Piedmont Office Realty Trust, Inc.
Form S-11
November 27, 2009

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As filed with the Securities and Exchange Commission on November 27, 2009

Registration No. 333-

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM S-11

FOR REGISTRATION UNDER THE SECURITIES ACT OF 1933

OF SECURITIES OF CERTAIN REAL ESTATE COMPANIES

PIEDMONT OFFICE REALTY TRUST, INC.

(Exact Name of Registrant as Specified in Governing Instruments)

11695 Johns Creek Parkway, Suite 350

Johns Creek, Georgia 30097-1523

(770) 418-8800

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)

Donald A. Miller, CFA

Chief Executive Officer and President

Piedmont Office Realty Trust, Inc.

11695 Johns Creek Parkway, Suite 350

Johns Creek, Georgia 30097-1523

Phone: (770) 418-8800

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent For Service)

Copies to:

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effectiveness of this registration statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act check the following box: ¨

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. ¨

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. ¨

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

(Check one):

Large accelerated filer ¨	Accelerated filer ¨	Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company ¨

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price (1)(2)	Amount of Registration Fee
Class A Common Stock, $.01 par value per share	$ 345,000,000	$ 19,251

(1) Estimated solely for purposes of determining the registration fee pursuant to Rule 457(o) under the Securities Act.

(2) Includes shares of common stock that the underwriters have the option to purchase solely to cover over-allotments, if any.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED NOVEMBER 27, 2009

PROSPECTUS

Shares

PIEDMONT OFFICE REALTY TRUST, INC.

Class A Common Stock

Piedmont Office Realty Trust, Inc. is a fully integrated, self-administered and self-managed real estate investment trust specializing in the acquisition, ownership, management, development and disposition of primarily high-quality Class A office buildings located in major U.S. office markets and leased primarily to high-credit-quality tenants. Our office portfolio currently consists of 73 properties (exclusive of our equity interests in eight properties owned through unconsolidated joint ventures and our two industrial properties), including three properties owned through consolidated joint ventures, with a high concentration of our properties located in the ten largest office markets in the United States.

We are offering shares of our Class A common stock and expect the public offering price to be between $ and $ per share. We intend to list our Class A common stock on the under the symbol . Since our formation in 1997, we have completed four public offerings of common stock through which we raised, together with our dividend reinvestment plan, an aggregate of approximately $5.8 billion of gross proceeds. Currently, our Class A common stock is not traded on a national securities exchange, and this will be our first listed public offering.

We are a Maryland corporation, and we have elected to be treated as a real estate investment trust, or REIT, for U.S. federal income tax purposes.

Investing in our common stock involves risks. Before buying any shares, you should carefully consider the risk factors described in Risk Factors beginning on page 16.

	Per Share	Total
Public offering price	$	$
Underwriting discounts and commissions	$	$
Proceeds, before expenses, to us	$	$

We have granted the underwriters a 30-day option to purchase up to an additional shares of Class A common stock from us on the same terms and conditions as set forth above if the underwriters sell more than shares of Class A common stock in this offering.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares of Class A common stock on or about , 20 .

Morgan Stanley **J.P. Morgan**

The date of this prospectus is , 20

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You should only rely on the information contained in this prospectus, in any free writing prospectus prepared by us in connection with this offering or to which we have referred you. Neither we nor the underwriters have authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should not assume that the

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information in this prospectus is accurate as of any date other than the date on the front cover of this prospectus, as our business, financial condition, liquidity, results of operations, or prospects may have changed since such date.

We use market data and industry forecasts and projections throughout this prospectus. We have obtained substantially all of this information from a market study prepared for us in connection with this offering by Rosen Consulting Group, a nationally recognized real estate consulting firm. Such information is included herein in reliance on Rosen Consulting Group s authority as an expert on such matters. See Experts. In addition, we have obtained certain market and industry data from publicly available industry publications. These sources generally state that the information they provide has been obtained from sources believed to be reliable, but that the accuracy and completeness of the information are not guaranteed. The forecasts and projections are based on industry surveys and the preparers experience in the industry, and there is no assurance that any of the projected amounts will be achieved. We believe that the surveys and market research others have performed are reliable, but we have not independently verified this information.

The term diluted basis, when used in this prospectus in reference to our shares of common stock, means all outstanding shares of our common stock at such time plus incremental weighted-average shares from the assumed conversion of time-vested deferred stock awards.

Unless the context indicates otherwise, the term properties as used in this prospectus and the statistical information presented in this prospectus regarding our properties includes our wholly owned office properties and our office properties owned though our consolidated joint ventures, but excludes our interest in eight properties owned through our equity interests in our unconsolidated joint ventures and our two industrial properties. Please refer to Equity Interests in Unconsolidated Joint Ventures and Industrial Properties under the heading Our Business and Properties for further information regarding our equity interests in our unconsolidated joint ventures and our two industrial properties.

Our Annualized Lease Revenue was calculated by multiplying (i) rental payments (defined as base rent plus operating expenses, if payable by the tenant on a monthly basis under the terms of a lease that had been executed as of September 30, 2009, but excluding rental abatements and rental payments related to executed but not commenced leases for space that was covered under an existing lease as of September 30, 2009) for the month ended September 30, 2009, by (ii) 12. In instances in which contractual rents and operating expenses are collected on an annual, semi-annual, or quarterly basis, such amounts have been multiplied by a factor of 1, 2, or 4, respectively, to calculate the annualized figure. For leases that had been executed but not commenced as of September 30, 2009 relating to un-leased space as of September 30, 2009, Annualized Lease Revenue was calculated by multiplying (i) monthly base rental payments for the initial month of the lease term, by (ii) 12. When we provide weighted-average figures, the amount is weighted by Annualized Lease Revenue, except where otherwise noted.

On , 2010, our stockholders approved an amendment to our charter that provides for the conversion of each outstanding share of our common stock into:

- 1/12th of a share of our Class A common stock; plus
- 1/12th of a share of our Class B-1 common stock; plus
- 1/12th of a share of our Class B-2 common stock; plus

1/12th of a share of our Class B-3 common stock.

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In this prospectus, we refer to this transaction as the Recapitalization, we refer to Class B-1 common stock, Class B-2 common stock and Class B-3 common stock collectively as our Class B common stock, and we refer to Class A and Class B common stock collectively as our common stock. We are offering our Class A common stock in this offering, and we intend to list our Class A common stock on the . Our Class B common stock will be identical to our Class A common stock except that (i) we do not intend to list our Class B common stock on a national securities exchange and (ii) shares of our Class B common stock will convert automatically into shares of our Class A common stock at specified times. As of January 30, 2011, all shares of our Class B common stock will have converted into our Class A common stock. The terms of our Class A and Class B common stock are described more fully under Description of Capital Stock in this prospectus.

The Recapitalization also will have the effect of reducing the total number of outstanding shares of our common stock. As of October 31, 2009, without giving effect to the Recapitalization, we had 474,060,916 shares of common stock outstanding. As of October 31, 2009, after giving effect to the Recapitalization, we would have had an aggregate of 158,020,305 shares of our Class A and Class B common stock outstanding, divided equally among our Class A, Class B-1, Class B-2 and Class B-3 common stock.

The Recapitalization will be effected prior to the completion of this offering. Unless otherwise indicated, all information in this prospectus gives effect to, and all share and per share amounts have been retroactively adjusted to give effect to, the Recapitalization. Unless otherwise indicated, share and per share amounts have not been adjusted to give effect to any exercise by the underwriters of their option to purchase up to shares of our Class A common stock solely to cover over-allotments, if any.

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PROSPECTUS SUMMARY

This is only a summary and does not contain all of the information that you should consider before investing in our Class A common stock. You should read this entire prospectus, including Risk Factors and our financial statements and related notes appearing elsewhere in this prospectus for a more complete understanding of this offering before deciding to invest in our Class A common stock. Except where the context suggests otherwise, the terms Piedmont, we, us, our and our company refer to Piedmont Office Realty Trust, Inc., together with its subsidiaries, including Piedmont Operating Partnership, L.P. (Piedmont OP or our operating partnership). Unless otherwise indicated, the information in this prospectus assumes and reflects: (i) the effectiveness of our Third Articles of Amendment and Restatement, or our charter, and our Amended and Restated Bylaws, or our bylaws, upon the completion of this offering; (ii) no exercise by the underwriters, for whom Morgan Stanley & Co. Incorporated and J.P. Morgan Securities Inc., are acting as representatives, of their option to purchase up to an additional shares of our Class A common stock; (iii) the Recapitalization; and (iv) an offering price per share of our Class A common stock at the midpoint of the range set forth on the cover page of this prospectus.

Piedmont Office Realty Trust, Inc.

We are a fully integrated, self-administered and self-managed real estate investment trust (REIT) specializing in the acquisition, ownership, management, development and disposition of primarily high-quality Class A office buildings located in major U.S. office markets and leased primarily to high-credit-quality tenants. Rated as an investment-grade company by Standard & Poor s and Moody s, we have maintained a low-leverage strategy while acquiring our properties. As of September 30, 2009, approximately 82.6% of our Annualized Lease Revenue was derived from our office properties in the ten largest U.S. office markets based on rentable square footage, including premier office markets such as Chicago, Washington, D.C., the New York metropolitan area, Boston and greater Los Angeles. Our strategy primarily involves owning and acquiring high-quality properties that are generally occupied by lead tenants (which we define as those tenants that lease approximately 35% or more of the rentable square footage in the building or contribute 1% or more of our total Annualized Lease Revenue) and providing personalized service that is attentive to the needs of our tenants. We place great importance on anticipating and meeting our tenants needs by focusing on their expansion, consolidation and relocation requirements, which we believe differentiates us from our competitors. As part of our tenant-focused approach, we currently maintain satellite offices in eight of our markets and expect to have offices in a total of ten markets by the end of 2011. We believe our local market presence enhances tenant satisfaction, improves occupancy and provides local knowledge that strengthens our acquisition capabilities.

As of September 30, 2009, our office portfolio consisted of 73 properties (exclusive of our equity interests in eight properties owned through unconsolidated joint ventures and our two industrial properties) with approximately 20 million rentable square feet, which properties were approximately 90.1% leased and had a median age of approximately ten years. The majority of our tenants typically enter into long-term leases for substantial amounts of space. As of September 30, 2009, our portfolio of commenced leases (which are leases with a tenant that either is actively paying rent or in a free-rent period) had an average remaining weighted-average lease term of approximately 5.3 years and our portfolio of executed leases had an average square footage of approximately 47,000 square feet. Immediately following completion of this offering, we expect that we will be the tenth largest publicly traded office REIT in the United States based on total gross assets. Inclusive of joint ventures, since our first acquisition in March 1998, we have acquired approximately $5.5 billion of office and industrial properties, with a current portfolio generating Annualized Lease Revenue of approximately $587.1 million. As of September 30, 2009, we also owned $58.4 million of mezzanine debt, which is secured by a pledge of the equity interest of the entity owning a 46-story, Class A commercial office building located in downtown Chicago. We also own approximately 46 acres of developable land, much of which is located adjacent

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to our existing office properties and which we believe can support approximately one million square feet of rentable space.

We focus primarily on owning and acquiring properties in major U.S. office markets that are characterized by their diverse industry base, attractive supply and demand ratios and appeal to institutional real estate investors. Our market-selection strategy typically involves categorizing real estate markets as either concentration or opportunistic markets. We define concentration markets as those markets characterized by high barriers to entry, such as a limited supply of readily developable land, difficulty in procuring governmental entitlements to develop land, environmental restrictions on development and high asset replacement costs. We believe these markets provide attractive long-term return opportunities and greater market stability. Our goal is to expand our holdings in these markets by identifying properties that we believe offer attractive long-term returns through various market cycles for office properties in these markets.

We define opportunistic markets as those characterized by lower barriers to entry and greater variability in the supply and demand of office space. Although these markets are typically as dynamic as our concentration markets, we believe they offer additional opportunities for strategically timed investments and asset recycling. We generally expect holding periods in our opportunistic markets will be shorter than those in our concentration markets. As such, we will look to dispose of assets in opportunistic markets when future returns appear to have been maximized or when opportunities to recycle capital present improved long-term returns to our stockholders. We believe that certain markets that we characterize as opportunistic present attractive investment opportunities at this time.

Competitive Strengths

We believe we distinguish ourselves from other owners and operators of office properties in a number of important ways and enjoy significant competitive strengths, including the following:

High-Quality Assets in Major U.S. Markets Owned at an Attractive Cost Basis. We own office properties in each of the ten largest U.S. office markets based on rentable square footage, including premier office markets such as Chicago, Washington, D.C., the New York metropolitan area, Boston and greater Los Angeles. Our properties in the ten largest U.S. office markets collectively represent 82.6% of our Annualized Lease Revenue. We look to invest in markets that exhibit a diverse industry base, attractive supply and demand ratios, and appeal to institutional real estate investors. As a result of the majority of our assets (91.5%) being acquired between 1998 and 2004, the favorable cost basis of our assets allows us to lease our space at competitive rents and mitigates the potential for significant impairments in our portfolio.

High-Quality, Diverse Tenant Base and Portfolio. Our portfolio is leased primarily to large, high-credit-quality tenants, including federal government agencies and nationally recognized corporations and professional service firms, with significant long-term space requirements. Approximately 84.7% of our Annualized Lease Revenue is derived from tenants that have investment-grade credit ratings as reported by Standard & Poor s or are subsidiaries of such investment-grade-rated entities, are governmental agencies, or are nationally recognized corporations or professional service firms. We derived 17.3% of our Annualized Lease Revenue from government tenants, including 12.4% from federal government agencies such as the Office of the Comptroller of the Currency (the OCC), the National Aeronautics and Space Administration (NASA), the National Park Service, the Department of Defense and the Food and Drug Administration (the FDA). As of September 30, 2009, we had 408 tenants engaging in a variety of professional, financial and other businesses, with no single industry other than governmental entities accounting for more than 12.1% of our Annualized Lease Revenue. We believe our diverse tenant base helps to minimize our exposure to economic fluctuations in any one industry or business sector or with respect to any single tenant. We also maintain geographic diversity in our portfolio with properties in 19 markets and 37.8% of our Annualized Lease Revenue derived

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from markets other than our three largest markets. We believe the geographic diversification of our portfolio reduces our risk from localized economic declines.

Access to Capital and Flexible Capital Structure. We have historically employed a conservative leverage strategy focused on maintaining a low debt-to-gross assets ratio relative to other office REITs and preserving borrowing capacity under our credit facilities. In July 2007, we applied for and received investment-grade credit ratings from Standard & Poors (BBB/Stable) and Moody s (Baa3/Stable). These ratings have been reaffirmed multiple times since then and, in October 2009, Moody s assigned a positive outlook to our credit rating. Immediately following the completion of this offering, we expect to have a debt-to-gross assets ratio of approximately 30% and intend to maintain our investment-grade credit rating and a debt-to-gross assets ratio of between 30%-40% going forward. We believe our ability to access capital from the unsecured bond market, additional equity issuances, opportunistic sales of properties and secured property-level debt is enhanced by our conservative leverage strategy, strong balance sheet, investment-grade credit ratings, and our previous success in attracting debt capital from high quality financial institutions. Our capacity to incur additional indebtedness while remaining within our targeted leverage range should allow us to capitalize on favorable acquisition and development opportunities that arise, subject to conditions in the credit markets. Our flexible capital structure also should enable us to take advantage of other opportunities to maximize earnings and funds from operations (FFO) per share should future market conditions warrant, such as refinancing debt or repurchasing shares of our common stock. We believe our ability to execute our short- to mid-term growth strategies without having to return to the equity capital markets in the near-term places us at a competitive advantage over many of our peers.

Proven, Disciplined Capital Recycling Capabilities. We have a track record of completing a large volume of commercial real estate acquisitions and dispositions and have demonstrated discipline and restraint in conducting such transactions. An integral part of our disciplined approach to asset recycling involves periodically evaluating future holding period returns for our assets in order to maximize our return on invested capital. Decisions on the timing of our dispositions are impacted by our evaluation of the asset s holding period returns and on-going strategic portfolio fit. Inclusive of joint venture transactions, since our first acquisition in March 1998, we have acquired approximately $5.5 billion in commercial real estate, totaling approximately 29 million rentable square feet, and we have sold approximately $1.1 billion in commercial real estate, totaling approximately 6.7 million rentable square feet. Of the $5.5 billion in acquired real estate, substantially all (91.5%) was acquired between 1998 and 2004 while only 8.5% was acquired in the years between 2005 and 2008, which we believe represented a cyclical market peak. In contrast, 94.4% of the $1.1 billion in sales occurred during the period between 2005 and 2008 when market prices were at or near their peak. The $1.1 billion in dispositions represents a gain of approximately $252.5 million and a $235.2 million (28.2%) increase over the acquisition price of those assets. As evidence of our discipline relative to pricing in the real estate marketplace, in 2005 we decided to declare a special dividend of $748.5 million, representing substantially all of the proceeds from the sale of our interests in a portfolio of 27 properties for net proceeds of approximately $756.8 million (the 2005 Portfolio Sale) rather than reinvesting the proceeds in real estate near the market peak. In addition, we consummated over $544.8 million more in property dispositions than acquisitions in the period between 2005 and 2008. With these demonstrated acquisition and disposition capabilities, we intend to manage our portfolio to exit opportunistic markets or particular investments within certain markets when it appears that our investment returns have peaked and reinvest the proceeds when we believe other investments offer the prospect of improved returns.

Experienced and Committed Management Team. Our five-member executive management team has an average of over 24 years of commercial real estate and/or public company financial management experience, and approximately five years of experience working together to operate the existing portfolio and execute our investment strategy. This experience has allowed our management team to

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develop an extensive and valuable set of relationships within the commercial real estate industry, which we believe will enable us to identify attractive investment opportunities and continually improve our operating strategies.

Strong Tenant Relationships. We are committed to providing personalized service attentive to the needs of our tenants. Through our tenant-focused approach that includes a role fully dedicated to business development, we foster strong relationships with our tenants corporate real estate executives and come to understand their long-term business needs, with the objective of becoming their preferred landlord. To that end, we leverage the strength of our in-house acquisition, asset management, financing, property management and construction management personnel, as well as our local operating presence in several of our markets, to promptly and fully satisfy the many demands of our existing and potential customer base. We believe that our focus on customer service and long-term tenant relationships contributes to stronger operating results and higher occupancy rates by minimizing rent interruptions and reducing marketing, leasing and tenant improvement costs that result from finding new tenants. Since January 1, 2004, we have re-let approximately 77% of the approximately 10.7 million square feet of office space that has become available for renewal to the occupying tenants.

Business Objectives and Growth Strategies

Our primary objective is to provide an attractive total risk-adjusted return for our stockholders by increasing our cash flow from operations, achieving sustainable growth in FFO and realizing long-term capital appreciation. The strategies we intend to execute to achieve this objective include:

Capitalizing on Acquisition Opportunities. We intend to grow earnings through the strategic acquisition of high-quality office properties. Our overall acquisition strategy focuses on acquiring properties in markets that are generally characterized by their diverse industry base, attractive supply and demand ratios and appeal to institutional investors. We target attractively priced properties that complement our existing portfolio from a risk management and diversification perspective.

Proactive Asset Management, Leasing Capabilities and Property Management. Proactive asset and property management is a key component of our growth strategy. This strategy encompasses a number of operating initiatives designed to maximize occupancy and rental rates, including the following:

- devoting significant resources to building and cultivating our relationships with commercial real estate executives;
- maintaining satellite offices in markets in which we have a significant presence;
- demonstrating our commitment to our tenants by maintaining the high quality of our properties;
- driving a significant volume of leasing transactions (approximately 300 transactions representing 8.5 million square feet since January 1, 2006) in a manner that provides optimal returns by using creative approaches, including early extension, lease wrap-arounds and restructurings. We manage portfolio risk by structuring lease expirations to avoid, among other things, having multiple leases expire in the same market in a relatively short period of time;
- applying our leasing and operational expertise in meeting the specialized requirements of federal, state and local government agencies to attract and retain these types of tenants;

evaluating potential tenants based on third-party and internal assessments of creditworthiness; and

using our purchasing power and market knowledge to reduce our operating costs and those of our tenants.

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Recycling Capital Efficiently. We intend to use our proven, disciplined capital recycling capabilities to maximize total return to our stockholders by selectively disposing of non-core assets and assets where returns appear to have been maximized, and redeploying the proceeds into new investment opportunities with higher overall return prospects. We will seek to exit markets when we believe concentrating our efforts in other markets will improve our operating performance. As the capital markets improve, we expect to reduce or eliminate our positions in certain of our non-core markets, including Cleveland, Detroit, Houston, Austin, Seattle, Portland, Denver and Greenville. In addition, we hope to reduce our exposure in our largest market, Chicago, by selling certain of our non-core suburban assets and partnering with institutional investors on certain of our core downtown Chicago properties. We will also seek to reduce and/or eliminate our positions in a small number of lower quality non-core assets.

