GOVERNMENT PROPERTIES TRUST INC
Form S-11/A
January 23, 2004

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JANUARY 23, 2004

REGISTRATION NO. 333-109565

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 6

TO

FORM S-11
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

GOVERNMENT PROPERTIES TRUST, INC.
(Exact name of registrant as specified in governing instruments)

10250 REGENCY CIRCLE, SUITE 100
OMAHA, NEBRASKA 68114
(402) 391-0010
(Address, including zip code, and telephone number
including area code, of registrant's principal executive offices)

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GOVERNMENT PROPERTIES TRUST, INC.
10250 REGENCY CIRCLE, SUITE 100
OMAHA, NEBRASKA 68114
(402) 391-0010
(Name, address, including zip, and telephone number, including area code,
of agent for service)

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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon

as practicable after the effective date of this registration statement.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, 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 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(d) under the Securities Act, check the following box and list the Securities Act registration statement 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, check the following box. [ ]

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 DATES 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 JANUARY 23, 2004

PROSPECTUS

14,000,000 SHARES

(GPT LOGO)

GOVERNMENT PROPERTIES TRUST, INC.

COMMON STOCK

We invest in single tenant properties under long-term leases to the U.S. government, state governments, local governments, and government-sponsored enterprises. We are a self-managed, self-administered company that will elect to be taxed as a real estate investment trust, or REIT, under the federal tax laws.

No public market currently exists for our common stock. We expect the initial public offering price will be between $9.00 and $11.00 per share. Our shares have been approved for listing on the New York Stock Exchange under the symbol "GPP."

INVESTING IN OUR COMMON STOCK INVOLVES RISKS. SEE "RISK FACTORS" BEGINNING ON PAGE 11 OF THIS PROSPECTUS TO READ ABOUT RISKS YOU SHOULD CONSIDER BEFORE

BUYING OUR COMMON STOCK. THESE RISKS INCLUDE:

- Our president and chief executive officer joined us in June 2003, our chief financial officer joined us in September 2003, our director of asset acquisition joined us in December 2003, our director of asset management joined us in December 2003 and the remainder of our management will join us after the closing of this offering. Our management does not have any history operating a REIT or a public company. Accordingly, we do not have a track record upon which you can base your investment decision.

- Upon completion of this offering, we will experience a capital infusion from the net offering proceeds, which we intend to use to acquire properties under long-term lease to governmental tenants. If we are unable to complete the acquisitions we are currently negotiating or acquire other properties, we may not be able to invest this capital on acceptable terms or timeframes, which may harm our cash flow and ability to pay dividends.

- An affiliate of one of our underwriters, Friedman, Billings, Ramsey & Co., Inc., or FBR, has provided us with a $1,000,000 line of credit, of which approximately $950,000 is outstanding. Outstanding amounts under this line of credit will be repaid from the proceeds of this offering. This creates a conflict of interest because FBR has an interest in the successful completion of this offering in addition to receiving customary underwriting compensation.

- We depend on the U.S. government, our largest tenant, for a significant portion of our revenues. Any failure by the U.S. government to perform its obligations or renew its leases will harm our cash flow and may harm our ability to pay dividends. In addition, our leases with the U.S. government provide that the U.S. government may assign the lease and be relieved from all obligations under the lease, other than unpaid rent and other liabilities outstanding on the date of the assignment, subject to our prior written consent, which we may not unreasonably withhold.

- Because our largest tenant is the U.S. government, our properties may have a higher risk of terrorist attack than similar properties that are leased to non-governmental tenants. This could harm the value of our properties through damage, increased insurance costs or increased security costs.

- We have no charter limitations regarding the amount of indebtedness we may incur. Our policy is to use debt to finance, on average, approximately 75% of the acquisition cost of the properties that we buy, which may harm our cash flow and our ability to pay dividends. We plan to implement this policy after we have completed the acquisitions described in this prospectus.

- Some of our leases may not provide for a full pass-through to our tenants of increases in property operating costs. Increases in property operating costs that we must bear would harm our cash flow and may harm our ability to pay dividends.

- We may make distributions that include a return of capital. All of our prior distributions consisted of a return of capital. While we have not borrowed for the specific purpose of paying distributions, our prior borrowings allowed us to pay distributions from our cash from operations. Additionally, because of the differences in timing between the receipt of income and the payment of expenses in arriving at taxable REIT income and the effect of required debt amortization payments, we may need to borrow funds on a short-term basis to meet the distribution requirements that are necessary to achieve and maintain REIT status. These borrowings may decrease cash available for distribution.

