT. In addition, no assurance can be given that new legislation, Treasury Regulations, administrative interpretations or court decisions will not significantly change the tax laws with respect to the Company s qualification as a REIT or the federal income consequences of such qualification to the Company. If the Company fails to qualify as a REIT, it will be subject to federal income tax (including any applicable alternative minimum tax) on its taxable income at regular corporate rates and it will not be entitled to a deduction for dividends paid to its stockholders. In addition, unless entitled to relief under certain statutory provisions, the Company would be disqualified from taxation as a REIT for the four taxable years following the year during which qualification is lost. The additional tax incurred in such event would significantly reduce the cash flow available for distribution to shareholders and to meet debt service obligations. See Federal Income Tax Considerations Taxation of the Company.

REIT Distribution Requirements and Potential Impact of Borrowings. To obtain the favorable tax treatment associated with qualifying as a REIT under the Code, the Company generally is required each year to distribute to its shareholders at least 95% of its real estate investment trust taxable income. See Federal Income Tax Considerations Taxation of the Company (Annual Distribution Requirements). In addition, the Company will be subject to a 4% nondeductible excise tax on the amount, if any, by which certain distributions paid by it with respect to any calendar year are less than the sum of 85% of its ordinary income, 95% of its capital gain net income and 100% of its real estate investment trust taxable income from prior years that is not deemed to have been distributed under the Code. Differences in timing between the receipt of income, the payment of expenses and the inclusion of such income and the deduction of such expenses in arriving at taxable income (of the Company or its subsidiaries), or the effect of nondeductible capital expenditures, the creation of reserves or required debt or amortization payments, could require the Company, directly or through its subsidiaries, to borrow funds on a short-term basis to meet the distribution requirements that are necessary to achieve the tax benefits associated with qualifying as a REIT. In such instances, the Company might need to borrow funds in order to avoid adverse tax consequences even if management believed that the prevailing market conditions were not otherwise favorable for such borrowings.

Other Tax Liabilities. Even if the Company qualifies as a REIT, the Company and certain of its subsidiaries will be subject to certain federal, state and local taxes on its income and property. See Federal Income Tax Considerations Taxation of the Company and Other Tax Considerations.

Special Considerations for Foreign Investors

In order to assist the Company in qualifying as a domestically controlled REIT, the Company s Articles of Incorporation, as amended (the Articles of Incorporation), contain certain provisions generally preventing foreign investors (other than SC-USREALTY and its affiliates) from acquiring additional shares of the Company s capital stock if, as a result of such acquisition, the Company would fail to qualify as a domestically controlled REIT. See Federal Income Tax Considerations Taxation of Holders of Common Stock Taxation of Non-U.S. Shareholders. Accordingly, an acquisition of the Company s capital stock would not likely be a suitable investment for non-U.S. shareholders other than SC-USREALTY. See Description of Common Stock Restrictions on Transfer.

Price Fluctuations of the Common Stock and Trading Volume; Shares Available for Future Sale

A number of factors may adversely influence the price of the Company s Common Stock in the public markets, many of which are beyond the control of the Company. These factors include possible increases in market interest rates, which may lead purchasers of Common Stock to demand a higher

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annual yield from distributions by the Company in relation to the price paid for Common Stock, the relatively low daily trading volume of REITs in general, including the Common Stock, and any inability of the Company to invest the proceeds of a future offering of Securities in a manner that will increase earnings per share. Sales of a substantial number of shares of Common Stock, or the perception that such sales could occur, could adversely affect prevailing market prices for shares. The Company also may issue shares of Common Stock upon redemption of Units issued in connection with the formation of the Company and subsequent acquisitions. In addition, as of March 31, 1997, 4,416,900 shares of Common Stock of the Company were reserved for issuance pursuant to stock and unit options, and more shares may be reserved for such purpose in the future. These shares will be available for sale in the public markets from time to time pursuant to exemptions from registration requirements or upon registration. In connection with the SC-USREALTY Transaction, the Company granted SC-USREALTY the right to require the Company to file, at any time requested by SC-USREALTY, a registration statement under the Securities Act of 1933 covering all or any of the shares of Common Stock acquired by SC-USREALTY. In addition, in connection with a forward equity sale transaction which the Company consummated, as well as any such transaction which the Company may consummate in the future, the Company may issue additional shares of Common Stock, and/or the purchasers of such shares of Common Stock may sell shares issued to them. No prediction can be made about the effect that future sales of Common Stock will have on the market prices of shares.

Possible Adverse Consequences of Limits on Ownership of Shares

In order to assist the Company in maintaining its qualification as a REIT, the Articles of Incorporation contain certain provisions generally limiting the ownership of shares of capital stock by any single shareholder to 5% of the outstanding Common Stock and/or 5% of any class or series of Preferred Stock (with exceptions for persons who received more than 5% of the equity of the Company pursuant to the contribution of assets to the Company in connection with the initial public offering of the Company and SC-USREALTY and its affiliates). The Board could waive this restriction if it were satisfied that ownership in excess of the above ownership limit would not jeopardize the Company s status as a REIT and the Board otherwise decided such action would be in the best interests of the Company. Capital stock acquired or transferred in breach of the limitation will be automatically transferred to a trust for the benefit of a designated charitable beneficiary. See Description of Common Stock Restrictions on Transfer for additional information regarding the limits on ownership of shares of capital stock.

Restrictions on Acquisition and Change in Control

Various provisions of the Articles of Incorporation restrict the possibility for acquisition or change in control of the Company, even if such acquisition or change in control were in the stockholders interest, including the Ownership Limits (as defined herein), the staggered terms of the Company s directors and the ability of the Board to authorize the issuance of preferred stock without stockholder approval.

USE OF PROCEEDS

Unless otherwise specified in the applicable Prospectus Supplement, the net proceeds from the sale of the Securities will be used for the acquisition and development of additional office properties, as suitable opportunities arise, for the repayment of certain outstanding indebtedness at such time, for capital improvements to property and for working capital and other general corporate purposes.

RATIOS OF EARNINGS TO FIXED CHARGES

The Company s ratios of earnings to fixed charges for the period from February 16, 1993 (commencement of operations) to December 31, 1993 and for the years ended December 31, 1994