Financing Strategy. We intend to continue to employ a conservative leverage strategy by maintaining a debt-to-gross assets ratio of between 30%-40%. In the near term, we intend to exercise the one-year extension options on our unsecured term loan and unsecured line of credit, which are currently scheduled to mature in 2010 and 2011, respectively. Subject to the availability of capital on suitable terms, we intend to refinance both of these facilities on market terms on or prior to their respective extended maturity dates. To effectively manage our long-term leverage strategy, we will continue to analyze various sources of debt capital to determine which sources will be the most advantageous to our investment strategy at any particular point in time. Recently, we have observed significant spread reduction in the unsecured bond market and would anticipate accessing that market opportunistically. We also intend to increase our usage of unsecured debt to refinance our major secured debt maturities. However, based on market conditions at the time, we may refinance these maturities by using the substantial equity in a smaller number of properties to secure long-term, fixed-rate debt at higher loan-to-value ratios, thereby reducing the number of encumbered assets in our portfolio. We also believe we will be able to fund future acquisition activity by raising additional public equity, accessing joint venture capital or selling existing properties.

Use of Joint Ventures to Improve Returns and Mitigate Risk. Over time, we plan to enter into strategic joint ventures with third parties to acquire, develop, improve or dispose of properties, thereby reducing the amount of capital required by us to make investments, diversifying our sources of capital and allowing us to reduce our concentration in certain properties and/or markets. Our executive officers have extensive experience with the institutional investment community, and we believe these relationships, together with our acquisition and management expertise, make us an attractive strategic partner for institutional investors. Through strategic joint ventures with institutional investors, we can mitigate acquisition, development and lease-up risks, while retaining day-to-day operational control over, and a significant stake in, the performance of certain properties.

Redevelopment and Repositioning of Properties. As circumstances warrant, we intend to continue redeveloping or repositioning properties within our existing portfolio, as well as those properties that we acquire in the future. By redeveloping and repositioning our properties within a given submarket, we seek to increase both occupancy and rental rates at these properties and create additional amenities for our tenants, thereby improving returns on our invested capital.

Background

We were incorporated in Maryland on July 3, 1997, and commenced active operations on June 5, 1998. Since our formation in 1997, we have raised equity capital to finance our real estate investment activities, primarily through four public offerings of our common stock, which, together with our dividend reinvestment plan, raised an aggregate of approximately $5.8 billion in gross offering proceeds. We are a public company, and have been subject to SEC reporting obligations since 1998.

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In April 2005, we completed our 2005 Portfolio Sale pursuant to which we sold our interests in a portfolio of 27 properties for net proceeds of approximately $756.8 million, realizing a gain of approximately $189.5 million, and distributed approximately $748.5 million to our stockholders as a special dividend. This disposition took advantage of a strong market for commercial real estate when the properties were well positioned for sale. As a result of the 2005 Portfolio Sale, we repositioned our portfolio in terms of geographical exposure (by exiting 12 smaller markets), improved our credit profile (by selling buildings with lower than our average tenant credit) and, we believe, improved the quality of our portfolio (by selling buildings with lower than our average building quality), all without negatively impacting our overall targeted return on equity for the broader portfolio. We have subsequently sold 13 additional properties in single-property transactions for gross proceeds of $237.1 million, realizing a gain of approximately $63.0 million, which served many of the same objectives as our 2005 Portfolio Sale.

On April 16, 2007, pursuant to a merger agreement, we acquired Piedmont Office Management, LLC and Piedmont Government Services, LLC from Wells Real Estate Funds, Inc., which we refer to herein collectively with its affiliates as our former advisor , for an aggregate of 6,504,550 shares of our common stock (the Internalization). From the commencement of our operations in 1998 until the Internalization, our former advisor performed our day-to-day operations, including investment analysis, acquisitions, dispositions, financings, development, due diligence, portfolio management, asset management, property management and certain administrative services, such as financial, tax and regulatory compliance reporting. We currently contract with our former advisor for certain services relating to investor relations and transfer agent services. We expect to terminate the contract relating to investor relations and transfer agent services within six months following the completion of this offering. In addition, included in our ordinary course of business property management arrangements, we have a limited number of management arrangements with our former advisor, under which we provide and receive property management services.

We are structured as an umbrella partnership real estate investment trust (UPREIT), which means that we own most of our properties through our operating partnership and its subsidiaries. We are the sole general partner of our operating partnership and indirectly own all of its limited partner interests. As an UPREIT, we may be able to acquire properties on more attractive terms from sellers who may be able to defer tax obligations by contributing properties to our operating partnership in exchange for interests in the partnership (OP Units), which will be redeemable for cash or shares of our common stock. As a result, we believe that having our Class A common stock listed on the (the) will make our OP Units more attractive to tax-sensitive sellers.

Prior to this offering, we maintained a share redemption program to provide interim liquidity for our stockholders until a secondary market developed for shares of our common stock. As of October 31, 2009, we had repurchased an aggregate of approximately 39.9 million shares of our common stock pursuant to this program for aggregate consideration of approximately $975.2 million. Our share redemption program is currently suspended, and will terminate upon the listing of our Class A common stock on the in connection with this offering.

Summary Risk Factors

You should carefully consider the matters discussed in the section entitled Risk Factors beginning on page 16 prior to deciding whether to invest in our Class A common stock. Some of these risks include, but are not limited to:

- If current market and economic conditions do not improve, our business, results of operations, cash flows, financial condition and access to capital may be adversely affected.

- Our distributions to stockholders may change.

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Our growth will partially depend upon future acquisitions of properties, and we may not be successful in identifying and consummating suitable acquisitions that meet our investment criteria, which may impede our growth and negatively affect our results of operations.

We depend on tenants for our revenue, and accordingly, lease terminations and/or tenant defaults, particularly by one of our large lead tenants, could adversely affect the income produced by our properties, which may harm our operating performance, thereby limiting our ability to make distributions to our stockholders.

We face considerable competition in the leasing market and may be unable to renew existing leases or re-let space on terms similar to the existing leases, or we may expend significant capital in our efforts to re-let space, which may adversely affect our operating results.

Adverse market and economic conditions may continue to adversely affect us and could cause us to recognize impairment charges or otherwise impact our performance.

Because we have a large number of stockholders and our shares have not been listed on a national securities exchange prior to this offering, there may be significant pent-up demand to sell our shares. Significant sales of our Class A or Class B common stock, or the perception that significant sales of such shares could occur, could cause the price of our Class A common stock to decline significantly.

Future acquisitions of properties may not yield anticipated returns, may result in disruptions to our business, and may strain management resources.

We depend on key personnel, each of whom would be difficult to replace.

We have invested, and in the future may invest, in mezzanine debt, which is subject to increased risk of loss relative to senior mortgage loans.

Our failure to qualify as a REIT could adversely affect our operations and ability to make distributions.

Our organizational documents contain provisions that may have an anti-takeover effect, which may discourage third parties from conducting a tender offer or seeking other change of control transactions that could involve a premium price for our common stock or otherwise benefit our stockholders.

The National Office Market Overview

Rosen Consulting Group believes the recession that began in December 2007 ended in the second quarter of 2009; however, its effects on commercial property markets are expected to extend through 2010 and likely beyond. The U.S. office market continued to weaken in the second quarter of 2009, with leasing demand contracting further as tenants shed space. As the vacancy rate in most markets rose substantially during the second quarter, landlords responded by cutting asking rents and offering larger concession packages to new and existing tenants in order to maintain occupancy levels. Rosen Consulting Group expects office market weakness to continue in the near term as economic conditions, though less negative than in previous quarters, remain lackluster. Moving forward, Rosen Consulting Group expects office market conditions to improve beginning in 2011 and then accelerate thereafter, as growth in office-using employment rekindles tenant demand.

While the short-term outlook for office properties is weak, Rosen Consulting Group believes the longer-term prospects for growth are positive. Rosen Consulting Group expects demand from tenants and investors to deteriorate through the remainder of 2009. In 2010, an improved economic situation should help to slow the pace of contractions in the office market, though conditions are likely to remain negative. Rosen Consulting Group expects the central business district (CBD) (i.e., the traditional business core of a metropolitan area, characterized by a relatively high concentration of business activity within a relatively small area) vacancy rate to surpass 15% and the suburban vacancy rate to surpass 20% in 2010, and rents to drop sharply during the same period. However, Rosen Consulting Group believes that following a stable 2011, leasing demand should rebound in 2012, and that limited construction should contribute to a fairly brisk recovery in the office market.

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Recapitalization

On , 2010, our stockholders approved an amendment to our charter that provides for the conversion of each outstanding share of our common stock into:

- 1/12th of a share of our Class A common stock; plus
- 1/12th of a share of our Class B-1 common stock; plus
- 1/12th of a share of our Class B-2 common stock; plus
- 1/12th of a share of our Class B-3 common stock.

Subject to the provisions of our charter, shares of our Class B-1, B-2 and B-3 common stock will convert automatically into shares of our Class A common stock 180 days following the listing of our Class A common stock on a national securities exchange or over-the-counter market (the Listing), 270 days following the Listing and on January 30, 2011, respectively. In addition, if they have not otherwise converted, all shares of our Class B common stock will convert automatically into shares of our Class A common stock on January 30, 2011.

The Recapitalization will be effected prior to the completion of this offering. Our Class B common stock will be identical to our Class A common stock except that (i) we do not intend to list our Class B common stock on a national securities exchange and (ii) shares of our Class B common stock will convert automatically into shares of our Class A common stock at specified times. The aggregate number of shares of our common stock outstanding (including all shares of our Class A and Class B common stock) immediately following the Recapitalization will be approximately 158.0 million, all of which (except for certain shares described in Shares Available for Future Sale) will be freely tradable upon the completion of this offering except as otherwise provided in the restrictions on ownership and transfer of stock set forth in our charter. Of this amount, approximately 39.5 million shares of our Class A common stock will be outstanding and approximately 118.5 million shares of our Class B common stock, representing 75% of our total outstanding common stock, will be outstanding.

Our Properties

As of September 30, 2009, our portfolio of properties (exclusive of our equity interests in eight properties owned through unconsolidated joint ventures and our two industrial properties) consists of 73 commercial office properties, which properties were approximately 90.1% leased with a weighted-average remaining lease term of approximately 5.3 years. Of these properties, 70 properties are wholly owned and three properties are owned through consolidated joint ventures with third parties. The majority of our assets are considered by us to be Class A and the majority of our assets are located in the ten largest U.S. office markets based on rentable square footage. Approximately 64% of the rentable square footage of our properties is located in Chicago, Washington, D.C., the New York metropolitan area, Boston and greater Los Angeles.

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The following table provides an overview of our existing portfolio of office properties as of September 30, 2009.

Metropolitan Area	Number of Properties	Rentable Square Footage (in thousands)(1)	Percentage of Rentable Square Footage (%)(2)	Percent Leased (%)(3)	Annualized Lease Revenue (in thousands) ($)	Percentage of Annualized Lease Revenue (%)(4)
Chicago	6	4,883	24.1	91.5	157,475	26.8
Washington, DC(5)	14	3,049	15.1	84.6	114,136	19.4
New York(6)	9	3,287	16.2	91.6	93,698	16.0
Minneapolis	2	1,227	6.1	98.1	39,032	6.6
Los Angeles(7)	5	1,133	5.6	87.1	34,504	5.9
Dallas	7	1,275	6.3	88.0	25,320	4.3
Boston	4	583	2.9	92.6	23,184	3.9
Detroit	4	929	4.6	79.9	21,047	3.6
Philadelphia	1	761	3.8	100.0	15,185	2.6
Atlanta	3	607	3.0	77.1	11,568	2.0
Houston	1	313	1.5	100.0	9,966	1.7
Phoenix	4	557	2.8	77.9	7,639	1.3
Nashville	1	312	1.5	100.0	6,913	1.2
Florida(8)	3	297	1.4	97.3	6,853	1.2
Austin	1	195	1.0	100.0	5,536	0.9
Portland	4	325	1.6	100.0	4,648	0.8
Seattle(9)	1	156	0.8	100.0	4,145	0.7
Cleveland	2	187	0.9	93.6	3,484	0.6
Denver	1	156	0.8	100.0	2,727	0.5
Total/Weighted Average	**73**	**20,232**	**100.0**	**90.1(10)**	**587,060**	**100.0**

(1) Rentable square footage is based on the most recent Building Owner s Management Association (BOMA) measurement for the respective building adjusted for our pro-rata ownership percentage in the case of 35 W. Wacker Venture, L.P.
(2) Equal to rentable square footage for each metropolitan area divided by the total rentable square footage for our entire office portfolio, expressed as a percentage.
(3) Calculated as leased square footage divided by rentable square footage, expressed as a percentage.
(4) Equal to Annualized Lease Revenue for each metropolitan area divided by the total Annualized Lease Revenue for our entire office portfolio, expressed as a percentage.
(5) Metropolitan area includes properties located in Northern Virginia and suburban Maryland.
(6) Metropolitan area includes properties located in Long Island and northern New Jersey.
(7) Metropolitan area includes properties located in Irvine (in Orange County), Pasadena, Glendale and Burbank.
(8) Our properties in this metropolitan area are located in Fort Lauderdale, Tamarac, and Sarasota.
(9) Metropolitan area includes a property located in Issaquah.
(10) Weighted average is based on rentable square footage.

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Our Corporate Structure

The following diagram reflects our organizational structure following completion of this offering:

* Represents less than 1%.

(1) Piedmont Office Management, LLC employs all of our personnel except those providing property-specific services for those properties leased to certain government tenants.

(2) Piedmont Government Services, LLC provides all property-specific services for those properties that are leased to certain government tenants and employs all personnel performing those services.

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Our Operating Partnership

Substantially all of our assets are held by our operating partnership, Piedmont OP, and its subsidiaries. We control our operating partnership as the sole general partner and as the indirect owner of all of the limited partner interests in Piedmont OP.

Our REIT Status

We have elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code, as amended (the Code). Under the Code, REITs are subject to numerous organizational and operational requirements, including a requirement that they annually distribute at least 90% of their adjusted REIT taxable income. We believe that we have been organized and operated in conformity with the requirements for qualification and taxation as a REIT under the Code since we elected REIT status in 1998, and that our intended manner of operation will enable us to continue to meet the requirements for qualification and taxation as a REIT for federal income tax purposes.

As a REIT, we generally are not subject to U.S. federal income tax on income that we distribute to our stockholders. If we fail to qualify for taxation as a REIT in any year, our income will be taxed at regular corporate rates, we will not be allowed a deduction for distributions to our stockholders in computing our taxable income and we may be precluded from qualifying for treatment as a REIT for the four-year period following the year of our failure to qualify. Even if we qualify as a REIT for U.S. federal income tax purposes, we may still be subject to certain taxes, including state and local taxes on our income and property, and U.S. federal income and excise taxes on our undistributed income.

Restrictions on Ownership and Transfer of Our Capital Stock

Our charter generally prohibits any person (unless exempted by our board of directors) from actually or constructively owning more than 9.8% (by value or number of shares, whichever is more restrictive) of the outstanding shares of our common stock or the outstanding shares of any class or series of our preferred stock. These restrictions, as well as the other share ownership and transfer restrictions contained in our charter, are designed, among other purposes, to enable us to comply with share accumulation and other restrictions imposed on REITs by the Code. For a more complete description of our capital stock, including restrictions on the ownership of capital stock, please see the Description of Capital Stock section of this prospectus.

Distribution Policy

The Code generally requires that a REIT distribute annually at least 90% of its adjusted REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gain. In order to maintain our REIT qualification and generally not to be subject to U.S. federal income and excise tax, we intend to make regular quarterly distributions of all or substantially all of our net taxable income to holders of our common stock. Our future distributions will be at the discretion of our board of directors.

To the extent that our cash available for distribution is less than 90% of our adjusted REIT taxable income, we may consider various funding sources to cover any such shortfall, including borrowing under our existing credit facilities, selling certain of our assets or using a portion of the net proceeds we receive in this offering or future offerings. Our distribution policy enables us to review the alternative funding sources available to us from time to time.

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Our Principal Office and Internet Address

Our principal executive offices are located at 11695 Johns Creek Parkway, Suite 350, Johns Creek, Georgia 30097-1523. Our telephone number is (770) 418-8800. Our internet address is *www.piedmontreit.com.* Our internet website and the information contained therein or connected thereto do not constitute a part of this prospectus or any amendment or supplement thereto.

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The Offering

Class A common stock offered by us	shares[1]
Common stock to be outstanding after this offering[2]:	
Class A common stock	shares[3]
Class B-1 common stock	39,505,076 shares
Class B-2 common stock	39,505,076 shares
Class B-3 common stock	39,505,077 shares
Conversion rights	Subject to the provisions of our charter, shares of our Class B-1, B-2 and B-3 common stock will convert automatically into shares of our Class A common stock 180 days following the Listing, 270 days following the Listing and on January 30, 2011, respectively. In addition, if they have not otherwise converted, all shares of our Class B common stock will convert automatically into shares of our Class A common stock on January 30, 2011.
Dividend rights	Our Class A common stock and our Class B common stock will share equally in any dividends authorized by our board of directors and declared by us.
Voting rights	Each share of our Class A common stock and each share of our Class B-1, B-2 and B-3 common stock will entitle its holder to one vote per share.
Use of proceeds	We intend to use the net proceeds received from this offering for general corporate and working capital purposes, including capital expenditures related to renewal of leases and re-letting of space, the acquisition and development of (and/or investment in) office properties or, if market conditions warrant, repayment of debt or repurchase of outstanding shares of our common stock.
Risk Factors	Investing in our Class A common stock involves risks. See Risk Factors beginning on page 16 and other information in this prospectus for a discussion of factors you should consider before investing in our Class A common stock.
Proposed symbol	

(1) Excludes up to shares of our Class A common stock that may be issued by us upon exercise of the underwriters overallotment option.
(2) Share numbers reflect the Recapitalization that occurred on , 2010.
(3) Includes 39,505,076 shares of our Class A common stock outstanding as of October 31, 2009.

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Summary Consolidated Financial Data

The summary consolidated financial data set forth below as of December 31, 2008 and 2007 and for the years ended December 31, 2008, 2007 and 2006 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. The audited consolidated financial statements have been audited by Ernst & Young LLP, an independent registered public accounting firm. The financial data as of September 30, 2009 and for the nine months ended September 30, 2009 and 2008 have been derived from our unaudited consolidated financial statements included elsewhere in this prospectus. The unaudited consolidated financial statements have been prepared on the same basis as our audited consolidated financial statements and, in the opinion of our management, reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of this data. The results for any interim period are not necessarily indicative of the results that may be expected for a full year.

Because the information presented below is only a summary and does not provide all of the information contained in our historical consolidated financial statements, including the related notes, you should read it in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our historical consolidated financial statements, including the related notes, included elsewhere in this prospectus. The amounts in the table are dollars in thousands except for share and per-share information. The share and per-share information set forth below gives effect to the Recapitalization.

	For the Nine Months Ended September 30,		For the Year Ended		
	2009	**2008**	**2008**	**2007**	**2006**
Statement of Income Data(1):					
Total revenues	$ 453,868	$ 466,549	$ 621,965	$ 593,249	$ 571,363
Property operating costs	170,421	166,417	221,279	212,178	197,511
Asset and property management fees related-party and other	1,453	1,491	2,026	12,674	29,401
Depreciation and amortization	120,110	120,895	161,795	170,872	163,572
Casualty and impairment loss on real estate assets	35,063				7,765
General and administrative expenses	22,829	24,292	33,010	29,116	18,446
Income from continuing operations(1)	49,113	100,140	131,850	112,773	97,527
Income from discontinued operations(1)		10	10	21,548	36,454
Net income attributable to Piedmont	48,754	99,720	131,314	133,610	133,324
Cash Flows:					
Cash flows from operations	$ 213,112	$ 233,878	$ 296,515	$ 282,527	$ 278,948
Cash flows (used in) investing activities	(47,761)	(170,404)	(191,926)	(71,157)	(188,400)
Cash flows (used in) financing activities	(168,345)	(80,513)	(149,272)	(190,485)	(95,390)
Dividends paid	(149,210)	(209,714)	(279,418)	(283,196)	(269,575)
Per-Share Data:					
Per weighted-average common share data:					
Income from continuing operations per share basic and diluted	$ 0.31	$ 0.62	$ 0.82	$ 0.70	$ 0.63
Income from discontinued operations per share basic and diluted	$ 0.00	$ 0.00	$ 0.00	$ 0.13	$ 0.24
Net income available to common stockholders per share basic and diluted	$ 0.31	$ 0.62	$ 0.82	$ 0.83	$ 0.87
Dividends declared	$ 0.9450	$ 1.3203	$ 1.7604	$ 1.7604	$ 1.7604
Weighted-average shares outstanding basic (in thousands)	158,491	159,911	159,586	160,698	153,898
Weighted-average shares outstanding diluted (in thousands)	158,624	160,022	159,722	160,756	153,898

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	For the Nine Months Ended September 30, 2009	2008	For the Year Ended 2008	2007	2006
Balance Sheet Data (at period end):					
Total assets	$ 4,431,851		$ 4,557,330	$ 4,579,746	
Piedmont stockholders equity	2,621,115		2,697,040	2,880,545	
Outstanding debt	1,532,525		1,523,625	1,301,530	
Funds from Operations Data[2]:					
Net income attributable to Piedmont	$ 48,754	$ 99,720	$ 131,314	$ 133,610	$ 133,324
Add:					
Depreciation of real assets wholly owned properties	78,522	73,516	99,366	94,992	95,296
Depreciation of real assets unconsolidated partnerships	1,092	1,124	1,483	1,440	1,449
Amortization of lease-related costs wholly owned properties	41,127	47,147	62,050	76,143	72,561
Amortization of lease-related costs unconsolidated partnerships	307	608	717	1,089	1,103
Subtract:					
Gain on sale wholly owned properties				(20,680)	(27,922)
(Gain) loss on sale unconsolidated partnerships				(1,129)	5
Funds from operations	$ 169,802	$ 222,115	$ 294,930	$ 285,465	$ 275,816

(1) Prior period amounts have been adjusted to conform with the current period presentation.