- We have not yet elected to be taxed as a REIT. If we fail to make such election or if we fail to remain qualified as a REIT after our REIT election, our dividends will not be deductible by us and we will be subject to a corporate level tax on our taxable income. This would substantially reduce our cash available to pay dividends and the yield on your investment.

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.

	PER SHARE	TOTAL
Public offering price	$	$
Underwriting discount(1)	$	$
Proceeds, before expenses, to us	$	$

(1) The underwriters will receive compensation in addition to the underwriting discount in the form of interest on a line of credit, warrants and expense reimbursement. See "Underwriting."

We have granted to our underwriters an option for a period of thirty days to purchase up to an additional 2,100,000 shares of our common stock at the public offering price, less the underwriting discount and commissions, solely to cover over-allotments, if any.

We have been advised by certain of our directors and executive officers that they intend to purchase common stock in this offering. The underwriters have no obligation to sell shares to these persons or any other persons designated by us.

We expect the common stock to be available for delivery on or about January , 2004.

FRIEDMAN BILLINGS RAMSEY

BB&T CAPITAL MARKETS

FLAGSTONE SECURITIES

January , 2004.

[inside front cover of prospectus]

[Government Properties Trust, Inc. Logo]

[Picture of our U.S. Border Patrol Property in Harlingen, Texas]

TOP: U.S. Border Patrol Station in Harlingen, Texas.**

[Picture of our U.S. Social Security Administration Building in

MIDDLE: U.S. Social Security Administration building in

Charleston, West Virginia]

Charleston, West Virginia.*

BOTTOM: U.S. Social Security Administration building in Kingsport, Tennessee.*

*Owned. **Under Contract. See "Our Business and Properties - Our Properties" and "Our Business and Properties - Acquisition Properties."

[Picture of our U.S. Social Security Administration building in Kingsport, Tennessee]

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SUMMARY

The following summary highlights information contained elsewhere in this prospectus. You should read the entire prospectus, including "Risk Factors," before deciding whether to invest in our common stock. In this prospectus, references to "the company," "we," "us," and "our" mean Government Properties Trust, Inc. and its predecessor company. Unless indicated otherwise, the information included in this prospectus assumes the consummation of our Maryland

reincorporation, our common stock is sold at $10.00 per share and no exercise by the underwriters of their over-allotment option.

OVERVIEW

We invest in single tenant properties under long-term leases to the U.S. government, state governments, local governments and government-sponsored enterprises. We are a self-managed, self-administered company that will elect to be taxed as a real estate investment trust, or REIT, under the federal tax laws. We believe that we will be the only public company focused solely on investing in government-leased properties. We believe our singular focus and status as a public company will make us an attractive buyer for owners and developers of government-leased properties, and creates an opportunity for us to become a national consolidator of such properties.

We were formed to take advantage of what we believe is a unique market opportunity in the government sector of the commercial real estate market. Total government spending in the United States during 2002 amounted to $3.1 trillion, according to the federal Office of Management and Budget. The federal government occupies approximately 835 million square feet of office space in the U.S., approximately 191 million square feet of which, or approximately 23%, is leased according to the 2002 Federal Real Property Profile published by the General Services Administration, or GSA, the federal government's property management arm. The U.S. government spends approximately $3.6 billion annually on rent, according to the August 2003 issue of Real Estate Forum. State and local government spending accounted for 34% of total government spending, or $1.0 trillion, in 2002, according to the federal Office of Management and Budget. Accordingly, we believe that there is also a substantial investment opportunity with state and local governmental tenants. In addition, as government has continued to grow and as existing facilities have become outdated, construction of new properties for governmental tenants has been significant. In particular, we expect government demand for new office space to grow substantially, particularly in areas such as law enforcement and the judiciary, homeland security, healthcare, human services and regulatory agencies.

At the same time, however, because governments are facing significant budgetary constraints, we expect governmental entities will increasingly lease properties instead of building and owning properties. The federal government currently owns approximately 77% of the office space it occupies in the U.S., but the federal government's new properties are increasingly being leased. Between 2000 and 2002, total commercial square footage owned by the U.S. government grew by only 0.2%, while total commercial square footage leased by the U.S. government grew by 7.8% based on the GSA's 2000 Summary Report of Real Property Owned and Leased and the 2002 Federal Real Property Profile.