(2) Although net income calculated in accordance with United States generally accepted accounting principles (GAAP) is the starting point for calculating FFO, FFO is a non-GAAP financial measure and should not be viewed as an alternative measurement of our operating performance to net income attributable to Piedmont. We believe that FFO is a beneficial indicator of the performance of an equity REIT. Specifically, FFO calculations exclude factors such as depreciation and amortization of real estate assets and gains or losses from sales of operating real estate assets. As such factors can vary among owners of identical assets in similar conditions based on historical cost accounting and useful life estimates, FFO may provide a valuable comparison of operating performance between periods and with other REITs. Management believes that accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, many industry investors and analysts have considered the presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. As a result, we believe that the use of FFO, together with the required GAAP presentation, provides a more complete understanding of our performance relative to our competitors and a more informed and appropriate basis on which to make decisions involving operating, financing, and investing activities. We calculate FFO in accordance with the current National Association of Real Estate Investment Trusts (NAREIT) definition. NAREIT currently defines FFO as net income (computed in accordance with GAAP), excluding gains or losses from sales of property, plus depreciation and amortization on real estate assets, and after the same adjustments for unconsolidated partnerships and joint ventures. However, other REITs may not define FFO in accordance with the NAREIT definition, or may interpret the current NAREIT definition differently than we do. As presented above, FFO is adjusted to exclude the impact of certain noncash items, such as depreciation, amortization, and gains on the sale of real estate assets. However, FFO is not adjusted to exclude the impact of impairment losses or certain other noncash charges to earnings.

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RISK FACTORS

Investment in our common stock involves substantial risks. You should carefully consider the risks described below, in addition to other information contained in this prospectus, before purchasing shares of our Class A common stock in this offering. The occurrence of any of the following risks could harm our business and future results of operations and could result in a partial or complete loss of your investment. These risks are not the only ones that we may face. Additional risks not presently known to us or that we currently consider immaterial may also impair our business operations and hinder our ability to make expected distributions to our stockholders. Some statements in this prospectus, including statements contained in the following risk factors, constitute forward-looking statements. Please refer to the section entitled Cautionary Note Regarding Forward-Looking Statements.

Risks Related to Our Business and Operations

If current market and economic conditions do not improve, our business, results of operations, cash flows, financial condition and access to capital may be adversely affected.

Recent market and economic conditions have been unprecedented and challenging, with significantly tighter credit conditions and a nation-wide recession and widespread unemployment. Continuing concerns about the systemic impact of inflation, energy costs, geopolitical issues, the availability and cost of credit, the mortgage markets and declining demand within the residential and commercial real estate markets have contributed to increased market volatility and diminished expectations for the U.S. and global economies. Added concerns, including new regulations, higher taxes, and rising interest rates, fueled by federal government interventions in the U.S. credit markets have led to increased uncertainty and instability in the capital and credit markets. These conditions, combined with volatile oil prices and declining business and consumer confidence have contributed to historic levels of market volatility. The general economic conditions also have contributed to lease terminations and asset impairment charges among other effects on our business. If economic conditions do not improve, the demand for office space, rental rates and property values may continue to decrease. Even if general economic conditions in the U.S. begin to improve, the office sector may lag the general economic recovery.

As a result of these conditions, the cost and availability of credit, as well as suitable acquisition and disposition opportunities and capitalization rates for buyers, have been and will likely continue to be adversely affected for the foreseeable future in all markets in which we own properties and conduct our operations. Concern about the stability of the markets generally and the strength of counterparties specifically has led many lenders and institutional investors to reduce, and in some cases, cease to provide funding to borrowers. Such actions may adversely affect our liquidity and financial condition, and the liquidity and financial condition of our tenants. If these market and economic conditions continue, they may limit our ability, and the ability of our tenants, to replace or renew maturing liabilities on a timely basis or access the capital markets to meet liquidity and capital expenditure requirements and may result in adverse effects on our, and our tenants , financial condition and results of operations.

In addition, our access to funds under our revolving credit facility depends on the ability of the lenders that are parties to such facility to meet their funding commitments to us. Continuing long-term disruptions in the global economy and the continuation of tighter credit conditions among, and potential failures of, third-party financial institutions as a result of such disruptions may have an adverse effect on the ability of our lenders to meet their funding obligations. As a result, if one or more of the lenders fails to perform their respective funding obligations under our loans and our other lenders are not able or willing to assume such commitment, we may not have access to the full amounts that otherwise would be available to us under such loans. Further, our ability to obtain new financing or refinance existing debt could be impacted by such conditions. If our lenders are not able to meet their funding commitments to us, our business, results of operations, cash flows and financial condition could be adversely affected. Our $250 million unsecured term loan and $500 million unsecured credit facility are currently scheduled to mature in 2010 and 2011, respectively. Although we currently intend to exercise our

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option to extend each of our $250 million unsecured term loan and $500 million unsecured credit facility by one year, our ability to do so is contingent upon us not being in default under the terms of the loans.

In order to maintain our REIT status for U.S. federal income tax purposes, we must distribute at least 90% of our adjusted REIT taxable income to our stockholders annually, which makes us dependent upon external sources of capital. If we do not have sufficient cash flow to continue operating our business and are unable to borrow additional funds or are unable to access our existing lines of credit, we may need to find alternative ways to increase our liquidity. Such alternatives may include, without limitation, curtailing acquisitions and potential development activity, further decreasing our distribution levels, disposing of one or more of our properties possibly on disadvantageous terms, or entering into or renewing leases on less favorable terms than we otherwise would.

Our growth will partially depend upon future acquisitions of properties, and we may not be successful in identifying and consummating suitable acquisitions that meet our investment criteria, which may impede our growth and negatively affect our results of operations.

Our business strategy involves expansion through the acquisition of primarily high-quality office properties. These activities require us to identify suitable acquisition candidates or investment opportunities that meet our criteria and are compatible with our growth strategy. We may not be successful in identifying suitable properties or other assets that meet our acquisition criteria or in consummating acquisitions on satisfactory terms, if at all. Failure to identify or consummate acquisitions could slow our growth.

Further, we face significant competition for attractive investment opportunities from an indeterminate number of other real estate investors, including investors with significant capital resources such as domestic and foreign corporations and financial institutions, publicly traded and privately held REITs, private institutional investment funds, investment banking firms, life insurance companies and pension funds. As a result of competition, we may be unable to acquire additional properties as we desire or the purchase price may be significantly elevated.

In light of current market conditions and depressed real estate values, owners of large office properties are generally reluctant to sell their properties, resulting in fewer opportunities to acquire properties compatible with our growth strategy. As market conditions and real estate values rebound, more properties may become available for acquisition, but we can provide no assurances that such properties will meet our investment standards or that we will be successful in acquiring such properties. In addition, current conditions in the credit markets have reduced the ability of buyers to utilize leverage to finance property acquisitions. If we are unable to acquire debt financing at suitable rates or at all, we may be unable to acquire additional properties that are attractive to us.

Any of the above risks could adversely affect our financial condition, results of operations, cash flows and ability to pay distributions on, and the market price of, our common stock.

We depend on tenants for our revenue, and accordingly, lease terminations and/or tenant defaults, particularly by one of our significant lead tenants, could adversely affect the income produced by our properties, which may harm our operating performance, thereby limiting our ability to make distributions to our stockholders.

The success of our investments materially depends on the financial stability of our tenants, any of whom may experience a change in their business at any time. For example, the current economic crisis already may have adversely affected or may in the future adversely affect one or more of our tenants. As a result, our tenants may delay lease commencements, decline to extend or renew their leases upon expiration, fail to make rental payments when due, or declare bankruptcy. Any of these actions could result in the termination of the tenants leases, or expiration of existing leases without renewal, and the loss of rental income attributable to the terminated or expired leases. In the event of a tenant default or bankruptcy, we may experience delays in enforcing our rights as a landlord and may incur substantial costs in protecting our investment and re-letting our

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property. If significant leases are terminated or defaulted upon, we may be unable to lease the property for the rent previously received or sell the property without incurring a loss. In addition, significant expenditures, such as mortgage payments, real estate taxes and insurance and maintenance costs, are generally fixed and do not decrease when revenues at the related property decrease.

The occurrence of any of the situations described above, particularly if it involves one of our significant lead tenants, could seriously harm our operating performance. As of September 30, 2009, our most substantial non-governmental lead tenants, based on Annualized Lease Revenue, were BP Corporation (approximately 5%), the Leo Burnett Company (approximately 5%) and U.S. Bancorp (approximately 4%). As lead tenants, the revenues generated by the properties these tenants occupy are substantially dependent upon the financial condition of these tenants and, accordingly, any event of bankruptcy, insolvency, or a general downturn in the business of any of these tenants may result in the failure or delay of such tenant s rental payments, which may have a substantial adverse effect on our operating performance.

We face considerable competition in the leasing market and may be unable to renew existing leases or re-let space on terms similar to the existing leases, or we may expend significant capital in our efforts to re-let space, which may adversely affect our operating results.

Leases representing approximately 22.2% and 60.8% of our Annualized Lease Revenue at our properties are scheduled to expire by the end of 2011 and 2014, respectively, assuming no exercise of early termination rights. Because we compete with a number of other developers, owners, and operators of office and office-oriented, mixed-use properties, we may be unable to renew leases with our existing tenants and, if our current tenants do not renew their leases, we may be unable to re-let the space to new tenants. Furthermore, to the extent that we are able to renew leases that are scheduled to expire in the short-term or re-let such space to new tenants, heightened competition resulting from adverse market conditions may require us to utilize rent concessions and tenant improvements to a greater extent than we historically have. In addition, recent volatility in the mortgage-backed securities markets has led to foreclosures and sales of foreclosed properties at depressed values, and we may have difficulty competing with competitors who have purchased properties in the foreclosure process, because their lower cost basis in their properties may allow them to offer space at reduced rental rates.

If our competitors offer space at rental rates below current market rates or below the rental rates we currently charge our tenants, we may lose potential tenants, and we may be pressured to reduce our rental rates below those we currently charge in order to retain tenants upon expiration of their existing leases. Even if our tenants renew their leases or we are able to re-let the space, the terms and other costs of renewal or re-letting, including the cost of required renovations, increased tenant improvement allowances, leasing commissions, declining rental rates, and other potential concessions, may be less favorable than the terms of our current leases and could require significant capital expenditures. If we are unable to renew leases or re-let space in a reasonable time, or if rental rates decline or tenant improvement, leasing commissions, or other costs increase, our financial condition, cash flows, cash available for distribution, value of our common stock, and ability to satisfy our debt service obligations could be materially adversely affected.

Many of our leases provide tenants with the right to terminate their lease early, which could have an adverse effect on our cash flow and results of operations.

Certain of our leases permit our tenants to terminate their leases as to all or a portion of the leased premises prior to their stated lease expiration dates under certain circumstances, such as providing notice and, in some cases, paying a termination fee. In many cases, such early terminations can be effectuated by our tenants with little or no termination fee being paid to us. As of September 30, 2009, approximately 12.5% of our Annualized Lease Revenue was comprised of leases that provided tenants with early termination rights (including partial terminations and terminations of whole leases). To the extent that our tenants exercise early termination rights, our cash flow and earnings will be adversely affected, and we can provide no assurances that we will be able to generate an equivalent amount of net rental income by leasing the vacated space to new third party tenants.

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Our rental revenues will be significantly influenced by the economies and other conditions of the office market in general and of the specific markets in which we operate, particularly in Chicago, the New York metropolitan area and Washington, D.C., where we have high concentrations of office properties.

Because our portfolio consists primarily of office properties, we are subject to risks inherent in investments in a single property type. This concentration exposes us to the risk of economic downturns in the office sector to a greater extent than if our portfolio also included other sectors of the real estate industry. Our properties located in Chicago, Washington, D.C. and the New York metropolitan area account for approximately 26.8%, 19.4%, and 16.0%, respectively, of our Annualized Lease Revenue. As a result, we are particularly susceptible to adverse market conditions in these particular areas, including the current recession, the reduction in demand for office properties, industry slowdowns, relocation of businesses and changing demographics. Adverse economic or real estate developments in the markets in which we have a concentration of properties, or in any of the other markets in which we operate, or any decrease in demand for office space resulting from the local or national business climate, could adversely affect our rental revenues and operating results.

Economic and/or regulatory changes that impact the real estate market generally may cause our operating results to suffer and decrease the value of our real estate properties.

The investment returns available from equity investments in real estate depend on the amount of income earned and capital appreciation generated by the properties, as well as the expenses incurred in connection with the properties. If our properties do not generate income sufficient to meet operating expenses, including debt service and capital expenditures, then our ability to pay distributions to our stockholders could be adversely affected. In addition, there are significant expenditures associated with an investment in real estate (such as mortgage payments, real estate taxes, and maintenance costs) that generally do not decline when circumstances reduce the income from the property. The following factors, among others, may adversely affect the operating performance and long- or short-term value of our properties:

- changes in the national, regional, and local economic climate, particularly in markets in which we have a concentration of properties;
- local office market conditions such as changes in the supply of, or demand for, space in properties similar to those that we own within a particular area;
- the attractiveness of our properties to potential tenants;
- changes in interest rates and availability of permanent mortgage funds that may render the sale of a property difficult or unattractive or otherwise reduce returns to stockholders;
- the financial stability of our tenants, including bankruptcies, financial difficulties, or lease defaults by our tenants;
- changes in operating costs and expenses, including costs for maintenance, insurance, and real estate taxes, and our ability to control rents in light of such changes;
- the need to periodically fund the costs to repair, renovate, and re-let space;
- earthquakes, tornadoes, hurricanes and other natural disasters, civil unrest, terrorist acts or acts of war, which may result in uninsured or underinsured losses;

changes in, or increased costs of compliance with, governmental regulations, including those governing usage, zoning, the environment, and taxes; and

changes in accounting standards.

In addition, periods of economic slowdown or recession, rising interest rates, or declining demand for real estate, such as the one we are now experiencing, could result in a general decrease in rents or an increased occurrence of defaults under existing leases, which would adversely affect our financial condition and results of operations. Any of the above factors may prevent us from realizing growth or maintaining the value of our real estate properties.

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We may face additional risks and costs associated with directly managing properties occupied by government tenants.

We currently own nine properties in which some or all of the tenants are federal government agencies. As such, lease agreements with these federal government agencies contain certain provisions required by federal law, which require, among other things, that the contractor (which is the lessor or the owner of the property), agree to comply with certain rules and regulations, including but not limited to, rules and regulations related to anti-kickback procedures, examination of records, audits and records, equal opportunity provisions, prohibition against segregated facilities, certain executive orders, subcontractor cost or pricing data, and certain provisions intending to assist small businesses. Through one of our wholly owned subsidiaries, we directly manage properties with federal government agency tenants and, therefore, we are subject to additional risks associated with compliance with all such federal rules and regulations. In addition, there are certain additional requirements relating to the potential application of certain equal opportunity provisions and the related requirement to prepare written affirmative action plans applicable to government contractors and subcontractors. Some of the factors used to determine whether such requirements apply to a company that is affiliated with the actual government contractor (the legal entity that is the lessor under a lease with a federal government agency) include whether such company and the government contractor are under common ownership, have common management, and are under common control. As a result of the Internalization, we own the entity that is the government contractor and the property manager, increasing the risk that requirements of the Employment Standards Administration s Office of Federal Contract Compliance Programs and requirements to prepare affirmative action plans pursuant to the applicable executive order may be determined to be applicable to us.

Adverse market and economic conditions may continue to adversely affect us and could cause us to recognize impairment charges or otherwise impact our performance.

We continually monitor events and changes in circumstances that could indicate that the carrying value of the real estate and related intangible assets in which we have an ownership interest, either directly or through investments in joint ventures, may not be recoverable. When indicators of potential impairment are present which indicate that the carrying value of real estate and related intangible assets may not be recoverable, we assess the recoverability of these assets by determining whether the carrying value will be recovered through the undiscounted future operating cash flows expected from the use of the asset and its eventual disposition. In the event that such expected undiscounted future cash flows do not exceed the carrying value, we adjust the real estate and related intangible assets to the fair value and recognize an impairment loss. In the nine months ended September 30, 2009, we recognized impairment losses, including losses related to one of our equity method investments, of $37.6 million.

Projections of expected future cash flows require management to make assumptions to estimate future market rental income amounts subsequent to the expiration of current lease agreements, property operating expenses, the number of months it takes to re-lease the property, and the number of years the property is held for investment, among other factors. The subjectivity of assumptions used in the future cash flow analysis, including discount rates, could result in an incorrect assessment of the property s fair value and, therefore, could result in the misstatement of the carrying value of our real estate and related intangible assets and our net income.

Ongoing adverse market and economic conditions and market volatility will likely continue to make it difficult to value the real estate assets owned by us as well as the value of our interests in unconsolidated joint ventures. As a result of current adverse market and economic conditions, there may be significant uncertainty in the valuation, or in the stability of, the cash flows, discount rates and other factors related to such assets that could result in a substantial decrease in their value. We may be required to recognize additional asset impairment charges in the future, which could materially and adversely affect our business, financial condition and results of operations.

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Future acquisitions of properties may not yield anticipated returns, may result in disruptions to our business, and may strain management resources.

We intend to continue acquiring high-quality office properties, subject to the availability of attractive properties and our ability to consummate an acquisition on satisfactory terms. In deciding whether to acquire a particular property, we make certain assumptions regarding the expected future performance of that property. However, newly acquired properties may fail to perform as expected. Costs necessary to bring acquired properties up to standards established for their intended market position may exceed our expectations, which may result in the properties failure to achieve projected returns.

In particular, to the extent that we engage in acquisition activities, they will pose the following risks for our ongoing operations:

- we may acquire properties or other real estate-related investments that are not initially accretive to our results upon acquisition or accept lower cash flows in anticipation of longer term appreciation, and we may not successfully manage and lease those properties to meet our expectations;
- we may not achieve expected cost savings and operating efficiencies;
- we may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into our existing operations;
- management attention may be diverted to the integration of acquired properties, which in some cases may turn out to be less compatible with our growth strategy than originally anticipated;
- we may not be able to support the acquired property through one of our existing property management offices and may not successfully open new satellite offices to serve additional markets;
- the acquired properties may not perform as well as we anticipate due to various factors, including changes in macro-economic conditions and the demand for office space; and
- we may acquire properties without any recourse, or with only limited recourse, for liabilities, whether known or unknown, such as clean-up of environmental contamination, claims by tenants, vendors or other persons against the former owners of the properties, and claims for indemnification by general partners, directors, officers, and others indemnified by the former owners of the properties.

We depend on key personnel, each of whom would be difficult to replace.

Our continued success depends to a significant degree upon the continued contributions of certain key personnel including, but not limited to, Donald A. Miller, CFA, Robert E. Bowers, Laura P. Moon, Raymond L. Owens, and Carroll A. Reddic, each of whom would be difficult to replace. Although we have entered into employment agreements with these key members of our executive management team, we cannot provide any assurance that any of them will remain employed by us. Our ability to retain our management team, or to attract suitable replacements should any member of the executive management team leave, is dependent on the competitive nature of the employment market. The loss of services of one or more of these key members of our management team could adversely affect our results of operations and slow our future growth. We have not obtained and do not expect to obtain key person life insurance on any of our key personnel.

Acquired properties may be located in new markets, where we may face risks associated with investing in an unfamiliar market.

When we acquire properties located in markets in which we do not have an established presence, we may face risks associated with a lack of market knowledge or understanding of the local economy, forging new business relationships in the area and unfamiliarity with local government and permitting procedures. As a result, the operating performance of properties acquired in new markets may be less than we anticipate, and we may have difficulty integrating such properties into our existing portfolio. In addition, the time and resources that may be required to obtain market knowledge and/or integrate such properties into our existing portfolio could divert our management s attention from our existing business or other attractive opportunities in our concentration markets.

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The illiquidity of real estate investments could significantly impede our ability to respond to adverse changes in the performance of our properties.

Because real estate investments are relatively illiquid and large-scale office properties such as many of those in our portfolio are particularly illiquid, our ability to sell promptly one or more properties in our portfolio in response to changing economic, financial, and investment conditions is limited. The real estate market is affected by many forces, such as general economic conditions, availability of financing, interest rates, and other factors, including supply and demand, that are beyond our control. Current conditions in the U.S. economy and credit markets have made it difficult to sell properties at attractive prices. We cannot predict whether we will be able to sell any property for the price or on the terms set by us or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a property. We may be required to expend funds to correct defects or to make improvements before a property can be sold. We cannot provide any assurances that we will have funds available to correct such defects or to make such improvements. Our inability to dispose of assets at opportune times or on favorable terms could adversely affect our cash flows and results of operations, thereby limiting our ability to make distributions to stockholders.

In addition, the Code imposes restrictions on a REIT s ability to dispose of properties that are not applicable to other types of real estate companies. In particular, the tax laws applicable to REITs require that we hold our properties for investment, rather than primarily for sale in the ordinary course of business, which may cause us to forego or defer sales of properties that otherwise would be in our best interest. Therefore, we may not be able to vary our portfolio promptly in response to economic or other conditions or on favorable terms, which may adversely affect our cash flows, our ability to pay distributions to stockholders, and the market price of our common stock.

We have invested, and in the future may invest, in mezzanine debt, which is subject to increased risk of loss relative to senior mortgage loans.

We have invested, and in the future may invest, in mezzanine debt. These investments, which are subordinate to the mortgage loans secured by the real property underlying the loan, are generally secured by pledges of the equity interests of the entities owning the underlying real estate. As a result, these investments involve greater risk of loss than investments in senior mortgage loans that are secured by real property. Our current mezzanine debt investments, which are secured by a pledge of the equity interest of the entity owning a 46-story, Class A, commercial office building located in downtown Chicago, are subordinate to the mortgage loan secured by the building and are subordinate to the interests of two other mezzanine lenders. As a result, if the property owner defaults on its debt service obligations payable to us or on debt senior to us, or declares bankruptcy, our mezzanine loans will be satisfied only after the senior debt and the other senior mezzanine loans are paid in full, resulting in the possibility that we may be unable to recover some or all of our investment. In addition, the value of the assets securing or supporting our mezzanine debt investments could deteriorate over time due to factors beyond our control, including acts or omissions by owners, changes in business, economic or market conditions, or foreclosure, any of which could result in the recognition of impairment losses. In addition, there may be significant delays and costs associated with the process of foreclosing on the collateral securing or supporting such investments.

Future terrorist attacks in the major metropolitan areas in which we own properties could significantly impact the demand for, and value of, our properties.

Our portfolio maintains significant holdings in markets such as Chicago, Washington, D.C., the New York metropolitan area, Boston, and greater Los Angeles, each of which has been, and continues to be, a high risk geographical area for terrorism and threats of terrorism. Future terrorist attacks and other acts of terrorism or war would severely impact the demand for, and value of, our properties. Terrorist attacks in and around any of the major metropolitan areas in which we own properties also could directly impact the value of our properties through damage, destruction, loss, or increased security costs, and could thereafter materially impact the

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availability or cost of insurance to protect against such acts. A decrease in demand could make it difficult to renew or re-lease our properties at lease rates equal to or above historical rates. To the extent that any future terrorist attacks otherwise disrupt our tenants businesses, it may impair their ability to make timely payments under their existing leases with us, which would harm our operating results.

Uninsured losses or losses in excess of our insurance coverage could adversely affect our financial condition and our cash flow, and there can be no assurance as to future costs and the scope of coverage that may be available under insurance policies.

We carry comprehensive general liability, fire, extended coverage, business interruption rental loss coverage, and umbrella liability coverage on all of our properties and earthquake, wind, and flood coverage on properties in areas where such coverage is warranted. We believe the policy specifications and insured limits of these policies are adequate and appropriate given the relative risk of loss, the cost of the coverage, and industry practice. However, we may be subject to certain types of losses, those that are generally catastrophic in nature, such as losses due to wars, conventional terrorism, Chemical, Biological, Nuclear and Radiation (CBNR) acts of terrorism and, in some cases, earthquakes, hurricanes, and flooding, either because such coverage is not available or is not available at commercially reasonable rates. If we experience a loss that is uninsured or that exceeds policy limits, we could lose a significant portion of the capital we have invested in the damaged property, as well as the anticipated future revenue from the property. Inflation, changes in building codes and ordinances, environmental considerations, and other factors also might make it impractical or undesirable to use insurance proceeds to replace a property after it has been damaged or destroyed. In addition, if the damaged properties are subject to recourse indebtedness, we would continue to be liable for the indebtedness, even if these properties were irreparably damaged. Furthermore, we may not be able to obtain adequate insurance coverage at reasonable costs in the future, as the costs associated with property and casualty renewals may be higher than anticipated.

In addition, insurance risks associated with potential terrorism acts could sharply increase the premiums we pay for coverage against property and casualty claims. With the enactment of the Terrorism Risk Insurance Program Reauthorization Act of 2007, United States insurers cannot exclude conventional (non-CBNR) terrorism losses. These insurers must make terrorism insurance available under their property and casualty insurance policies; however, this legislation does not regulate the pricing of such insurance. In some cases, mortgage lenders have begun to insist that commercial property owners purchase coverage against terrorism as a condition of providing mortgage loans. Such insurance policies may not be available at a reasonable cost, which could inhibit our ability to finance or refinance our properties. In such instances, we may be required to provide other financial support, either through financial assurances or self-insurance, to cover potential losses. We may not have adequate coverage for such losses.

We have properties located in Southern California, an area especially susceptible to earthquakes. Together, these properties represent approximately 5.9% of our Annualized Lease Revenue. Because these properties are located in close proximity to one another, an earthquake in the greater Los Angeles area could materially damage, destroy or impair the use by tenants of all of these properties. If any of our properties incur a loss that is not fully insured, the value of that asset will be reduced by such uninsured loss. Also, to the extent we must pay unexpectedly large amounts for insurance, we could suffer reduced earnings that would result in lower distributions to our stockholders.

Should one of our insurance carriers become insolvent, we would be adversely affected.

We carry several different lines of insurance, placed with several large insurance carriers. If any one of these large insurance carriers were to become insolvent, we would be forced to replace the existing insurance coverage with another suitable carrier, and any outstanding claims would be at risk for collection. In such an event, we cannot be certain that we would be able to replace the coverage at similar or otherwise favorable terms. Replacing insurance coverage at unfavorable rates and the potential of uncollectible claims due to carrier insolvency could adversely impact our results of operations and cash flows.

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Our current and future joint venture investments could be adversely affected by a lack of sole decision-making authority and our reliance on joint venture partners financial condition.

We have historically entered into joint ventures with certain public programs sponsored by our former advisor and with other third parties. In the future we may enter into strategic joint ventures with unaffiliated institutional investors to acquire, develop, improve, or dispose of properties, thereby reducing the amount of capital required by us to make investments and diversifying our capital sources for growth. As of September 30, 2009, we owned interests in 11 properties representing approximately 2.1 million rentable square feet through joint ventures. Such joint venture investments involve risks not otherwise present in a wholly owned property, development, or redevelopment project, including the following:

- in these investments, we do not have exclusive control over the development, financing, leasing, management, and other aspects of the project, which may prevent us from taking actions that are opposed by our joint venture partners;

- joint venture agreements often restrict the transfer of a co-venturer s interest or may otherwise restrict our ability to sell the interest when we desire or on advantageous terms;

- we would not be in a position to exercise sole decision-making authority regarding the property or joint venture, which could create the potential risk of creating impasses on decisions, such as acquisitions or sales;

- such co-venturer may, at any time, have economic or business interests or goals that are, or that may become, inconsistent with our business interests or goals;

- such co-venturer may be in a position to take action contrary to our instructions, requests, policies or objectives, including our current policy with respect to maintaining our qualification as a REIT;

- the possibility that our co-venturer in an investment might become bankrupt, which would mean that we and any other remaining co-venturers would generally remain liable for the joint venture s liabilities;

- our relationships with our co-venturers are contractual in nature and may be terminated or dissolved under the terms of the applicable joint venture agreements and, in such event, we may not continue to own or operate the interests or assets underlying such relationship or may need to purchase such interests or assets at a premium to the market price to continue ownership;

- disputes between us and our co-venturers may result in litigation or arbitration that would increase our expenses and prevent our officers and directors from focusing their time and efforts on our business and could result in subjecting the properties owned by the applicable joint venture to additional risk; or

- we may, in certain circumstances, be liable for the actions of our co-venturers, and the activities of a joint venture could adversely affect our ability to qualify as a REIT, even though we do not control the joint venture.

Any of the above might subject a property to liabilities in excess of those contemplated and thus reduce the returns to our investors.

Costs of complying with governmental laws and regulations may reduce our net income and the cash available for distributions to our stockholders.

All real property and the operations conducted on real property are subject to federal, state, and local laws and regulations relating to environmental protection and human health and safety. Tenants ability to operate and to generate income to pay their lease obligations may be affected by permitting and compliance obligations arising under such laws and regulations. Some of these laws and regulations may impose joint and several liability on tenants, owners, or operators for the costs to investigate or remediate contaminated properties, regardless of fault or whether the acts causing the contamination were legal. In addition, the presence of

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hazardous substances, or the failure to properly remediate these substances, may hinder our ability to sell, rent, or pledge such property as collateral for future borrowings.

Compliance with new laws or regulations or stricter interpretation of existing laws by agencies or the courts may require us to incur material expenditures. Future laws, ordinances, or regulations may impose material environmental liability. Additionally, our tenants operations, the existing condition of land when we buy it, operations in the vicinity of our properties such as the presence of underground storage tanks or activities of unrelated third parties may affect our properties. In addition, there are various local, state, and federal fire, health, life-safety, and similar regulations with which we may be required to comply, and which may subject us to liability in the form of fines or damages for noncompliance. Any material expenditures, fines, or damages we must pay will reduce our cash flows and ability to make distributions and may reduce the value of your investment.

As the present or former owner or operator of real property, we could become subject to liability for environmental contamination, regardless of whether we caused such contamination.

Under various federal, state, and local environmental laws, ordinances, and regulations, a current or former owner or operator of real property may be liable for the cost to remove or remediate hazardous or toxic substances, wastes, or petroleum products on, under, from, or in such property. These costs could be substantial and liability under these laws may attach whether or not the owner or operator knew of, or was responsible for, the presence of such contamination. Even if more than one person may have been responsible for the contamination, each liable party may be held entirely responsible for all of the clean-up costs incurred. In addition, third parties may sue the owner or operator of a property for damages based on personal injury, natural resources, or property damage and/or for other costs, including investigation and clean-up costs, resulting from the environmental contamination. The presence of contamination on one of our properties, or the failure to properly remediate a contaminated property, could give rise to a lien in favor of the government for costs it may incur to address the contamination, or otherwise adversely affect our ability to sell or lease the property or borrow using the property as collateral. In addition, if contamination is discovered on our properties, environmental laws may impose restrictions on the manner in which property may be used or businesses may be operated, and these restrictions may require substantial expenditures or prevent us from entering into leases with prospective tenants.

Some of our properties are adjacent to or near other properties that have contained or currently contain underground storage tanks used to store petroleum products or other hazardous or toxic substances. In addition, certain of our properties are on or are adjacent to or near other properties upon which others, including former owners or tenants of our properties, have engaged, or may in the future engage, in activities that may release petroleum products or other hazardous or toxic substances.

The cost of defending against claims of liability, of remediating any contaminated property, or of paying personal injury claims could reduce the amounts available for distribution to our stockholders.

As the owner of real property, we could become subject to liability for adverse environmental conditions in the buildings on our property.

Some of our properties contain asbestos-containing building materials. Environmental laws require that owners or operators of buildings containing asbestos properly manage and maintain the asbestos, adequately inform or train those who may come into contact with asbestos, and undertake special precautions, including removal or other abatement, in the event that asbestos is disturbed during building renovation or demolition. These laws may impose fines and penalties on building owners or operators who fail to comply with these requirements. In addition, environmental laws and the common law may allow third parties to seek recovery from owners or operators for personal injury associated with exposure to asbestos.

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The properties also may contain or develop harmful mold or suffer from other air quality issues. Any of these materials or conditions could result in liability for personal injury and costs of remediating adverse conditions, which could have an adverse effect on our cash flows and ability to make distributions to our stockholders.

As the owner of real property, we could become subject to liability for failure to comply with environmental requirements regarding the handling and disposal of regulated substances and wastes or for non-compliance with health and safety requirements, which requirements are subject to change.

Some of our tenants may handle regulated substances and wastes as part of their operations at our properties. Environmental laws regulate the handling, use, and disposal of these materials and subject our tenants, and potentially us, to liability resulting from non-compliance with these requirements. The properties in our portfolio also are subject to various federal, state, and local health and safety requirements, such as state and local fire requirements. If we or our tenants fail to comply with these various requirements, we might incur governmental fines or private damage awards. Moreover, we do not know whether or the extent to which existing requirements or their enforcement will change or whether future requirements will require us to make significant unanticipated expenditures that will materially adversely impact our financial condition, results of operations, cash flows, cash available for distribution to stockholders, the market price of our common stock, and our ability to satisfy our debt service obligations. If our tenants become subject to liability for noncompliance, it could affect their ability to make rental payments to us.

We are and may continue to be subject to litigation, which could have a material adverse effect on our financial condition.

We currently are, and are likely to continue to be, subject to litigation, including claims relating to our operations, offerings, and otherwise in the ordinary course of business. Some of these claims may result in significant defense costs and potentially significant judgments against us, some of which are not, or cannot be, insured against. We generally intend to vigorously defend ourselves; however, we cannot be certain of the ultimate outcomes of currently asserted claims or of those that arise in the future. Resolution of these types of matters against us may result in our having to pay significant fines, judgments, or settlements, which, if uninsured, or if the fines, judgments, and settlements exceed insured levels, would adversely impact our earnings and cash flows, thereby impacting our ability to service debt and make quarterly distributions to our stockholders. Certain litigation or the resolution of certain litigation may affect the availability or cost of some of our insurance coverage, which could adversely impact our results of operations and cash flows, expose us to increased risks that would be uninsured, and/or adversely impact our ability to attract officers and directors.

We are subject to stockholder litigation against certain of our present and former directors and officers, which could exceed the coverage of our current directors and officers insurance.

We, and various of our present and former directors and officers, are involved in litigation regarding the Internalization and certain related matters described in Our Business and Properties Legal Proceedings. We believe that the allegations contained in these complaints are without merit and will continue to vigorously defend these actions; however, due to the uncertainties inherent in the litigation process, it is not possible to predict the ultimate outcome of these matters and, as with any litigation, the risk of financial loss does exist. We have and may continue to incur significant defense costs associated with defending these claims.

Although we retain director and officer liability insurance, such insurance does not fully cover ongoing defense costs and there can be no assurance that it would fully cover any potential judgments against us. A successful stockholder claim in excess of our insurance coverage could adversely impact our results of operations and cash flows, impair our ability to obtain new director and officer liability insurance on favorable terms, and/or adversely impact our ability to attract directors and officers.

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If we are unable to satisfy the regulatory requirements of Section 404 of the Sarbanes-Oxley Act of 2002, or if our disclosure controls or internal control over financial reporting is not effective, investors could lose confidence in our reported financial information, which could adversely affect the perception of our business and the trading price of our common stock.

The design and effectiveness of our disclosure controls and procedures and internal control over financial reporting may not prevent all errors, misstatements, or misrepresentations. Although management will continue to review the effectiveness of our disclosure controls and procedures and internal control over financial reporting, there can be no guarantee that our internal control over financial reporting will be effective in accomplishing all control objectives all of the time. Deficiencies, including any material weakness, in our internal control over financial reporting which may occur in the future could result in misstatements of our results of operations, restatements of our financial statements, a decline in the trading price of our common stock, or otherwise materially adversely affect our business, reputation, results of operations, financial condition, or liquidity.

As a public company, Section 404 of the Sarbanes-Oxley Act of 2002 (Section 404), requires that we evaluate the effectiveness of our internal control over financial reporting as of the end of each fiscal year, and to include a management report assessing the effectiveness of our internal control over financial reporting in all annual reports. In addition, Section 404 also requires our independent registered public accounting firm to attest to, and report on, our internal control over financial reporting, beginning with the year ending December 31, 2010.

Compliance or failure to comply with the Americans with Disabilities Act and other similar regulations could result in substantial costs.

Under the Americans with Disabilities Act, places of public accommodation must meet certain federal requirements related to access and use by disabled persons. Noncompliance could result in the imposition of fines by the federal government or the award of damages to private litigants. If we are required to make unanticipated expenditures to comply with the Americans with Disabilities Act, including removing access barriers, then our cash flows and the amounts available for distributions to our stockholders may be adversely affected. Although we believe that our properties are currently in material compliance with these regulatory requirements, we have not conducted an audit or investigation of all of our properties to determine our compliance, and we cannot predict the ultimate cost of compliance with the Americans with Disabilities Act or other legislation. If one or more of our properties is not in compliance with the Americans with Disabilities Act or other legislation, then we would be required to incur additional costs to achieve compliance. If we incur substantial costs to comply with the Americans with Disabilities Act or other legislation, our financial condition, results of operations, the market price of our common stock, cash flows, and our ability to satisfy our debt obligations and to make distributions to our stockholders could be adversely affected.

Our operating results may suffer because of potential development and construction delays and resultant increased costs and risks.

In the future, we may acquire and develop properties, including unimproved real properties, upon which we will construct improvements. We may be subject to uncertainties associated with re-zoning for development, environmental concerns of governmental entities and/or community groups, and our builders ability to build in conformity with plans, specifications, budgeted costs and timetables. A builder s performance may also be affected or delayed by conditions beyond the builder s control. Delays in completing construction could also give tenants the right to terminate preconstruction leases. We may incur additional risks when we make periodic progress payments or other advances to builders before they complete construction. These and other factors can result in increased costs of a project or loss of our investment. In addition, we will be subject to normal lease-up risks relating to newly constructed projects. We also must rely on rental income and expense projections and estimates of the fair market value of property upon completion of construction when agreeing upon a purchase price at the time we acquire the property. If our projections are inaccurate, we may pay too much for a property, and our return on our investment could suffer.

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Our real estate development strategies may not be successful.

Although we currently do not have any development plans, we may in the future engage in development activities to the extent attractive development projects become available. To the extent that we engage in development activities, we will be subject to risks associated with those activities that could adversely affect our financial condition, results of operations, cash flows and ability to pay distributions on, and the market price of, our common stock, including, but not limited to:

- development projects in which we have invested may be abandoned and the related investment will be impaired;
- we may not be able to obtain, or may experience delays in obtaining, all necessary zoning, land-use, building, occupancy and other governmental permits and authorizations;
- we may not be able to obtain land on which to develop;
- we may not be able to obtain financing for development projects, or obtain financing on favorable terms;
- construction costs of a project may exceed the original estimates or construction may not be concluded on schedule, making the project less profitable than originally estimated or not profitable at all (including the possibility of contract default, the effects of local weather conditions, the possibility of local or national strikes and the possibility of shortages in materials, building supplies or energy and fuel for equipment);
- upon completion of construction, we may not be able to obtain, or obtain on advantageous terms, permanent financing for activities that we financed through construction loans; and
- we may not achieve sufficient occupancy levels and/or obtain sufficient rents to ensure the profitability of a completed project.

Moreover, substantial renovation and development activities, regardless of their ultimate success, typically require a significant amount of management s time and attention, diverting their attention from our other operations.

Risks Related to Our Organization and Structure

Our organizational documents contain provisions that may have an anti-takeover effect, which may discourage third parties from conducting a tender offer or seeking other change of control transactions that could involve a premium price for our common stock or otherwise benefit our stockholders.

Our charter and bylaws contain provisions that may have the effect of delaying, deferring, or preventing a change in control of our company or the removal of existing management and, as a result, could prevent our stockholders from being paid a premium for their common stock over the then-prevailing market price, or otherwise be in the best interest of our stockholders. These provisions include, among other things, restrictions on the ownership and transfer of our stock, advance notice requirements for stockholder nominations for directors and other business proposals, and our board of directors power to classify or reclassify unissued shares of common or preferred stock and issue additional shares of common or preferred stock.

In order to preserve our REIT status, our charter limits the number of shares a person may own, which may discourage a takeover that could result in a premium price for our common stock or otherwise benefit our stockholders.

Our charter, with certain exceptions, authorizes our directors to take such actions as are necessary and desirable to preserve our qualification as a REIT for federal income tax purposes. Unless exempted by our board of directors, no person may actually or constructively own more than 9.8% (by value or number of shares, whichever is more restrictive) of the outstanding shares of our common stock or the outstanding shares of any class or series of our preferred stock, which may inhibit large investors from desiring to purchase our stock. This

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restriction may have the effect of delaying, deferring, or preventing a change in control, including an extraordinary transaction (such as a merger, tender offer, or sale of all or substantially all of our assets) that might provide a premium price for our common stock or otherwise be in the best interest of our stockholders.

Our board of directors can take many actions without stockholder approval.