OUR COMPANY

Our business consists of buying and managing recently built or renovated office properties primarily leased to the federal government, acting through the GSA, under long-term leases. Our portfolio consisted of five properties totaling 248,848 square feet as of September 30, 2003. These properties are 100% occupied and have a weighted-average remaining lease term of approximately 13 years based on the square footage of the properties as of September 30, 2003. Our tenants include the Department of Justice, the Drug Enforcement Administration, the Federal Bureau of Investigation and the Social Security Administration. We own each of our properties through separate wholly-owned, special-purpose entities.

Based on the credit worthiness of our governmental tenants, our policy is to use debt to finance, on average, approximately 75% of the acquisition cost of the properties that we buy. We plan to implement this policy after we have completed the acquisitions described in this prospectus. We intend to finance our future acquisitions with a combination of equity, long-term fixed-rate debt

and short-term credit lines. We intend to

use our credit lines to finance acquisitions and deposits on a short-term basis. We have received a commitment for a $50 million line of credit from a group of commercial banks. Our objective is to finance each property with long-term fixed-rate debt whose maturity matches or exceeds, to the extent possible, the remaining term of the lease. This strategy minimizes interest rate risk and should result in more consistent and reliable cash flow.

With the proceeds of this offering, we intend to expand our portfolio by acquiring additional government-leased properties. We intend to acquire eight GSA-leased properties totaling approximately 487,000 square feet for an aggregate price of approximately $128.9 million that have a remaining average lease term of approximately 14 years based on square footage as of September 30, 2003. However, we cannot assure you that we will be able to complete the acquisition of these properties.

Our management team has significant experience in the real estate business. Thomas Peschio, our President and Chief Executive Officer, has more than 35 years of experience in the real estate business and has particular expertise in acquiring, leasing, managing, financing and selling commercial properties. Our other senior managers and outside directors also have extensive experience in various aspects of the real estate industry. One of our directors is the former head of the GSA's Public Building Service.

OUR BUSINESS AND GROWTH STRATEGY

We intend to acquire properties leased to a variety of governmental entities on a nationwide basis. We expect most of our properties initially will be leased to the U.S. government under long-term leases. We will market both to owners and developers of government-leased properties and directly to governmental entities. We intend to expand our existing relationships with GSA-approved real estate developers, the GSA and various other governmental tenants, owners and developers around the country. We plan to continue to enter into pre-completion purchase agreements with developers to acquire newly developed properties upon completion and occupancy by governmental tenants. As a public company, we believe that developers and owners will view us as a more attractive and credible buyer than other potential buyers.

Our acquisition criteria includes analyzing not only the in-place lease, but also analyzing the real estate characteristics of the property including location, parking, floor plans and construction quality. We focus on newer, well located properties that have remaining lease terms of ten years or more. By "newer, well located properties," we mean properties that have been constructed or significantly renovated within the last five years and that are located in established downtown or suburban office markets or locations that are crucial to the government entity. We also consider, on a case-by-case basis, newer, well located properties that are more special use in nature due to specific government requirements or that have remaining lease terms of less than ten years. Special use or "build-to-suit" properties, however, generally must have remaining lease terms of fifteen years or more before we will consider them for acquisition. We believe our focus on newer properties reduces the risk of tenants failing to renew their lease at maturity and increases our ability to re-lease the property if the tenant does not renew. We intend to establish fully funded reserves, based on independent third-party reports, for future capital expenditures to ensure that our properties are properly maintained.

Leases for governmental tenants vary widely and include net leases, gross leases and "modified" gross leases. Net leases require the tenant to pay all

operating expenses, gross leases require the landlord to pay all operating expenses, and modified gross leases require the landlord and the tenant each to pay a portion of the operating expenses. We intend to acquire properties with all three types of leases, as well as variations of these leases, because we believe that gross leases and modified gross leases may provide higher returns for us than net leases. In our experience, GSA leases are generally modified gross leases. We plan to mitigate the higher risk of gross leases and modified gross leases through strict underwriting, due diligence and intensive property management. With respect to services provided to governmental tenants, we will only provide those services that are customarily provided to governmental tenants of other similar properties.

SUMMARY RISK FACTORS

You should carefully consider the matters discussed in "Risk Factors" beginning on page 11 prior to deciding whether to invest in our common stock. Please refer to Risk Factors for a more complete discussion of the risks summarized below.

- Our president and chief executive officer joined us in June 2003, our chief financial officer joined us in September 2003, our director of asset acquisition joined us in December 2003, our director of asset management joined us in December 2003, and the remainder of our management will join us after the closing of this offering. Our management does not have any history operating a REIT or a public company. Accordingly, we do not have a track record upon which you can base your investment decision.