Our board of directors has overall authority to oversee our operations and determine our major corporate policies. This authority includes significant flexibility. For example, our board of directors can do the following:

- within the limits provided in our charter, prevent the ownership, transfer, and/or accumulation of stock in order to protect our status as a REIT or for any other reason deemed to be in the best interest of us and our stockholders;
- issue additional shares of stock without obtaining stockholder approval, which could dilute the ownership of our then-current stockholders;
- amend our charter to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that we have authority to issue, without obtaining stockholder approval;
- classify or reclassify any unissued shares of our common or preferred stock and set the preferences, rights and other terms of such classified or reclassified shares, without obtaining stockholder approval;
- employ and compensate affiliates;
- direct our resources toward investments that do not ultimately appreciate over time;
- change creditworthiness standards with respect to our tenants;
- change our investment or borrowing policies;
- determine that it is no longer in our best interest to attempt to qualify, or to continue to qualify, as a REIT; and
- suspend, modify or terminate the dividend reinvestment plan.

Any of these actions could increase our operating expenses, impact our ability to make distributions, or reduce the value of our assets without giving you, as a stockholder, the right to vote.

Our charter permits our board of directors to issue stock with terms that may subordinate the rights of our common stockholders, which may discourage a third party from acquiring us in a manner that could result in a premium price for our common stock or otherwise benefit our stockholders.

Our board of directors may, without stockholder approval, issue authorized but unissued shares of our common or preferred stock and amend our charter to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that we have authority to issue. In addition, our board of directors may, without stockholder approval, classify or reclassify any unissued shares of our common or preferred stock and set the preferences, rights and other terms of such classified or reclassified shares. Thus, our board of directors could authorize the issuance of preferred stock with terms and conditions that could have priority with respect to distributions and amounts payable upon liquidation over the rights of the holders of our common stock. Such preferred stock also could have the effect of delaying, deferring, or preventing a change in control, including an extraordinary transaction (such as a merger, tender offer, or sale of all or substantially all of our assets) that might provide a premium price for our common stock, or otherwise be in the best interest of our stockholders.

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Our board of directors could elect for us to be subject to certain Maryland law limitations on changes in control that could have the effect of preventing transactions in the best interest of our stockholders.

Certain provisions of Maryland law may have the effect of inhibiting a third party from making a proposal to acquire us or of impeding a change of control under certain circumstances that otherwise could provide the holders of shares of our common stock with the opportunity to realize a premium over the then-prevailing market price of such shares, including:

- business combination provisions that, subject to limitations, prohibit certain business combinations between us and an interested stockholder (defined generally as any person who beneficially owns 10% or more of the voting power of our outstanding voting stock or any affiliate or associate of ours who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of our then outstanding stock) or an affiliate thereof for five years after the most recent date on which the stockholder becomes an interested stockholder and thereafter impose supermajority voting requirements on these combinations; and

- control share provisions that provide that control shares of our company (defined as shares which, when aggregated with other shares controlled by the stockholder, except solely by virtue of a revocable proxy, entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a control share acquisition (defined as the direct or indirect acquisition of ownership or control of control shares) have no voting rights except to the extent approved by our stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares.

Our bylaws contain a provision exempting any acquisition by any person of shares of our stock from the control share acquisition statute, and our board of directors has adopted a resolution exempting any business combination with any person from the business combination statute, provided that the business combination is first approved by our board of directors. As a result, these provisions currently will not apply to a business combination or control share acquisition involving our company. However, our board of directors may opt in to the business combination provisions and the control share provisions of Maryland law in the future. See Certain Provisions of Maryland Law and Our Charter and Bylaws.

Additionally, Maryland law permits our board of directors, without stockholder approval and regardless of what is currently provided in our charter or our bylaws, to implement takeover defenses, some of which (for example, a classified board) we do not currently employ. These provisions may have the effect of inhibiting a third party from making an acquisition proposal for our company or of delaying, deferring, or preventing a change in control of our company under circumstances that otherwise could provide the holders of our common stock with the opportunity to realize a premium over the then-current market price.

Our charter, our bylaws, the limited partnership agreement of our operating partnership, and Maryland law also contain other provisions that may delay, defer, or prevent a transaction or a change of control that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders. In addition, the employment agreements with our named executive officers contain, and grants under our incentive plan also may contain, change-in-control provisions that might similarly have an anti-takeover effect, inhibit a change of our management, or inhibit in certain circumstances tender offers for our common stock or proxy contests to change our board.

Our rights and the rights of our stockholders to recover claims against our directors and officers are limited, which could reduce our recovery and our stockholders recovery against them if they negligently cause us to incur losses.

Maryland law provides that a director or officer has no liability in that capacity if he or she performs his or her duties in good faith, in a manner he or she reasonably believes to be in our best interest and with the care that

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an ordinarily prudent person in a like position would use under similar circumstances. Our charter eliminates our directors and officers liability to us and our stockholders for money damages except for liability resulting from actual receipt of an improper benefit or profit in money, property, or services or active and deliberate dishonesty established by a final judgment and which is material to the cause of action. Our charter and bylaws require us to indemnify our directors and officers to the maximum extent permitted by Maryland law for any claim or liability to which they may become subject or which they may incur by reason of their service as directors or officers, except to the extent that the act or omission of the director or officer was material to the matter giving rise to the proceeding and was committed in bad faith or was the result of active and deliberate dishonesty, the director or officer actually received an improper personal benefit in money, property, or services, or, in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. As a result, we and our stockholders may have more limited rights against our directors and officers than might otherwise exist under common law, which could reduce our and our stockholders recovery from these persons if they act in a negligent manner. In addition, we may be obligated to fund the defense costs incurred by our directors and officers (as well as by our employees and agents) in some cases.

Risks Related to this Offering

Because we have a large number of stockholders and our shares have not been listed on a national securities exchange prior to this offering, there may be significant pent-up demand to sell our shares. Significant sales of our Class A or Class B common stock, or the perception that significant sales of such shares could occur, may cause the price of our Class A common stock to decline significantly.

If our stockholders sell, or the market perceives that our stockholders intend to sell, substantial amounts of our common stock in the public market following this offering and our listing on the , the market price of our common stock could decline significantly. As of October 31, 2009, we had approximately 158.0 million shares of common stock issued and outstanding after giving effect to the Recapitalization, consisting of approximately 39.5 million shares of our Class A common stock and approximately 118.5 million shares of our Class B common stock. Our Class B shares are divided equally among Class B-1, Class B-2 and Class B-3.

Prior to this offering, our common stock was not listed on any national securities exchange and the ability of stockholders to liquidate their investments was limited. Upon completion of this offering and our listing on the , shares of our Class A common stock will be freely tradable. As a result, there may be significant pent-up demand to sell shares of our common stock, which could cause the price of our Class A common stock to decline significantly. In particular, because the pool of shares of ordinary redemptions was exhausted by April 30, 2009, certain redemption requests were deferred under our share redemption program (which was suspended for all redemptions subsequent to November 2009 and will terminate upon the listing of our Class A common stock in connection with this offering). As a result, stockholders whose redemption requests were deferred may be inclined to sell the portion of their shares that will be freely tradable following the closing of this offering and our listing on the . If a significant number of such stockholders sell such shares, the price of our Class A common stock could be adversely affected.

After giving effect to this offering and the Recapitalization, approximately million shares (or million shares if the underwriters exercise their overallotment option in full) will be issued and outstanding, of which approximately 118.5 million, or % (% if the underwriters exercise their overallotment option in full), will be shares of our Class B common stock, which is divided equally among our Class B-1, Class B-2 and Class B-3 common stock. Although our Class B common stock will not be listed on a national securities exchange, our Class B-1 common stock, Class B-2 common stock and Class B-3 common stock will convert automatically into our Class A common stock 180 days following the Listing, 270 days following the Listing and on January 30, 2011, respectively. In addition, if they have not otherwise converted, all shares of our Class B common stock will convert automatically into shares of our Class A common stock on January 30, 2011.

We cannot predict the effect that future sales of our Class A common stock by our stockholders, the availability of shares of our Class A common stock for future sale, or the conversion of shares of our Class B

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common stock into our Class A common stock will have on the market price of our Class A common stock. Furthermore, the ongoing conversions of our Class B common stock into shares of our Class A common stock over time may place constant downward pressure on the price of our Class A common stock. A large volume of sales of shares of our Class A common stock (whether they are Class A shares that are issued in the offering, Class A shares that are held by our existing stockholders upon the closing of the offering, or Class A shares created by the automatic conversion of our Class B shares over time) could decrease the prevailing market price of our Class A common stock and could impair our ability to raise additional capital through the sale of equity securities in the future. Even if a substantial number of sales of our Class A shares are not effected, the mere perception of the possibility of these sales could depress the market price of our Class A common stock and have a negative effect on our ability to raise capital in the future. In addition, anticipated downward pressure on our Class A common stock price due to actual or anticipated sales of Class A common stock from this market overhang could cause some institutions or individuals to engage in short sales of our Class A common stock, which may itself cause the price of our Class A common stock to decline.

In addition, because shares of our Class B common stock will not be subject to transfer restrictions (other than the restrictions on ownership and transfer of stock set forth in our charter), such shares will be freely tradable. As a result, notwithstanding that such shares will not be listed on a national securities exchange, it is possible that a market may develop for shares of our Class B common stock, and sales of such shares, or the perception that such sales could occur, could have a material adverse effect on the trading price of our Class A common stock.

Our distributions to stockholders may change.

For the year ended December 31, 2008 we paid cash distributions in the amount of $1.7604 per share. In the first quarter of 2009, we reduced our distributions to an annualized rate of $1.26 per share in an effort to preserve capital and liquidity, fund capital expenditures related to renewal of leases and re-letting of space, and position our company for selective acquisitions in the future. Distributions will be authorized and determined by our board of directors in its sole discretion from time to time and will depend upon a number of factors, including:

- cash available for distribution;
- our results of operations;
- our financial condition, especially in relation to our anticipated future capital needs of our properties;
- the level of reserves we establish for future capital expenditures;
- the distribution requirements for REITs under the Code;
- the level of distributions paid by comparable listed REITs;
- our operating expenses; and
- other factors our board of directors deems relevant.

We expect to continue to pay quarterly distributions to our stockholders. However, we bear all expenses incurred by our operations, and our funds generated by operations, after deducting these expenses, may not be sufficient to cover desired levels of distributions to our stockholders. In addition, although we do not currently intend to do so, a recent Internal Revenue Service (IRS) revenue procedure allows us to satisfy the REIT income distribution requirement by distributing up to 90% of our dividends on our common stock in shares of our common stock in lieu of paying dividends entirely in cash. Consequently, we may further reduce our distributions to stockholders or decide to pay distributions in shares of common stock in lieu of cash. Any change in our distribution policy could have a material adverse effect on the market price of our common stock.

There is currently no significant public market for our common stock, and a market for our common stock may never develop, which could result in purchasers in this offering being unable to monetize their investment.

Prior to this offering, there has been no significant public market for our common stock. The public offering price for our Class A common stock will be determined by negotiations between the underwriters and us. We

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cannot assure you that the public offering price will correspond to the price at which our Class A common stock will trade in the public market subsequent to this offering or that the price of our Class A common stock available in the public market will reflect our actual financial performance.

We intend to list our Class A common stock on the under the symbol . Listing on the would not ensure that an actual market will develop for our Class A common stock or, if developed, that any market will be sustained. Accordingly, no assurance can be given as to:

- the likelihood that an active market for the Class A common stock will develop;
- the liquidity of any such market;
- the ability of our stockholders to sell their Class A common stock; or
- the price that our stockholders may obtain for their Class A common stock.

The U.S. stock markets, including the on which we will list our Class A common stock, have historically experienced significant price and volume fluctuations. Even if an active trading market develops, the market price of our Class A common stock may be highly volatile and could be subject to wide fluctuations and investors in our Class A common stock may experience a decrease in the value of their shares, including decreases unrelated to our operating performance or prospects. If the market price of our Class A common stock declines significantly, you may be unable to resell your shares at or above your purchase price. We cannot assure you that the market price of our Class A common stock will not fluctuate or decline significantly in the future. Some of the factors that could negatively affect our stock price or result in fluctuations in the price or trading volume of our Class A common stock include:

- actual or anticipated variations in our quarterly operating results;
- changes in our earnings estimates or publication of research reports about us or the real estate industry, although no assurance can be given that any research reports about us will be published;
- future sales of substantial amounts of our Class A common stock by our existing or future stockholders;
- conversions of our Class B common stock into shares of our Class A common stock or sales of our Class B common stock;
- increases in market interest rates, which may lead purchasers of our stock to demand a higher yield;
- changes in market valuations of similar companies;
- adverse market reaction to any increased indebtedness we incur in the future;

- additions or departures of key personnel;
- actions by institutional stockholders;
- speculation in the press or investment community; and
- general market and economic conditions.

Notwithstanding that we do not intend to list our Class B common stock on a national securities exchange, it is possible that a market may develop for shares of our Class B common stock, and sales of such shares, or the perception that such sales could occur, could have a material adverse effect on the trading price of our Class A common stock.

Future offerings of debt securities, which would be senior to our common stock upon liquidation, or equity securities, which would dilute our existing stockholders and may be senior to our common stock for the purposes of distributions, may adversely affect the market price of our common stock.

In the future, we may attempt to increase our capital resources by making additional offerings of debt or equity securities, including medium term notes, senior or subordinated notes and classes of preferred or common

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stock. Upon liquidation, holders of our debt securities and shares of preferred stock and lenders with respect to other borrowings will receive a distribution of our available assets prior to the holders of our common stock. Additional equity offerings may dilute the holdings of our existing stockholders or reduce the market price of our common stock or both. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our stockholders bear the risk of our future offerings reducing the market price of our common stock and diluting their proportionate ownership.

Market interest rates may have an effect on the value of our Class A common stock.

One of the factors that investors may consider in deciding whether to buy or sell our Class A common stock is our distribution rate as a percentage of our share price, relative to market interest rates. If market interest rates increase, prospective investors may desire a higher yield on our Class A common stock or seek securities paying higher dividends or yields. It is likely that the public valuation of our Class A common stock will be based primarily on our earnings and cash flows and not from the underlying appraised value of the properties themselves. As a result, interest rate fluctuations and capital market conditions can affect the market value of our Class A common stock. For instance, if interest rates rise, it is likely that the market price of our Class A common stock will decrease, because potential investors may require a higher dividend yield on our Class A common stock as market rates on interest-bearing securities, such as bonds, rise.

If securities analysts do not publish research or reports about our business or if they downgrade our Class A common stock or our sector, the price of our common stock could decline.

The trading market for our Class A common stock will rely in part on the research and reports that industry or financial analysts publish about us or our business. We do not control these analysts. Furthermore, if one or more of the analysts who do cover us downgrades our shares or our industry, or the stock of any of our competitors, the price of our shares could decline. If one or more of these analysts ceases coverage of our company, we could lose attention in the market, which in turn could cause the price of our common stock to decline.

We have broad discretion in how we use the proceeds from this offering, and we may use the proceeds in ways with which you disagree.

We intend to use the net proceeds for general corporate and working capital purposes, including, without limitation, capital expenditures related to renewal of leases and re-letting of space, the acquisition and development of (and/or investment in) office properties or, if market conditions warrant, repayment of debt or repurchase of outstanding shares of our common stock. See Use of Proceeds. We have not allocated specific amounts of the net proceeds from this offering for any specific purpose. Accordingly, our management will have significant flexibility in applying the net proceeds of this offering. You will be relying on the judgment of our management with regard to the use of these net proceeds, and you will not have the opportunity, as part of your investment decision, to assess whether the proceeds are being used appropriately.

It is possible that the net proceeds will be invested in a way that does not yield a favorable, or any, return for us or our stockholders. The failure of our management to use such funds effectively could have a material adverse effect on our business, financial condition, operating results and cash flows.

Federal Income Tax Risks

Our failure to qualify as a REIT could adversely affect our operations and our ability to make distributions.

We are owned and operated in a manner intended to qualify us as a REIT for U.S. federal income tax purposes; however, we do not have a ruling from the IRS as to our REIT status. In addition, we own all of the common stock of a subsidiary that has elected to be treated as a REIT, and if our subsidiary REIT were to fail to

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qualify as a REIT, it is possible that we also would fail to qualify as a REIT unless we (or the subsidiary REIT) could qualify for certain relief provisions. Our qualification and the qualification of our subsidiary REIT as a REIT will depend on satisfaction, on an annual or quarterly basis, of numerous requirements set forth in highly technical and complex provisions of the Code for which there are only limited judicial or administrative interpretations. A determination as to whether such requirements are satisfied involves various factual matters and circumstances not entirely within our control. The fact that we hold substantially all of our assets through our operating partnership and its subsidiaries further complicates the application of the REIT requirements for us. No assurance can be given that we, or our subsidiary REIT, will qualify as a REIT for any particular year. See Federal Income Tax Considerations General and Requirements for Qualification as a REIT.

If we, or our subsidiary REIT, were to fail to qualify as a REIT in any taxable year for which a REIT election has been made, the non-qualifying REIT would not be allowed a deduction for dividends paid to its stockholders in computing our taxable income and would be subject to U.S. federal income tax (including any applicable alternative minimum tax) on its taxable income at corporate rates. Moreover, unless the non-qualifying REIT were to obtain relief under certain statutory provisions, the non-qualifying REIT also would be disqualified from treatment as a REIT for the four taxable years following the year during which qualification is lost. This treatment would reduce our net earnings available for investment or distribution to our stockholders because of the additional tax liability to us for the years involved. As a result of such additional tax liability, we might need to borrow funds or liquidate certain investments on terms that may be disadvantageous to us in order to pay the applicable tax.

Even if we qualify as a REIT, we may incur certain tax liabilities that would reduce our cash flow and impair our ability to make distributions.

Even if we maintain our status as a REIT, we may be subject to U.S. federal income taxes or state taxes, which would reduce our cash available for distribution to our stockholders. For example, we will be subject to federal income tax on any undistributed taxable income. Further, if we fail to distribute during each calendar year at least the sum of (a) 85% of our ordinary income for such year, (b) 95% of our net capital gain income for such year, and (c) any undistributed taxable income from prior periods, we will be subject to a 4% excise tax on the excess of the required distribution over the sum of (i) the amounts actually distributed by us, plus (ii) retained amounts on which we pay income tax at the corporate level. If we realize net income from foreclosure properties that we hold primarily for sale to customers in the ordinary course of business, we must pay tax thereon at the highest corporate income tax rate, and if we sell a property, other than foreclosure property, that we are determined to have held for sale to customers in the ordinary course of business, any gain realized would be subject to a 100% prohibited transaction tax. The determination as to whether or not a particular sale is a prohibited transaction depends on the facts and circumstances related to that sale. We cannot guarantee that sales of our properties would not be prohibited transactions unless we comply with certain safe-harbor provisions. The need to avoid prohibited transactions could cause us to forego or defer sales of properties that might otherwise be in our best interest to sell. In addition, we own interests in certain taxable REIT subsidiaries that are subject to federal income taxation and we and our subsidiaries may be subject to state and local taxes on our income or property.

Differences between the recognition of taxable income and the actual receipt of cash could require us to sell assets or borrow funds on a short-term or long-term basis to meet the distribution requirements of the Code.

We intend to make distributions to our stockholders to comply with the requirements of the Code for REITs and to minimize or eliminate our corporate tax obligations; however, differences between the recognition of taxable income and the actual receipt of cash could require us to sell assets or borrow funds on a short-term or long-term basis to meet the distribution requirements of the Code. Certain types of assets generate substantial mismatches between taxable income and available cash, such as real estate that has been financed through financing structures which require some or all of available cash flows to be used to service borrowings. As a result, the requirement to distribute a substantial portion of our taxable income could cause us to: (1) sell assets in adverse market conditions, (2) borrow on unfavorable terms, or (3) distribute amounts that would otherwise be

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invested in future acquisitions, capital expenditures, or repayment of debt, in order to comply with REIT requirements. Any such actions could increase our costs and reduce the value of our common stock. Further, we may be required to make distributions to our stockholders when it would be more advantageous to reinvest cash in our business or when we do not have funds readily available for distribution. Compliance with REIT qualification requirements may, therefore, hinder our ability to operate solely on the basis of maximizing profits.

We face possible adverse changes in tax laws including changes to state tax laws regarding the treatment of REITs and their stockholders, which may result in an increase in our tax liability.

From time to time changes in state and local tax laws or regulations are enacted, including changes to a state s treatment of REITs and their stockholders, which may result in an increase in our tax liability. The shortfall in tax revenues for states and municipalities in recent years may lead to an increase in the frequency and size of such changes. If such changes occur, we may be required to pay additional taxes on our assets or income. These increased tax costs could adversely affect our financial condition and results of operations and the amount of cash available for payment of dividends.

We may face additional risks by reason of the Internalization.

As a result of the Internalization, we acquired all of the business and assets of two existing C corporations which had previously performed advisory and management functions for us and others in a transaction in which we would have succeeded to the C corporation s earnings and profits. Under the Code, earnings and profits attributable to a C corporation must be distributed before the end of the REIT s tax year in order for the REIT to maintain its qualification as a REIT. Both of the existing C corporations acquired by the Internalization had earnings and profits; however, immediately prior to the consummation of the Internalization transaction, each such corporation distributed an amount represented to be equal to or in excess of its respective amount of earnings and profits. The amounts distributed were determined in reliance upon calculations of earnings and profits prepared by our former advisor based on management representations and financial information as to the operations of the two C corporations. If the IRS were to assert successfully that such calculations were inaccurate, resulting in one or both of the entities surviving the Internalization being deemed to have retained earnings and profits from non-REIT years, then we could be disqualified from being taxed as a REIT unless we were able to make a distribution of the re-determined amount of excess earnings and profits within 90 days of the final determination thereof. In order to make such a distribution, we might need to borrow funds or liquidate certain investments on terms that may be disadvantageous to us.