- Upon completion of this offering, we will experience a capital infusion from the net offering proceeds, which we intend to use to acquire properties under long-term lease to governmental tenants. If we are unable to complete the acquisitions we are currently negotiating or acquire other properties, we may not be able to invest this capital on acceptable terms or timeframes, which may harm our cash flow and ability to pay dividends.

- An affiliate of one of our underwriters, FBR, has provided us with a $1,000,000 line of credit, of which approximately $950,000 is outstanding. Outstanding amounts under this line of credit will be repaid from the proceeds of this offering. In addition, we have issued to such affiliate of FBR a warrant to purchase shares of our common stock. This creates a conflict of interest because FBR has an interest in the successful completion of this offering in addition to receiving customary underwriting compensation.

- The closings of our property acquisitions are subject to conditions that may prevent us from acquiring such properties. Our ability to complete these acquisitions depends upon many factors, such as satisfaction of due diligence and customary closing conditions. Any inability to complete these acquisitions within our anticipated time frames may harm our financial results and our ability to pay dividends.

- We depend on the U.S. government, our largest tenant, for a significant portion of our revenues. Any failure by the U.S. government to perform its obligations or renew its leases will harm our cash flow and may harm our ability to pay dividends. In addition, our leases with the U.S. government provide that the U.S. government may assign the lease and be

relieved from all obligations under the lease, other than unpaid rent and other liabilities outstanding on the date of the assignment, subject to our prior written consent, which we may not unreasonably withhold.

- Because our largest tenant is the U.S. government, our properties may have a higher risk of terrorist attack than similar properties that are leased to non-governmental tenants. This could harm the value of our properties through damage, increased insurance costs or increased security costs.

- We have no charter limitations regarding the amount of indebtedness we may incur. Our use of debt financing could decrease our cash flow and expose us to risk of default under our debt documents. Our policy is to use debt to finance, on average, approximately 75% of the acquisition cost of the properties that we buy, which may harm our cash flow and our ability to pay dividends.

- We may make distributions that include a return of capital. All of our prior distributions consisted of a return of capital. While we have not borrowed for the specific purpose of paying distributions, our prior borrowings allowed us to pay distributions from our cash from operations. Additionally, because of the differences in timing between the receipt of income and the payment of expenses in arriving at taxable REIT income and the effect of required debt amortization payments, we may need to borrow funds on a short-term basis to meet the distribution requirements that are necessary to achieve and maintain REIT status. These borrowings may decrease cash available for distribution.

- Some of our leases may not provide for a full pass-through to our tenants of increases in property operating costs. Increases in property operating costs that we must bear would harm our cash flow and may harm our ability to pay dividends.

- Restrictive covenants in our future loan documents may restrict our operating or acquisition activities, which may harm our financial condition and operating results.

- Purchasers of our common stock will experience immediate dilution.

- We depend on key personnel with long-standing business relationships, the loss of whom could threaten our ability to operate our business successfully.

- Our board of directors may authorize the issuance of additional shares that may cause dilution.

- We have not yet elected to be taxed as a REIT. If we fail to make such election or if we fail to remain qualified as a REIT after our REIT election, our dividends will not be deductible by us and we will be subject to a corporate level tax on our taxable income. This would substantially reduce our cash available to pay dividends and the yield on your investment.

INITIAL PORTFOLIO

Our portfolio consisted of five properties totaling 248,848 square feet as of September 30, 2003. These properties are 100% occupied and have a

weighted-average remaining lease term of approximately 13 years based on the square footage of the properties as of September 30, 2003. Four of the properties are occupied by U.S. government agencies and one property is occupied by Federal Express Corporation, which is rated investment grade by both Moody's Investors Service and Standard & Poor's Corporation. We do not intend to purchase any additional properties that are primarily occupied by non-governmental tenants. Our portfolio as of September 30, 2003 consisted of the following:

LOCATION	TENANT/ OCCUPANT	YEAR BUILT/ RENOVATED	SQ. FT. LEASED	RENT/ SQ. FOOT	GROSS ANNUALIZED RENT
Bakersfield, California	United States of America/Drug Enforcement Administration	2000	9,800	$31.87	$ 312,338
Kingsport, Tennessee	United States of America/Social Security Administration	1999	22,848	$17.30	$ 395,291
Charleston, West Virginia	United States of America/Social Security Administration	1959/1999	90,050	$22.19	$1,998,170
Clarksburg, West Virginia	United States of America/ Department of Justice, Drug Enforcement Administration, Federal Bureau of Investigation, Social Security Administration	1998	55,443	$23.20	$1,286,017
Harahan (New Orleans), Louisiana	Federal Express Corporation	1996	70,707	$ 5.14	$ 363,440

As used in the table above and throughout this prospectus, "Gross Annualized Rent" is determined by multiplying November 2003 rents by 12 and "Rent Per Square Foot" is determined by dividing the Gross Annualized Rent by the leased square footage of the property. See "Our Business and Properties -- Our Properties" for more information.