Moreover, due to the acquisition of certain property management contracts pursuant to the Internalization, a portion of the income derived from such contracts will not qualify for purposes of the 75% and 95% income tests required for qualification as a REIT. The IRS may assert also that a portion of the assets acquired pursuant to the Internalization transaction does not qualify for purposes of the assets tests required for qualification as a REIT. In this regard, we believe that neither the amounts of non-qualifying income nor the value of non-qualifying assets acquired, when added to our calculations of other non-qualifying income or assets, will be sufficient to cause us to fail to satisfy any of such tests required for REIT qualification. No assurance can be given, however, that the IRS will not successfully challenge our calculations of the amount of non-qualifying income earned by us or the value of non-qualifying assets held by us in any given year or that we will qualify as a REIT for any given year.

The assets we acquired in the Internalization are subject to a potential built-in gains tax at the regular corporate income tax rates if we are treated as having disposed of them in a taxable transaction during the ten-year period beginning on the date the Internalization was consummated to the extent of the built-in gain in such assets at the time we acquired them.

If the discounts made available to participants in our dividend reinvestment plan were deemed to be excessive, our ability to pay distributions to our stockholders and our status as a REIT could be adversely affected.

We are required to distribute to our stockholders each year at least 90% of our adjusted REIT taxable income in order to qualify for taxation as a REIT. In order for distributions to be treated as distributed for purposes of this

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test, we must be entitled to a deduction for dividends paid to our stockholders within the meaning of Section 561 of the Code with respect to such distributions. Under this Code section, we will be entitled to such deduction only with respect to dividends that are deemed to be non-preferential, i.e., pro rata among, and without preference to any of, our common stockholders. The IRS has issued a published ruling which provides that a discount in the purchase price of a REIT s newly-issued shares in excess of 5% of the stock s fair market value is an additional benefit to participating stockholders, which may result in a preferential dividend for purposes of the 90% distribution test. Our dividend reinvestment plan offers participants the opportunity to acquire newly-issued shares of our common stock at a discount intended to fall within the safe harbor for such discounts set forth in the ruling published by the IRS; however, the fair market value of our common stock prior to the listing of our Class A common stock on a national securities exchange has not been susceptible to a definitive determination. Accordingly, the IRS could take the position that the fair market value of our common stock was greater than the value determined by us for purposes of the dividend reinvestment plan, resulting in purchase price discounts greater than 5%. In such event, we may be deemed to have failed the 90% distribution test for REIT qualification status, and our status as a REIT could be terminated for the year in which such determination is made. See Federal Income Tax Considerations Requirements for Qualification as a REIT.

Distributions made by REITs do not qualify for the reduced tax rates that apply to certain other corporate distributions.

The maximum tax rate for distributions made by corporations to individuals is generally 15% (through 2010). Distributions made by REITs, however, generally are taxed at the normal rate applicable to the individual recipient rather than the 15% preferential rate. The more favorable rates applicable to regular corporate distributions could cause investors who are individuals to perceive investments in REITs to be relatively less attractive than investments in non-REIT corporations that make distributions, and any extension of the preferential rate for non-REIT corporations for periods after 2010 could adversely affect the value of the stock of REITs, including our common stock. See Federal Income Tax Considerations Taxation of Taxable U.S. Stockholders Distributions Generally.

A recharacterization of transactions undertaken by our operating partnership may result in lost tax benefits or prohibited transactions, which would diminish cash distributions to our stockholders, or even cause us to lose REIT status.

The IRS could recharacterize transactions consummated by our operating partnership, which could result in the income realized on certain transactions being treated as gain realized from the sale of property that is held as inventory or otherwise held primarily for the sale to customers in the ordinary course of business. In such event, such gain would constitute income from a prohibited transaction and would be subject to a 100% tax. If this were to occur, our ability to make cash distributions to our stockholders would be adversely affected. Moreover, our operating partnership may purchase properties and lease them back to the sellers of such properties. While we will use our best efforts to structure any such sale-leaseback transaction such that the lease will be characterized as a true lease, thereby allowing us to be treated as the owner of the property for federal income tax purposes, we can give you no assurance that the IRS will not attempt to challenge such characterization. In the event that any such sale-leaseback transaction is challenged and recharacterized as a financing transaction or loan for U.S. federal income tax purposes, deductions for depreciation and cost recovery relating to such property would be disallowed. If a sale-leaseback transaction were so recharacterized, the amount of our adjusted REIT taxable income could be recalculated, which might cause us to fail to meet the distribution requirement for a taxable year. We also might fail to satisfy the REIT qualification asset tests or income tests and, consequently, lose our REIT status. Even if we maintain our status as a REIT, an increase in our adjusted REIT taxable income could cause us to be subject to additional federal and state income and excise taxes. Any federal or state taxes we pay will reduce our cash available for distribution to our stockholders.

The opinion of King & Spalding LLP regarding our status as a REIT does not guarantee our ability to remain a REIT.

Our tax counsel, King & Spalding LLP, is expected to render an opinion to us that, commencing with our taxable year ending December 31, 2002, we have been organized in conformity with the requirements for qualification and taxation as a REIT and we have operated in conformity with the requirements for qualification

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and taxation as a REIT under the Code through our taxable year ended December 31, 2009, and our current organization and method of operation will enable us to continue to meet the requirements for qualification and taxation as a REIT. This opinion is based upon our factual representations as to the manner in which we will be owned, invest in assets and operate, among other things. The validity of the opinion of King & Spalding LLP and our qualification as a REIT will depend on our satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements on a continuing basis, the results of which will not be monitored by King & Spalding LLP. Accordingly, no assurances can be given that we will satisfy the REIT requirements in any one taxable year. Also, the opinion of King & Spalding LLP represents counsel s legal judgment based on the law in effect as of the date of the commencement of this offering, is not binding on the IRS or any court and could be subject to modification or withdrawal based on future legislative, judicial or administrative changes to the federal income tax laws, any of which could be applied retroactively. King & Spalding LLP has no obligation to advise us or the holders of our common stock of any subsequent change in the matters stated, represented or assumed in its opinion or of any subsequent change in applicable law.

Legislative or regulatory action could adversely affect our stockholders.

In recent years, numerous legislative, judicial and administrative changes have been made to the federal income tax laws applicable to investments in REITs and similar entities. Additional changes to tax laws are likely to continue to occur in the future, and we cannot assure you that any such changes will not adversely affect the taxation of a stockholder. Any such changes could have an adverse effect on an investment in our common stock. You are urged to consult with your tax advisor with respect to the status of legislative, regulatory, or administrative developments and proposals and their potential effect on an investment in common stock.

Risks Associated with Debt Financing

We have incurred and are likely to continue to incur mortgage and other indebtedness, which may increase our business risks.

As of September 30, 2009, we had total outstanding indebtedness of approximately $1.5 billion, of which $130 million is outstanding under our $500 million unsecured facility. We are likely to incur additional indebtedness to acquire properties or other real estate-related investments, to fund property improvements, and other capital expenditures or for other corporate purposes, such as to repurchase shares of our common stock through repurchase programs that our board of directors may authorize if conditions warrant or to fund future distributions to our stockholders. We intend to finance sizable acquisitions by increasing our ratio of total-debt-to-gross assets ratio to a range of 30% to 40%; however, there can be no assurance that we will be successful in achieving or maintaining this ratio. Significant borrowings by us increase the risks of an investment in us. For example, if there is a shortfall between the cash flow from properties and the cash flow needed to service our indebtedness, then the amount available for distributions to stockholders may be reduced. In addition, incurring mortgage debt increases the risk of loss since defaults on indebtedness secured by a property may result in lenders initiating foreclosure actions. Although no such instances exist as of September 30, 2009, in those cases, we could lose the property securing the loan that is in default. For tax purposes, a foreclosure of any of our properties would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure, but we would not receive any cash proceeds. We may give full or partial guarantees to lenders of mortgage debt on behalf of the entities that own our properties. When we give a guaranty on behalf of an entity that owns one of our properties, we will be responsible to the lender for satisfaction of the debt if it is not paid by such entity. If any mortgages or other indebtedness contain cross-collateralization or cross-default provisions, a default on a single loan could affect multiple properties. If any of our properties are foreclosed on due to a default, our ability to pay cash distributions to our stockholders will be limited.

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High mortgage rates may make it difficult for us to finance or refinance properties, which could reduce the number of properties we can acquire, our net income, and the amount of cash distributions we can make.

If mortgage debt is unavailable at reasonable rates, we may not be able to finance the purchase of properties. If we place mortgage debt on properties, we run the risk of being unable to refinance the properties when the loans become due, or of being unable to refinance on favorable terms. If interest rates are higher when we refinance our properties, our income could be reduced. We may be unable to refinance properties. If any of these events occur, our cash flow could be reduced. This, in turn, could reduce cash available for distribution to our stockholders and may hinder our ability to raise more capital by issuing more stock or by borrowing more money.

Existing loan agreements contain, and future financing arrangements will likely contain, restrictive covenants relating to our operations, which could limit our ability to make distributions to our stockholders.

We are subject to certain restrictions pursuant to the restrictive covenants of our outstanding indebtedness, which may affect our distribution and operating policies and our ability to incur additional debt. Loan documents evidencing our existing indebtedness contain, and loan documents entered into in the future will likely contain, certain operating covenants that limit our ability to further mortgage the property or discontinue insurance coverage. In addition, these agreements contain financial covenants, including certain coverage ratios and limitations on our ability to incur secured and unsecured debt, make dividend payments, sell all or substantially all of our assets, and engage in mergers and consolidations and certain acquisitions. Covenants under our existing indebtedness do, and under any future indebtedness likely will, restrict our ability to pursue certain business initiatives or certain acquisition transactions. In addition, failure to meet any of these covenants, including the financial coverage ratios, could cause an event of default under and/or accelerate some or all of our indebtedness, which would have a material adverse effect on us.

Increases in interest rates would increase the amount of our variable-rate debt payments and could limit our ability to pay dividends to our stockholders.

As of September 30, 2009, approximately $130 million of our approximately $1.5 billion of indebtedness was subject to floating interest rates. Increases in interest rates will increase our interest costs associated with any draws that we may make on our $500 million unsecured facility, which would reduce our cash flows and our ability to pay dividends to our stockholders. In addition, if we are required to repay existing debt during periods of higher interest rates, we may need to sell one or more of our investments in order to repay the debt, which might not permit realization of the maximum return on such investments.

Changes in the market environment could have adverse affects on our interest rate swap.

In conjunction with the closing of our $250 million unsecured term loan, we entered into an interest rate swap to effectively fix our exposure to variable interest rates under the loan. To the extent interest rates are higher than our fixed rate, we would realize cash savings as compared to other market participants. However, to the extent interest rates are below our fixed rate, we incur more expense than other similar market participants, which has an adverse affect on our cash flows as compared to other market participants.

Additionally, there is counterparty risk associated with entering into an interest rate swap. Should market conditions lead to insolvency or make a merger necessary for our counterparty, it is possible that the terms of our interest rate swap will not be honored in their current form with a new counterparty. The potential termination or renegotiation of the terms of the interest rate swap agreement as a result of changing counterparties through insolvency or merger could result in an adverse impact on our results of operations and cash flows.

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Risks Related to Conflicts of Interest

Our Chief Executive Officer and our Chief Financial Officer will be subject to certain conflicts of interest with regard to enforcing the indemnification provisions contained in the merger agreement relating to the Internalization.

On February 2, 2007, we entered into the merger agreement relating to the Internalization with certain affiliates of our former advisor. Total consideration, comprised entirely of 6,504,550 shares of our common stock, at a then-agreed value of approximately $175 million, (adjusted for the return of certain escrowed shares authorized by our board of directors on September 17, 2008) was exchanged for, among other things, certain net assets of our former advisor, as well as the termination of our obligation to pay certain fees required pursuant to the terms of the in-place agreements with the former advisor including, but not limited to, disposition fees, listing fees, and incentive fees. These transactions were completed on April 16, 2007. Donald A. Miller, CFA, our Chief Executive Officer and President and one of our directors, and Robert E. Bowers, our Chief Financial Officer, Executive Vice President, Secretary, and Treasurer, each received a 1% economic interest in the merger consideration due to his 1% ownership interest in the owners of the entity that sold us these advisor entities. Accordingly, Mr. Miller and Mr. Bowers may be subject to certain conflicts of interest with regard to enforcing indemnification provisions contained in the merger agreement relating to the Internalization.

Our independent directors serve as directors and/or trustees of entities sponsored by our former advisor. Those relationships could affect their judgment with respect to enforcing the agreements we entered into in connection with the Internalization.

Three of our seven independent directors serve as directors and/or trustees of entities sponsored by our former external advisor. Donald S. Moss, one of our independent directors, is a director of Wells Timberland REIT, and W. Wayne Woody and William H. Keogler, Jr. are trustees of the Wells Family of Real Estate Funds, a REIT Index Mutual Fund. The relationship of these directors to entities sponsored by our former advisor could affect their judgment with respect to enforcing indemnification provisions of the Internalization agreement.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this prospectus constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act) and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). We intend for all such forward-looking statements to be covered by the safe-harbor provisions for forward-looking statements contained in Section 27A of the Securities Act and Section 21E of the Exchange Act, as applicable. Such statements include, in particular, statements about our plans, strategies and prospects and estimates regarding future office market performance, including estimates made by, or in reliance upon market research provided by, Rosen Consulting Group. Such statements are subject to certain risks and uncertainties, as well as known and unknown risks, which could cause actual results to differ materially from those projected or anticipated. Therefore, such statements are not intended to be a guarantee of our performance in future periods. Such forward-looking statements can generally be identified by our use of forward-looking terminology such as may, will, expect, intend, anticipate, estimate, believe, continue or other similar words or phrases that are predictions of fut trends and which do not relate solely to historical matters. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date this prospectus is filed with the SEC. We cannot guarantee the accuracy of any such forward-looking statements contained in this prospectus, and we do not intend to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Any such forward-looking statements reflect our current views about future events, are subject to unknown risks, uncertainties, and other factors, and are based on a number of assumptions involving judgments with respect to, among other things, future economic, competitive, and market conditions, all of which are difficult or impossible to predict accurately. To the extent that our assumptions differ from actual results, our ability to meet such forward-looking statements, including our ability to generate positive cash flow from operations, provide dividends to stockholders, and maintain the value of our real estate properties, may be significantly hindered. The factors listed above in the section entitled Risk Factors, as well as any cautionary language in this prospectus, provide examples of certain risks, uncertainties and events that could cause actual results to differ materially from those presented in our forward-looking statements.

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USE OF PROCEEDS

We estimate that the net proceeds we will receive from this offering, after deducting the underwriting discounts and commissions and estimated expenses of the offering payable by us, will be approximately $ million (or approximately $ million if the underwriters exercise their over-allotment option in full), in each case assuming (i) a public offering price of $ per share, which is the midpoint of the range set forth on the cover of this prospectus, and (ii) the consummation of the Recapitalization prior to the completion of this offering.

We intend to use the net proceeds received from this offering for general corporate and working capital purposes, including capital expenditures related to renewal of leases and re-letting of space, the acquisition and development of (and/or investment in) office properties, or, if market conditions warrant, the repayment of existing indebtedness or the repurchase of outstanding shares of our common stock.

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THE RECAPITALIZATION

Upon the Listing, we will file an amendment to our charter to effect a recapitalization of our common stock. When the Recapitalization occurs, each share of our outstanding common stock will convert automatically into:

- 1/12th of a share of our Class A common stock; plus
- 1/12th of a share of our Class B-1 common stock; plus
- 1/12th of a share of our Class B-2 common stock; plus
- 1/12th of a share of our Class B-3 common stock.

Our Class B common stock will be identical to our Class A common stock except that (i) we do not intend to list our Class B common stock on a national securities exchange and (ii) shares of our Class B common stock will convert automatically into shares of our Class A common stock at specified times. Each share of our Class B common stock will convert automatically into one share of our Class A common stock on the following schedule:

- 180 days following the Listing, in the case of our Class B-1 common stock;
- 270 days following the Listing, in the case of our Class B-2 common stock; and
- on January 30, 2011, in the case of our Class B-3 common stock.

In addition, if they have not otherwise converted, all shares of our Class B common stock will convert automatically into shares of our Class A common stock on January 30, 2011.

In the event that we reorganize, merge or consolidate with one or more other corporations, holders of our Class A and Class B common stock will be entitled to receive the same kind and amount of securities or property.

The Recapitalization also will have the effect of reducing the total number of outstanding shares of our common stock. As of October 31, 2009, without giving effect to the Recapitalization, we had approximately 474,060,916 shares of common stock outstanding. As of October 31, 2009, after giving effect to the Recapitalization, we would have had an aggregate of approximately 158,020,305 shares of our Class A and Class B common stock outstanding, divided equally among Class A, Class B-1, Class B-2 and Class B-3. The Recapitalization will be effected on a pro rata basis with respect to all of our stockholders. Accordingly, it will not affect any stockholder s proportionate ownership of our outstanding shares.

We will not complete this offering unless we complete the Recapitalization. We will complete the Recapitalization only if the amendment to our charter receives the affirmative vote of the holders of at least a majority of our outstanding shares of common stock entitled to vote on the amendment to our charter.

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DISTRIBUTION POLICY

We intend to continue to qualify for taxation as a REIT for U.S. federal income tax purposes. The Code generally requires that a REIT distribute with respect to each year at least 90% of its annual adjusted REIT taxable income, determined without regard to the deduction for dividends paid and excluding any net capital gain.

To satisfy the requirements for qualification as a REIT and generally not be subject to U.S. federal income and excise tax, we intend to make regular quarterly distributions of all or substantially all of our net income to holders of our common stock out of assets legally available for such purposes. Our future distributions will be at the discretion of our board of directors. When determining the amount of future distributions, we expect that our board of directors will consider, among other factors, (i) the amount of cash generated from our operating activities, (ii) our expectations of future cash flows, (iii) our determination of near-term cash needs for debt repayments, existing or future share repurchases, and selective acquisitions of new properties, (iv) the timing of significant re-leasing activities and the establishment of additional cash reserves for anticipated tenant improvements and general property capital improvements, (v) our ability to continue to access additional sources of capital and (vi) the amount required to be distributed to maintain our status as a REIT and to reduce any income and excise taxes that we otherwise would be required to pay.

If our operations do not generate sufficient cash flow to allow us to satisfy the REIT distribution requirements, we may be required to fund distributions from working capital, borrow funds, sell assets or reduce such distributions. Our distribution policy enables us to review the alternative funding sources available to us from time to time. Our actual results of operations will be affected by a number of factors, including the revenues we receive from our properties, our operating expenses, interest expense, the ability of our tenants to meet their obligations and unanticipated expenditures. For more information regarding risk factors that could materially adversely affect our actual results of operations, please see Risk Factors beginning on page 16.

The table below sets forth the quarterly dividend distributions paid to our stockholders during the first three quarters of 2009 and during the years ended December 31, 2008 and 2007.

	2009	2008	2007
First Quarter	$ 0.3150	$ 0.4401	$ 0.4401
Second Quarter	0.3150	0.4401	0.4401
Third Quarter	0.3150	0.4401	0.4401
Fourth Quarter		0.4401	0.4401
Total	**$ 0.9450**	**$ 1.7604**	**$ 1.7604**

(1) On November 10, 2009, our board of directors authorized a quarterly dividend of $0.3150 per share, payable on December 22, 2009 to stockholders of record as of December 15, 2009.

For income tax purposes, dividends to common stockholders are characterized as ordinary income, capital gains, or as a return of a stockholder s invested capital. We will furnish annually to each of our stockholders a statement setting forth distributions paid during the preceding year and their characterization as ordinary income, return of capital qualified dividend income or capital gain. The composition of our distributions per share for the years ended December 31, 2008 and 2007 was as follows:

	2008	2007
Ordinary Income	62%	56%
Capital Gains	0%	8%
Return of Capital	38%	36%
	100%	100%

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CAPITALIZATION

The following table sets forth (1) our historical capitalization as of September 30, 2009 and (2) our pro forma capitalization which gives effect to: (i) this offering of shares of our common stock, after deducting underwriting discounts and commissions and estimated offering expenses payable by us; and (ii) the termination of our share redemption program upon the listing of our shares of common stock on the in connection with this offering. All information in the following table has been adjusted to reflect the Recapitalization, which will be effected prior to the completion of this offering.

You should read this table together with Use of Proceeds, Selected Consolidated Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and notes thereto included elsewhere in this prospectus.