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ACQUISITION PROPERTIES

As of January 1, 2004, we believe that the acquisition of the following properties is probable:

LOCATION	PURCHASE PRICE	TENANT/ OCCUPANT	YEAR BUILT/ RENOVATED	SQ. FT. LEASED	RENT/ SQ. FOO
Harlingen, Texas......	$ 19,125,000	United States of America/Border Patrol*	2000	53,075	$32.33

Harlingen, Texas......	$ 26,750,000	United States of America/Immigration & Naturalization Service I*	1998	17,423	$16.87
		United States of America/Immigration & Naturalization Service II*	2002	107,836	$22.53
Baton Rouge, Louisiana...........	$ 6,600,000	United States of America/Veterans Administration**	Under construction (completion expected first quarter 2004)	36,287	$19.94
Parkersburg, West Virginia............	$ 20,270,000	United States of America/Bureau of Public Debt *	Under construction (completion expected fourth quarter 2004)	80,657	$26.63
College Park, Maryland............	$ 21,100,000(4)	United States of America/Food and Drug Administration**	Under construction (completion expected first quarter 2004)	65,760(4)	$35.2
Mineral Wells, West Virginia........	$ 5,035,000	United States of America/Bureau of Public Debt*	2003	38,324	$15.44
Pittsburgh, Pennsylvania	$ 30,000,000	United States of America/Federal Bureau of Investigation**	2001	87,178	$36.38
Total................	$128,880,000			486,540	

LOCATION	LEASE TYPE
Harlingen, Texas......	Modified Gross Lease
Harlingen, Texas......	Modified Gross Lease
	Modified Gross Lease
Baton Rouge, Louisiana...........	Modified Gross

	Lease
Parkersburg, West Virginia............	Modified Gross Lease
College Park, Maryland............	Modified Gross Lease
Mineral Wells, West Virginia........	Modified Gross Lease
Pittsburgh, Pennsylvania	Modified Gross Lease
Total.................	

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* Under contract

** Under letter of intent

(1) The GSA has agreed to extend the term of this lease to August 2020 with no early termination provision. We are finalizing this agreement. We will not acquire the property unless and until the lease extension is finalized.

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(2) The GSA has agreed to extend the term of these leases to October 2022 with no early termination provisions. We are finalizing this agreement. We will not acquire the property unless and until the lease extension is finalized.

(3) The lease is for a fixed term commencing on the property completion date. The Lease Maturity Date is estimated based on an assumed property completion date. See "Business and Properties -- Acquisition Properties."

(4) Does not include approximately 15,000 square feet of vacant office space that may be leased in the future. If this vacant space is leased prior to building completion, we must pay an additional $2.4 million.

While we believe that these acquisitions will close, we cannot guarantee that they will close because they remain subject to, in certain circumstances, the negotiation of definitive purchase agreements and, in general, our completion of due diligence and customary closing conditions.

DIVIDEND POLICY

We intend to distribute to our stockholders all or substantially all of our taxable REIT income each year in order to comply with the distribution requirements of the federal tax laws and to avoid federal income tax and the nondeductible excise tax. The actual amount and timing of distributions, however, will be at the discretion of our board of directors and will depend upon our actual results of operations and a number of other factors discussed in "Dividend Policy and Distributions." In addition, our board of directors has the power to issue preferred stock or other securities that have distribution rights senior to that of the common stock.

We declared our initial dividend of $0.075 per share of common stock, which we paid on January 31, 2003. We paid subsequent dividends of $0.15 per share on April 15, 2003 and July 15, 2003. The foregoing dividends were paid to our stockholders on a pro-rata basis based upon the date on which the shares of our common stock were obtained by such stockholders. On September 26, 2003, we declared a dividend of $0.15 per share, which was paid on October 15, 2003. On November 20, 2003, we declared a dividend of $0.15 per share, which was paid on January 15, 2004 to our stockholders of record on December 1, 2003. In accordance with our recently adopted policy, these dividends and future dividends will not be paid on a pro rata basis. There is, of course, no assurance that we will be able to maintain our dividend at this level, or at all. See "Risk Factors."