	As of September 30, 2009	
	Historical	**Pro Forma**
	(in thousands, except share information)	
Lines of Credit/Credit facility	$ 130,000	
Unsecured Term Debt	250,000	
Mortgage notes	1,152,525	
Redeemable common stock[(1)]	61,716	
Stockholders equity:		
Shares-in-trust, no par value, 150,000,000 shares authorized, none outstanding, historical and pro forma		
Preferred stock, no par value, 100,000,000 shares authorized, none outstanding, historical and pro forma		
Class A common stock, $0.01 par value per share, 600,000,000 shares authorized, 39,553,688 shares issued and outstanding, historical, and 39,553,688 shares issued and outstanding, pro forma	396	
Class B-1 common stock, $0.01 par value per share, 50,000,000 shares authorized, 39,553,688 shares issued and outstanding, historical, and 39,553,688 shares issued and outstanding, pro forma	396	
Class B-2 common stock, $0.01 par value per share, 50,000,000 shares authorized, 39,553,687 shares issued and outstanding, historical, and 39,553,687 shares issued and outstanding, pro forma	395	
Class B-3 common stock, $0.01 par value per share, 50,000,000 shares authorized, 39,553,687 shares issued and outstanding, historical, and 39,553,687 shares issued and outstanding, pro forma	395	
Additional paid-in capital	3,461,698	
Cumulative distributions in excess of earnings	(774,774)	
Redeemable common stock	(61,716)	
Other comprehensive loss	(5,675)	
Piedmont stockholders equity	2,621,115	
Noncontrolling interest	5,605	
Total Stockholders Equity	2,626,720	
Total Capitalization	$ 4,220,961	

(1) Under our share redemption program, which was suspended for redemptions subsequent to November 2009 and will terminate upon the listing of our Class A common stock on the in connection with this

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offering, shares of our common stock are contingently redeemable at the option of the stockholder, subject to certain limitations. Such limitations include, among other things, a restriction that the aggregate (life-to-date) amount of redemptions may not exceed the aggregate (life-to-date) proceeds under our dividend reinvestment plan. Accordingly, pursuant to GAAP, we have recorded redeemable common stock equal to the aggregate amount of proceeds received under the dividend reinvestment plan, less the aggregate amount incurred to repurchase shares under our share redemption program.

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SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data set forth below as of December 31, 2008 and 2007 and for the years ended December 31, 2008, 2007, and 2006 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. The selected consolidated financial data set forth below as of December 31, 2006, 2005 and 2004 and for the years ended December 31, 2005 and 2004 have been derived from our audited consolidated financial statements not included in this prospectus. The audited consolidated financial statements have been audited by Ernst & Young LLP, an independent registered public accounting firm. The financial data and other data as of September 30, 2009 and for the nine months ended September 30, 2009 and 2008 have been derived from our unaudited consolidated financial statements included elsewhere in this prospectus. The financial data and other data set forth below as of September 30, 2008 have been derived from our unaudited consolidated financial statements not included in this prospectus. The unaudited consolidated financial statements have been prepared on the same basis as our audited consolidated financial statements and, in the opinion of our management, reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of this data. The results for any interim period are not necessarily indicative of the results that may be expected for a full year.

Because the information presented below is only a summary and does not provide all of the information contained in our consolidated financial statements, including the related notes, you should read it in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements, and notes thereto included elsewhere in this prospectus. The amounts in the table are dollars in thousands except for share and per-share information. The share and per-share information set forth below gives effect to the Recapitalization that will be effected prior to the completion of this offering.

	For the Nine Months Ended September 30,		For the Year Ended December 31,				
	2009	2008	2008	2007	2006	2005	2004
Statement of Income Data(1):							
Total revenues	$ 453,868	$ 466,549	$ 621,965	$ 593,249	$ 571,363	$ 559,818	$ 543,708
Property operating costs	170,421	166,417	221,279	212,178	197,511	187,230	173,649
Asset and property management fees related-party and other	1,453	1,491	2,026	12,674	29,401	27,286	23,168
Depreciation and amortization	120,110	120,895	161,795	170,872	163,572	150,138	138,975
Casualty and impairment loss on real estate assets	35,063				7,765	16,093	
General and administrative expenses	22,829	24,292	33,010	29,116	18,446	17,941	18,003
Income from continuing operations(1)	49,113	100,140	131,850	112,773	97,527	132,376	158,269
Income from discontinued operations(1)		10	10	21,548	36,454	197,369	52,025
Net income attributable to Piedmont	48,754	99,720	131,314	133,610	133,324	329,135	209,722
Cash Flows:							
Cash flows from operations	$ 213,112	$ 233,878	$ 296,515	$ 282,527	$ 278,948	$ 270,887	$ 328,753
Cash flows (used in) provided by investing activities	(47,761)	(170,404)	(191,926)	(71,157)	(188,400)	691,690	(253,342)
Cash flows used in financing activities	(168,345)	(80,513)	(149,272)	(190,485)	(95,390)	(953,273)(3)	(89,009)
Dividends paid	(149,210)	(209,714)	(279,418)	(283,196)	(269,575)	(286,643)	(326,372)
Per-Share Data:							
Per weighted-average common share data:							
Income from continuing operations per share basic and diluted	$ 0.31	$ 0.62	$ 0.82	$ 0.70	$ 0.63	$ 0.85	$ 1.02
Income from discontinued operations per share basic and diluted	$ 0.00	$ 0.00	$ 0.00	$ 0.13	$ 0.24	$ 1.27	$ 0.33
Net income attributable to common stockholders per share basic and diluted	$ 0.31	$ 0.62	$ 0.82	$ 0.83	$ 0.87	$ 2.12	$ 1.35
Dividends declared	$ 0.9450	$ 1.3203	$ 1.7604	$ 1.7604	$ 1.7604	$ 1.8453	$ 2.1000
Weighted-average shares outstanding basic (in thousands)	158,491	159,911	159,586	160,698	153,898	155,428	155,354
Weighted-average shares outstanding diluted (in thousands)	158,624	160,022	159,722	160,756	153,898	155,428	155,354

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	For the Nine Months Ended September 30, 2009	2008	For the Year Ended December 31, 2008	2007	2006	2005	2004
Balance Sheet Data (as of end of period):							
Total assets	$ 4,431,851	$ 4,604,707	$ 4,557,330	$ 4,579,746	$ 4,450,690	$ 4,398,350	$ 5,123,689
Piedmont stockholders equity	2,621,115	2,742,731	2,697,040	2,880,545	2,850,697	2,989,147	3,699,600
Outstanding debt	1,532,525	1,548,625	1,523,625	1,301,530	1,243,203	1,036,312	890,182
Obligations under capital leases							64,500
Funds from Operations Data(2):							
Net income attributable to Piedmont	$ 48,754	$ 99,720	$ 131,314	$ 133,610	$ 133,324	$ 329,135	$ 209,722
Add:							
Depreciation of real assets wholly owned properties	78,522	73,516	99,366	94,992	95,296	91,713	97,425
Depreciation of real assets unconsolidated partnerships	1,092	1,124	1,483	1,440	1,449	1,544	2,918
Amortization of lease-related costs wholly owned properties	41,127	47,147	62,050	76,143	72,561	67,115	65,314
Amortization of lease-related costs unconsolidated partnerships	307	608	717	1,089	1,103	1,232	1,242
Subtract:							
Gain on sale wholly owned properties				(20,680)	(27,922)	(177,678)	(11,489)
(Gain) loss on sale unconsolidated partnerships				(1,129)	5	(11,941)	(1,842)
Funds from operations	$ 169,802	$ 222,115	$ 294,930	$ 285,465	$ 275,816	$ 301,120(4)	$ 363,290

(1) Prior period amounts have been adjusted to conform with the current period presentation. Please refer to our revised financial statements as of and for the three years in the period ended December 31, 2008 included elsewhere in this prospectus.

(2) Although net income calculated in accordance with GAAP is the starting point for calculating FFO, FFO is a non-GAAP financial measure and should not be viewed as an alternative measurement of our operating performance to net income. We believe that FFO is a beneficial indicator of the performance of an equity REIT. Specifically, FFO calculations exclude factors such as depreciation and amortization of real estate assets and gains or losses from sales of operating real estate assets. As such factors can vary among owners of identical assets in similar conditions based on historical cost accounting and useful-life estimates, FFO may provide a valuable comparison of operating performance between periods and with other REITs. Management believes that accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, many industry investors and analysts have considered the presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. As a result, we believe that the use of FFO, together with the required GAAP presentation, provides a more complete understanding of our performance relative to our competitors and a more informed and appropriate basis on which to make decisions involving operating, financing, and investing activities. We calculate FFO in accordance with the current NAREIT definition. NAREIT currently defines FFO as net income (computed in accordance with GAAP), excluding gains or losses from sales of property, plus depreciation and amortization on real estate assets, and after the same adjustments for unconsolidated partnerships and joint ventures. However, other REITs may not define FFO in accordance with the NAREIT definition, or may interpret the current NAREIT definition differently than we do. As presented above, FFO is adjusted to exclude the impact of certain noncash items, such as depreciation, amortization, and gains on the sale of real estate assets. However, FFO is not adjusted to exclude the impact of impairment losses or certain other noncash charges to earnings.

(3) Includes special distribution of net sales proceeds from the 2005 Portfolio Sale of approximately $748.5 million.

(4) In April 2005, we disposed of 27 properties.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the audited consolidated financial statements and notes thereto as of December 31, 2008 and 2007 and for the years ended December 31, 2008, 2007 and 2006, as well as the unaudited consolidated financial statements and notes thereto as of September 30, 2009 and for the nine months ended September 30, 2009 and 2008.

Liquidity and Capital Resources

As of September 30, 2009, we had outstanding borrowings of approximately $130.0 million under our $500 million revolving variable-rate unsecured credit facility. Along with outstanding letters of credit totaling approximately $10.4 million, we had approximately $359.6 million available for future borrowing.

We intend to use cash flows generated from operation of our properties, proceeds from our dividend reinvestment plan, proceeds from our $500 million unsecured facility and the net proceeds of this offering as our primary sources of immediate and long-term liquidity. In addition, we expect distributions from our existing unconsolidated joint ventures, the potential selective disposal of existing properties, and other financing opportunities (including this offering) afforded to us by our relatively low leverage and quality asset base to provide additional sources of funds. The continued disruptions in the financial markets and deteriorating economic conditions could adversely affect our ability to utilize any one or more of these sources of funds. Based upon recent appraisals of institutionally-owned commercial real estate owned by others in markets that we also serve, we believe that market conditions continue to negatively impact the values of most existing office properties. As a result, we may be limited in our ability to access such financing opportunities and to selectively dispose of our existing properties at attractive prices.

We anticipate that our primary future uses of capital will include, but will not be limited to, making scheduled debt service payments, funding renovations, expansions, and other significant capital expenditures for our existing portfolio of properties and, subject to the availability of attractive properties and our ability to consummate acquisitions on satisfactory terms, acquiring new assets compatible with our investment strategy. These expenditures include specifically identified building improvement projects, as well as projected amounts for tenant improvements and leasing commissions related to projected re-leasing, which are subject to change as market and tenant conditions dictate. In addition, we anticipate funding potential obligations for tenant improvements of approximately $123 million over the respective lease term of leases which have already been executed by us with our tenants, much of which we anticipate funding over the next five years. For most of our leases, the actual funding of these tenant improvements can take place throughout the period of the lease with the timing of the funding being largely dependent upon tenant requests for reimbursement. In some cases, these obligations may expire with the leases without further recourse to us.

Our cash flows from operations depend significantly on market rents and the ability of our tenants to make rental payments. While we believe the diversity and high credit quality of our tenants helps mitigate the risk of a significant interruption of our cash flows from operations, the general economic downturn that we are currently experiencing, or an additional downturn in one of our concentration markets, could adversely impact our operating cash flows. Our primary focus is to achieve an attractive long-term, risk-adjusted return for our stockholders. Competition to attract and retain high-credit-quality tenants remains intense due to general economic conditions. At the same time, leases representing approximately 22.2% and 60.8% of our Annualized Lease Revenue at our properties are scheduled to expire between the date of this prospectus and the end of 2011 and 2014, respectively, assuming no exercise of early termination rights. In addition, the capital requirements necessary to maintain our current occupancy levels, including payment of leasing commissions, tenant concessions, and anticipated leasing expenditures, have continued to increase. As such, we will continue to closely monitor our tenant renewals, competitive market conditions, and our cash flows. The amount of future dividends to be paid to our stockholders will continue to be largely dependent upon (i) the amount of cash generated from our operating activities, (ii) our expectations of future cash flows, (iii) our determination of near-

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term cash needs for debt repayments, existing or future share repurchases, and selective acquisitions of new properties, (iv) the timing of significant re-leasing activities and the establishment of additional cash reserves for anticipated tenant improvements and general property capital improvements, (v) our ability to continue to access additional sources of capital and (vi) the amount required to be distributed to maintain our status as a REIT. Given the fluctuating nature of cash flows and expenditures, we may periodically borrow funds on a short-term basis to pay dividends.

During the nine months ended September 30, 2009, we generated approximately $213.1 million of cash flows from operating activities and approximately $77.6 million from the issuance of common stock pursuant to our dividend reinvestment plan and from combined net borrowing activities. From such cash flows, we (i) paid dividends to stockholders of approximately $149.2 million, (ii) invested approximately $10.0 million in mezzanine debt, (iii) funded capital expenditures and deferred leasing costs totaling approximately $37.6 million, and (iv) repurchased approximately $96.6 million of common stock pursuant to our share redemption program.

Results of Operations

Overview

Our income from continuing operations for each period presented decreased as compared to the prior year, primarily due to the recognition of non-cash impairment charges in the current period, the prior year recognition of non-recurring income associated with lease terminations and restructurings, and an increase in property operating costs, which were primarily attributable to a beneficial property tax adjustment offset against operating expenses in 2008. These variances were partially offset by a reduction in general and administrative expenses as compared to the prior year period.

Comparison of the nine months ended September 30, 2009 versus the nine months ended September 30, 2008

The following table sets forth selected data from our consolidated statements of operations for the nine months ended September 30, 2009 and 2008, respectively, as well as each balance as a percentage of total revenues for the periods presented (dollars in millions):

	September 30, 2009	% of Total Revenues	September 30, 2008	% of Total Revenues	$ Increase (Decrease)
Revenue:					
Rental income	$ 337.8		$ 341.8		$ (4.0)
Tenant reimbursements	113.1		112.8		0.3
Property management fee revenue	2.2		2.4		(0.2)
Other rental income	0.8		9.5		(8.7)
Total revenues	453.9	100	466.5	100	(12.6)
Expense:					
Property operating costs	170.4	38	166.4	36	4.0
Asset and property management fees	1.5	0	1.5	0	0.0
Depreciation	79.0	17	73.7	16	5.3
Amortization	41.1	9	47.1	10	(6.0)
Impairment loss on real estate assets	35.1	8		0	35.1
General and administrative expense	22.8	5	24.3	5	(1.5)
Real estate operating income	104.0	23	153.5	33	(49.5)
Other income (expense):					
Interest expense	(58.3)	13	(55.8)	12	2.5
Interest and other income	3.9	1	2.8	1	1.1
Equity in loss of unconsolidated joint ventures	(0.5)	0	(0.4)	0	0.1

Income from continuing operations	$	49.1	11	$	100.1	21	$	(51.0)
Income from continuing operations per share diluted basis	$	0.31		$	0.62			

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Continuing Operations

Revenue

Rental income decreased from approximately $341.8 million for the nine months ended September 30, 2008 to approximately $337.8 million for the nine months ended September 30, 2009. This decrease primarily relates to a lease that expired during the fourth quarter 2008 at the Glenridge Highlands Two Building in Atlanta, Georgia. A significant portion of the vacated space at the Glenridge Highlands Two Building has subsequently been re-leased to a new tenant. Tenant reimbursements increased from approximately $112.8 million for the nine months ended September 30, 2008 to approximately $113.1 million for the nine months ended September 30, 2009. This increase reflects an increase in recoverable property operating costs, including tenant-requested services, during the nine months ended September 30, 2009.

Property management fee revenue, which includes both fee revenue and salary reimbursements, decreased approximately $0.2 million for the nine months ended September 30, 2009 as compared to the same period in the prior year, primarily as a result of vacancies at certain of the managed properties, as well as non-recurring construction management projects in the prior year. Such income may decrease in future periods in the event that the owner of these properties makes other management arrangements for properties that they own.

Other rental income is comprised primarily of income recognized for lease terminations and restructurings. Unlike the majority of our rental income, which is recognized ratably over long-term contracts, other rental income is recognized once we have completed our obligation to provide space to the tenant. Other rental income decreased approximately $8.7 million for the nine months ended September 30, 2009 as compared to the same period in the prior year. Other rental income for the nine months ended September 30, 2008 primarily relates to leases terminated at the 6031 Connection Drive Building in Irving, Texas, the 90 Central Street Building in Boxborough, Massachusetts, and the 3750 Brookside Parkway Building in Alpharetta, Georgia. Other rental income for the current period consists of a termination at the 1901 Main Street Building in Irvine, California, as well as a termination at the Auburn Hills Corporate Center in Auburn Hills, Michigan. We do not expect such income to be comparable in future periods, as it will be dependent upon the execution of lease terminations by tenants and/or restructuring agreements that may not be in our control or are deemed by management to be in the best interest of the portfolio over the long term.

Expense

Property operating costs increased approximately $4.0 million for the nine months ended September 30, 2009 compared to the same period in the prior year. This variance is primarily the result of the non-recurrence of significant property tax reductions recognized in the prior year, as well an increase in tenant-requested services during the nine months ended September 30, 2009. Tenant-requested services are typically fees for services requested by a tenant and/or operating costs directly attributable to a specific tenant. These variances were partially offset by a decrease in utility costs in the current year.

Depreciation expense increased approximately $5.3 million for the nine months ended September 30, 2009 compared to the same period in the prior year. Building improvements at the Aon Center Building in Chicago, Illinois as well as tenant-related expenditures at other properties contributed approximately $3.2 million of the increase, and accelerated depreciation charges related to lease termination by tenants at the Chandler Commons Building in Chandler, Arizona (partial lease termination) and the 1901 Main Street Building contributed approximately $1.6 million of the increase. Additionally, the current period includes nine full months of depreciation related to the acquisition of the Piedmont Pointe II Building in Bethesda, Maryland (acquired in June 2008) of approximately $0.7 million, as compared to only approximately three months of depreciation related to the building during the prior period.

Amortization expense decreased approximately $6.0 million for the nine months ended September 30, 2009 compared to the same period in the prior year. The decrease primarily relates to lease assets that have been fully amortized or written-off subsequent to September 30, 2008 of approximately $8.0 million. Accelerated

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amortization as a result of tenants lease terminations at the Chandler Commons Building (partial lease termination) and the 1901 Main Street Building of approximately $1.0 million partially offset this decrease, as well as increases in amortization of deferred tenant acquisition costs of approximately $1.4 million resulting from new leasing transactions occurring since September 30, 2008.

During the nine months ended September 30, 2009, we recognized an impairment loss of approximately $35.1 million as a result of lowering expected future rental income and reducing the intended holding periods for the Auburn Hills Corporate Center Building in Auburn Hills, Michigan, and the 1441 West Long Lake Road Building in Troy, Michigan, as well as the 1111 Durham Avenue Building in South Plainfield, New Jersey. The decision to reduce future rental revenues and the holding periods for the two Detroit assets was prompted by the loss of prospective replacement tenants and overall declines in the Detroit, Michigan market. Further, changes in management s expectation of re-leasing prospects of the New Jersey asset, coupled with general market declines in the South Plainfield submarket in which it is located, prompted the reduction of intended hold period and future rental revenues during the nine months ended September 30, 2009. The cumulative effect of these decisions triggered a reassessment of leasing assumptions for these buildings, which entailed, among other things, evaluating market rents, leasing costs and the downtime necessary to complete the necessary re-leasing activities (See Note 7 to our accompanying condensed notes to consolidated financial statement for further details).

General and administrative expense decreased approximately $1.5 million for the nine months ended September 30, 2009 compared to the same period in the prior year. Of this decrease, approximately $1.3 million is related to net savings realized through the termination of service agreements with our former advisor in July 2008.

Other Income (Expense)

Interest expense increased approximately $2.5 million for the nine months ended September 30, 2009 compared to the same period in the prior year. We incurred additional interest expense in the current year as a result of entering into our $250 million unsecured term loan late in the second quarter 2008. These increases were partially offset by lower net borrowings and lower interest rates on our $500 million unsecured facility, as well as the repayment of the 3100 Clarendon Boulevard Building Mortgage Note during 2008.

Interest and other income increased approximately $1.1 million for the nine months ended September 30, 2009 compared to the same period in the prior year, primarily due to the fact that we recognized a full period of income related to our investment in mezzanine debt in the current year, as well as the purchase of a second tranche of mezzanine debt in March 2009. The level of interest income in future periods will primarily be dependent upon the amount of operating cash on hand, as well as income earned on our investment in mezzanine debt.

Equity in loss of unconsolidated joint ventures increased approximately $0.1 million for the nine months ended September 30, 2009 compared to the prior period as a result of recognizing other-than-temporary impairment on the joint venture which owns the 47320 Kato Road Building in Fremont, California of approximately $2.6 million (See Note 7 to our accompanying consolidated financial statement for further details). The increase was partially offset as a result of recognizing other-than-temporary impairment on the joint venture which owns the 20/20 Building in Leawood, Kansas in the third quarter 2008 of approximately $2.1 million. The increase in the loss was also partially offset as a result of lease intangible assets which have fully amortized at the AIU Building in Hoffman Estate, Illinois (owned through a joint venture). We expect equity in (loss)/income of unconsolidated joint ventures to fluctuate in the near term based on the timing and extent to which dispositions occur as our unconsolidated joint ventures approach their stated dissolution periods.

Income from continuing operations per share on a fully diluted basis decreased from $0.62 for the nine months ended September 30, 2008 to $0.31 for the nine months ended September 30, 2009 primarily as a result of current year recognition of impairment charges of approximately $35.1 million, as well as, the prior year recognition of approximately $9.5 million of non-recurring fees associated with lease terminations and restructurings.

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Comparison of the year ended December 31, 2008 to the year ended December 31, 2007

The following table sets forth selected data from our consolidated statements of income for the years ended December 31, 2008 and 2007, respectively, as well as each balance as a percentage of the sum of rental income and tenant reimbursements for the years presented (dollars in millions):

	December 31, 2008	%	December 31, 2007	%	$ Increase (Decrease)
Revenue:					
Rental income	$ 455.2		$ 441.8		$ 13.4
Tenant reimbursements	150.3		142.6		7.7
Property management fee revenue	3.2		2.0		1.2
Other rental income	13.3		6.8		6.5
Total revenues	622.0	100	593.2	100	28.8
Expense:					
Property operating costs	221.3	36	212.2	36	9.1
Asset and property management fees (related-party and other)	2.0	0	12.6	2	(10.6)
Depreciation	99.7	16	94.8	16	4.9
Amortization	62.1	10	76.1	13	(14.0)
General and administrative expense	33.0	5	29.1	5	3.9
Real estate operating income	203.9	33	168.4	28	35.5
Other income (expense):					
Interest expense	(76.0)	12	(63.9)	10	12.1
Interest and other income	3.7	0	4.6	1	(0.9)
Equity in income of unconsolidated joint ventures	0.3	0	3.8	0	(3.5)
Loss on extinguishment of debt	0.0	0	(0.1)	0	0.1
Income from continuing operations	$ 131.9	21	$ 112.8	19	$ 19.1
Income from continuing operations per share diluted basis	$ 0.82		$ 0.70		

Continuing Operations

Revenue

Rental income and tenant reimbursements increased from approximately $441.8 million and $142.6 million, respectively, for the year ended December 31, 2007 to approximately $455.2 million and $150.3 million, respectively, for the year ended December 31, 2008. The increase in rental income relates primarily to re-leasing activity at our existing properties, including a significant lease renewal at the 60 Broad Street Building in New York, New York. The increase in reimbursement revenue of approximately $7.7 million is attributable to an increase in recoverable property operating costs at certain of our properties of approximately $6.6 million, as well as increased tenant reimbursement revenue from newly acquired properties purchased subsequent to December 31, 2006 of approximately $0.9 million.

Property management fee revenue, which includes both fee revenue and salary reimbursements, increased approximately $1.2 million for the year ended December 31, 2008 as compared to the prior year, as a result of 2008 being the first year in which we have managed properties for third parties for the entire year, a service we began offering after the Internalization in April 2007. Such income may decrease in future periods in the event that the owner of these properties makes other arrangements for their management.

Other rental income increased approximately $6.5 million for the year ended December 31, 2008 as compared to the prior year. Unlike the majority of our rental income, which is recognized ratably over long-term contracts, other rental income consists primarily of lease termination fee income in both years and is recognized

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once we have completed our obligation to provide space to the tenant, regardless of the date we actually receive the payment of the fee. Other rental income for 2007 relates primarily to leases terminated at the 1111 Durham Avenue Building, the 800 North Brand Boulevard in Glendale, California, and the Rhein Building in Beaverton, Oregon. Other rental income for 2008 relates primarily to leases terminated at the Glenridge Highlands Two Building (approximately $3.7 million), at the 90 Central Street Building (approximately $3.3 million), at the 3750 Brookside Parkway Building (approximately $0.4 million), and at the 6031 Connection Drive Building (approximately $4.9 million).

Expense

Property operating costs increased approximately $9.1 million for the year ended December 31, 2008, as compared to the prior year. This increase is primarily the result of increases in reimbursable tenant expenses at certain of our properties of approximately $4.4 million, a majority of which relates to property taxes, utilities, repair and maintenance, and allocated administrative salaries, which are noted above as being reimbursed by tenants pursuant to their respective leases. Additionally, properties we acquired subsequent to December 31, 2006 contributed an incremental amount of approximately $1.8 million during the current period. Finally, our primary tenant at the 1111 Durham Avenue Building converted from a net lease to a full service lease effective for the current year; therefore we became responsible for additional expenses during 2008 of approximately $1.8 million.

Asset and property management fees decreased approximately $10.6 million for the year ended December 31, 2008, as compared to the prior year, primarily due to the fact that we are no longer subject to certain related-party service contracts as a result of the Internalization transaction, which took place on April 16, 2007, as well as continuing to increase the number of assets we managed for ourselves during the current year.

Depreciation expense increased approximately $4.9 million for the year ended December 31, 2008, as compared to the prior year. Of this increase, approximately $2.4 million is the result of three properties (2300 Cabot Drive Building in Lisle, Illinois, Piedmont Pointe I and II Buildings in Bethesda, Maryland) we acquired subsequent to December 31, 2006. Further, building improvements at the Aon Center Building, as well as accelerated depreciation as a result of a tenant s lease termination, contributed approximately $1.3 million of new depreciation expense as compared to the prior period. We expect future depreciation expense to increase as a result of recognizing expense on the Piedmont Pointe II Building acquired in 2008 for a full period in 2009.

Amortization expense decreased approximately $14.0 million for the year ended December 31, 2008, as compared to the prior year. The decrease is primarily due to intangible lease assets which have become fully amortized subsequent to December 31, 2007, principally at the Copper Ridge Center Building in Lyndhurst, New Jersey, the 60 Broad Street Building, the 3100 Clarendon Building in Arlington, Virginia, and the Las Colinas Corporate Center II Building in Irving, Texas. Additionally, in the prior year, we recognized higher charges to amortization in order to adjust intangible lease assets and deferred lease costs associated with lease terminations and restructurings to their net realizable value. The largest of these charges related to a lease termination at the Glenridge Highlands Two Building.

General and administrative expenses increased approximately $3.9 million for the year ended December 31, 2008, as compared to the prior year. Of this increase, approximately $2.5 million is related to employee salary and benefit costs as a result of being self-managed during the entire year ended December 31, 2008 as compared to being externally managed in the prior year from January 1, 2007 to April 16, 2007, the date of the Internalization. Additionally, we recognized approximately $1.3 million of recoveries in 2007 of previously recorded bad debt reserves which were deemed to be recoverable.

Other Income (Expense)

Interest expense increased approximately $12.1 million for the year ended December 31, 2008, as compared to the prior year, primarily as a result of net borrowings on our $500 million unsecured facility, as well as a result of borrowings on our $250 million unsecured term loan.

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Interest and other income decreased approximately $0.9 million for the year ended December 31, 2008, as compared to the prior year. This decrease relates primarily to a decrease in depository interest rates, as well as a one-time reimbursement received during the prior year from our former advisor for a $1.3 million property management termination expense (included in asset and property management fees). Such decrease was partially offset by income recognized as a result of our investment in mezzanine debt in the current year. The level of interest income in future periods will be primarily dependent upon the amount of operating cash on hand, as well as income earned on our investment in mezzanine debt, which fluctuates according to interest rate changes.

Equity in income of unconsolidated joint ventures decreased approximately $3.5 million during the year ended December 31, 2008, as compared to the prior year, primarily as a result of recognizing approximately $2.1 million of impairment loss during the current year, our portion of the impairment charge recorded at the 20/20 Building in suburban Kansas City, KS, which is owned through a joint venture. Additionally, the prior year amounts include approximately $1.1 million for our portion of the gain on sale recognized for the 111 South Chase Boulevard Building in Fountain Inn, South Carolina in May 2007. We expect equity in income of unconsolidated joint ventures to fluctuate in the near term based on the timing and extent to which dispositions occur as our unconsolidated joint ventures approach their stated dissolution periods.

Income from continuing operations available to common stockholders per share on a fully diluted basis increased from $0.70 per share for the year ended December 31, 2007 to $0.82 per share for the year ended December 31, 2008 primarily as a result of the positive effects of the Internalization in reducing asset and property management fees, re-leasing activity at certain of our properties, as well as the timing of recognition of other rental income and lease termination expense related to lease terminations or restructurings during the current and prior year. These increases in income from continuing operations available to common stockholders per share were partially offset by increased interest expense and an impairment charge at one of our unconsolidated joint ventures in the current period.

Discontinued Operations

In accordance with GAAP, we have classified the operations of properties held for sale and sold as discontinued operations for all periods presented. Income from discontinued operations was approximately $10,000 and approximately $21.5 million for the years ended December 31, 2008 and 2007, respectively. These amounts consist of operations, including the gain on the sale, of the Citigroup Fort Mill Building in Fort Mill, South Carolina and the Videojet Technology Building in Wood Dale, Illinois, which were both sold in March 2007. We do not expect that income from discontinued operations will be comparable to future periods; as such income is subject to the timing and existence of future property dispositions.

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Comparison of the year ended December 31, 2007 to the year ended December 31, 2006

The following table sets forth selected data from our consolidated statements of income for the years ended December 31, 2007 and 2006, respectively, as well as each balance as a percentage of the sum of rental income and tenant reimbursements for the years presented (dollars in millions):

	December 31, 2007	%	December 31, 2006	%	$ Increase (Decrease)
Revenue:					
Rental income	$ 441.8		$ 430.9		$ 10.9
Tenant reimbursements	142.6		130.9		11.7
Property management fee revenue	2.0				2.0
Other rental income	6.8		9.6		(2.8)
Total revenues	593.2	100	571.4	100	21.8
Expense:					
Property operating costs	212.2	36	197.5	35	14.7
Asset and property management fees (related-party and other)	12.6	2	29.4	5	(16.8)
Depreciation	94.8	16	92.4	16	2.4
Amortization	76.1	13	71.2	13	4.9
Casualty and impairment losses on real estate assets		0	7.8	1	(7.8)
General and administrative expense	29.1	5	18.4	3	10.7
Loss on sale of undeveloped land		0	0.6	0	(0.6)
Real estate operating income	168.4	28	154.1	27	14.3
Other income (expense):					
Interest expense	(63.9)	10	(61.3)	11	2.6
Interest and other income	4.6	1	2.5	0	2.1
Equity in income of unconsolidated joint ventures	3.8	0	2.2	0	1.6
Loss on extinguishment of debt	(0.1)	0		0	0.1
Income from continuing operations	$ 112.8	19	$ 97.5	16	$ 15.3
Income from continuing operations per share diluted basis	$ 0.70		$ 0.63		

Continuing Operations

Revenue

Rental income and tenant reimbursements increased from approximately $430.9 million and $130.9 million, respectively, for the year ended December 31, 2006 to approximately $441.8 million and $142.6 million, respectively, for the year ended December 31, 2007. The increase in rental income and tenant reimbursements of approximately $10.9 and $11.7 million, respectively, for the year ended December 31, 2007 as compared to the prior year is primarily due to a full year s operations of properties acquired in the latter half of 2006, offset by accelerated straight line rent recognition related to Cingular s exercise of an early termination option in 2007.

Property management fee revenue, which includes both fee revenue and salary reimbursements, was approximately $2.0 million for the year ended December 31, 2007, as a result of our managing properties owned by third parties. We had no such property management fee revenue in 2006. Such income may decrease in future periods in the event that the owner of these properties makes other arrangements for their management.

Other rental income decreased approximately $2.8 million for the year ended December 31, 2007 as compared to the prior year. The decrease is primarily comprised of income recognized for lease terminations and restructurings. Unlike the majority of our rental income, which is recognized ratably over long-term contracts, other rental income is recognized once we have completed our obligation to provide space to the tenant. Other rental income for 2006 relates primarily to leases terminated at the 6011 Connection Drive Building, the Crescent Ridge II Building in Minnetonka, Minnesota, and the 3750 Brookside Parkway Building. Other rental income for 2007 relates primarily to leases terminated at the 1111 Durham Avenue Building, the 800 North Brand Boulevard Building, and the Rhein Building.

Expense

Property operating costs increased approximately $14.7 million for the year ended December 31, 2007, as compared to the prior year, primarily due to increases in certain reimbursable expenses, including utilities, property taxes, and tenant-requested services, and additional costs related to properties acquired during those periods.

Asset and property management fees decreased approximately $16.8 million for the year ended December 31, 2007, as compared to the prior year, primarily due to the fact that we are no longer subject to certain related-party service contracts as a result of the Internalization transaction, which took place on April 16, 2007.

Depreciation expense increased approximately $2.4 million for the year ended December 31, 2007, as compared to the prior year, primarily due to incurring additional depreciation for properties acquired and placed into service during those periods.

Amortization expense increased approximately $4.9 million for the year ended December 31, 2007, as compared to the prior year. The increase is primarily due to higher charges to amortization during the current year in order to adjust intangible lease assets and deferred lease costs associated with lease terminations and restructurings to their net realizable value. The largest of these charges related to a lease termination at the Glenridge Highlands Two Building (mentioned above). Future amortization related to terminations and restructurings will be dependent upon the volume and terms of such future transactions.

During the year ended December 31, 2006, we recognized an impairment loss of approximately $7.8 million to reduce the carrying value of the 5000 Corporate Court Building in Holtsville, New York to its estimated fair value. (See Note 6 of our accompanying consolidated financial statements). We recorded no such impairment charges in 2007.

General and administrative expenses increased approximately $10.7 million for the year ended December 31, 2007, as compared to the prior year. Substantially all of the increase is related to personnel, legal, and professional costs associated with the Internalization transaction. Prior to Internalization, we had no employees. On April 16, 2007, we terminated our external advisory agreements and acquired our own staff and internal management. We had 99 employees as of December 31, 2007 and personnel costs totaling approximately $11.0 million for the period from Internalization through year-end. General and administrative costs also included non-salary costs such as legal fees and other professional fees related to tender offer responses, derivative claim litigation, preliminary offering costs, and communications regarding our corporate name change.

Other Income (Expense)

Interest expense increased approximately $2.6 million for the year ended December 31, 2007, as compared to the prior year, primarily due to increases in the average amount of borrowings outstanding during 2007, as compared to 2006.

Interest and other income increased approximately $2.1 million for the year ended December 31, 2007, as compared to the prior year. This increase relates primarily to a reimbursement received from our former advisor for a $1.3 million property management termination expense, which was included in asset and property management fees in 2007.

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Equity in income of unconsolidated joint ventures increased approximately $1.6 million during the year ended December 31, 2007, as compared to the prior year, primarily as a result of the gain on the sale of the 111 Southchase Boulevard Building owned by one of our unconsolidated joint ventures.

Income from continuing operations available to common stockholders per share on a fully diluted basis increased from $0.63 per share for the year ended December 31, 2006 to $0.70 per share for the year ended December 31, 2007. The increase is mainly due to the positive effects of the Internalization, an increase in operating income generated through acquisitions during the second half of 2006 and in 2007, and the lack of an additional impairment charge recognized in 2007 as compared to prior year.

Discontinued Operations

In accordance with GAAP, we have classified the operations of properties sold as discontinued operations for all periods presented. Income from discontinued operations was approximately $36.5 million and $21.5 million for the years ended December 31, 2006 and 2007, respectively. These amounts consist of operations in 2006 from five of our properties, the IRS Daycare Building, the Northrop Grumman Building, the Frank Russell Building, the Citigroup Fort Mill Building, and the Videojet Technology Building, whereas 2007 operations consist of operations from two of our properties, the Citigroup Fort Mill Building and the Videojet Technology Building. Income from discontinued operations for the year ended December 31, 2007 includes the gain on the sale of the Citigroup Fort Mill Building and the Videojet Technology Building, which were both sold in March 2007. The net proceeds from these sales were used to retire the mortgage note secured by the 1075 West Entrance Drive Building in Auburn Hills, Michigan and a portion of borrowings outstanding under our lines of credit. We do not expect that income from discontinued operations will be comparable to future periods, as such income is subject to the timing and existence of future property dispositions.

Funds From Operations

FFO is a non-GAAP financial measure and should not be viewed as an alternative measurement of our operating performance to net income. We believe that FFO is a beneficial indicator of the performance of an equity REIT. Specifically, FFO calculations may be helpful to investors as a starting point in measuring our operating performance, because they exclude factors that do not relate to, or are not indicative of, our operating performance, such as depreciation and amortization of real estate assets and gains or losses from sales of operating real estate assets. As such factors can vary among owners of identical assets in similar conditions based on historical cost accounting and useful-life estimates, FFO may provide a valuable comparison of operating performance between periods and with other REITs.

Management believes that accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, many industry investors and analysts have considered the presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. As a result, we believe that the use of FFO, together with the required GAAP presentation, provides a more complete understanding of our performance relative to our competitors and a more informed and appropriate basis on which to make decisions involving operating, financing, and investing activities. We calculate FFO in accordance with the current NAREIT definition, which defines FFO as net income (computed in accordance with GAAP), excluding gains or losses from sales of property, plus depreciation and amortization on real estate assets, and after the same adjustments for unconsolidated partnerships and joint ventures. However, other REITs may not define FFO in accordance with the NAREIT definition, or may interpret the current NAREIT definition differently than we do; therefore, our computation of FFO may not be comparable to such other REITs.

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As presented below, FFO is adjusted to exclude the impact of certain noncash items, such as depreciation, amortization, and gains on the sale of real estate assets. However, FFO is not adjusted to exclude the impact of impairment losses or certain other noncash charges to earnings. Reconciliations of net income to FFO are presented below (in thousands except per share amounts):

	For the Nine Months Ended September 30, 2009	Per share[1]	For the Year Ended 2008	Per share[1]	For the Year Ended 2007	Per share[1]	For the Year Ended 2006	Per share[1]
Net income attributable to Piedmont	**$ 48,754**	**$ .31**	**$ 131,314**	**$ .82**	$ 133,610	$ .83	$ 133,324	$ .87
Add:								
Depreciation of real assets wholly owned properties	**78,522**	**.49**	**99,366**	**.62**	94,992	.59	95,296	.61
Depreciation of real assets unconsolidated partnerships	**1,092**	**.01**	**1,483**	**.01**	1,440	.01	1,449	.01
Amortization of lease-related costs wholly owned properties	**41,127**	**.26**	**62,050**	**.39**	76,143	.48	72,561	.47
Amortization of lease-related costs unconsolidated partnerships	**307**		**717**	**.01**	1,089	.01	1,103	.01
Subtract:								
Gain on sale wholly owned properties					(20,680)	(.13)	(27,922)	(.18)
(Gain) loss on sale unconsolidated partnerships					(1,129)	(.01)	5	
FFO[2]	**$ 169,802**	**$ 1.07**	**$ 294,930**	**$ 1.85**	$ 285,465	$ 1.78	$ 275,816	$ 1.79
Weighted-average shares outstanding diluted	158,624		159,722		160,756		153,898	

(1) Based on weighted-average shares outstanding diluted.

(2) See Noncash Items included in Net Income below, specifically related to impairment charges recognized on real estate assets and investments in unconsolidated joint ventures.

Set forth below is additional information related to certain significant cash and noncash items included in or excluded from net income above, which may be helpful in assessing our operating results. In addition, cash flows generated from FFO may be used to fund all or a portion of certain capitalizable items that are excluded from FFO, such as capitalized interest, tenant improvements, building improvements, and deferred lease costs. Please see our accompanying consolidated statements of cash flows for details of our operating, investing, and financing cash activities.

Noncash Items included in Net Income

In accordance with the definition provided by NAREIT, nonrecurring charges not classified as extraordinary items such as impairment charges are included in the calculation of FFO. As such, the impairment charges recognized of approximately $37.6 million related to our investment in a joint venture which owns the 47320 Kato Road Building, the Auburn Hills Corporate Center Building, the 1111 Durham Avenue Building, and the 1441 West Long Lake Road Building are included in net income attributable to Piedmont as well as FFO for the nine months ended September 30, 2009 above.

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Additionally, we recognized impairment losses of $2.1 million (related to the 20/20 Building, owned through investment in a joint venture), $0, and $7.6 million (related to the 5000 Corporate Court Building) during the years ended December 31, 2008, 2007, and 2006 respectively;

In accordance with GAAP, we recognized straight-line rental revenues/(expense) and adjustments to straight-line receivables as a result of lease terminations of approximately $(0.6) million for the nine months ended September 30, 2009, and approximately $1.2 million, $7.8 million, and $12.2 million for the years ended December 31, 2008, 2007, and 2006, respectively;

Amortization of deferred financing costs of approximately $2.1 million for the nine months ended September 30, 2009, and approximately $2.5 million, $2.1 million, and $1.8 million for the years ended December 31, 2008, 2007, and 2006, respectively, was recognized as interest expense;