THE OFFERING

Common stock offered	14,000,000 shares
Common stock to be outstanding after this offering	15,223,052 shares

The share figures set forth above exclude:

- up to 2,100,000 additional shares that may be issued upon exercise of the underwriters' over-allotment option; and

- 1,000,000 shares of common stock available for grant under our 2003 Equity Incentive Plan. We intend to limit the number of shares granted under the 2003 Equity Incentive Plan to no more than 2.5% of our outstanding common stock.

Use of Proceeds

We will receive approximately $128.7 million from this offering after deducting the underwriting discount and estimated offering expenses payable by us. We plan to use the proceeds as follows:

- approximately $950,000 to repay outstanding indebtedness owed to an affiliate of one of our underwriters, FBR. This indebtedness was incurred in the fourth quarter of 2003, accrues interest at an annual rate of 20% and matures on the earlier of March 31, 2004, or the closing of this offering. Of this outstanding indebt-

edness, $800,000 was used to fund property acquisitions and $150,000 was used for working capital;

- approximately $1.6 million to repay outstanding indebtedness owed to Genesis Financial Group, Inc. used to finance our acquisition of the Bakersfield property. This

indebtedness was incurred in January 2003, accrues interest at an annual rate of LIBOR plus 250 basis points (3.64% at September 30, 2003) and matures on December 30, 2004;

- approximately $2.3 million to repay outstanding indebtedness under a line of credit owed to Citizens First Bancorp, Inc. used to finance the acquisition of our Charleston property. This indebtedness was incurred in April 2003, accrues interest on an annual basis at prime plus 50 basis points (4.50% at September 30, 2003) and matures on February 20, 2004;

- approximately $110,000 to repay indebtedness owed to Citizens First Savings Bank used for working capital purposes. This indebtedness was incurred in June 2003, accrues interest on an annual basis at prime (4.00% at September 30, 2003) and matures on October 31, 2004;

- approximately $108.9 million to fund the purchase price (including closing costs but excluding indebtedness owed to FBR) of the Harlingen, Baton Rouge, Parkersburg, Mineral Wells and Pittsburgh properties described under "Acquisition Properties." We will pay an acquisition fee to Genesis equal to 1% of the purchase price of these properties;

- approximately $4.9 million to fund the equity portion of the purchase price (including closing costs) of the College Park property described under "Acquisition Properties." We will pay an acquisition fee to Genesis equal to 1% of the purchase price of this property;

- approximately $8.6 million to fund the purchase price (including closing costs) of the additional properties to be purchased in 2004; and

- the remainder for general corporate and working capital purposes.

Pending these uses, we intend to invest the net offering proceeds in marketable, investment-grade securities that are consistent with our intention to qualify as a REIT.

New York Stock Exchange symbol "GPP"

CONFLICT OF INTEREST

In connection with this offering, one of our underwriters, FBR, will receive benefits in addition to customary underwriting compensation. These benefits consist of the repayment of loans made by an affiliate of FBR in the

amount of approximately $950,000 and the issuance to such affiliate of FBR a warrant to purchase our common stock. These transactions create a conflict of interest because FBR has an interest in the successful completion of this offering in addition to receiving customary underwriter compensation.

TAX STATUS

We intend to qualify as a REIT, commencing with our taxable year ending December 31, 2003. We believe that our current investments, proposed investments and proposed method of operation will enable us to meet the requirements for qualification as a REIT for federal income tax purposes. We intend to elect REIT status for our taxable year ending December 31, 2003. Assuming we qualify for REIT status, we must meet a number of organizational and operational requirements, including a requirement that we annually distribute at least 90% of our taxable REIT income to our stockholders to maintain our REIT status. As a REIT, we generally will not be subject to federal income tax on taxable REIT income we currently distribute to our stockholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax at regular corporate rates. Even if we qualify as a REIT, we may be subject to some federal, state and local taxes on our income or property. See "Material United States Federal Income Tax Consequences."

CORPORATE INFORMATION

We were incorporated in Michigan under the name Genesis Net Lease Realty, Inc. in September 1998. We sold 955,207 shares of our common stock between October 2002 and August 2003 in an SEC-registered public offering for $10.00 per share. As of September 30, 2003, we had approximately 265 stockholders and 975,552 shares of common stock outstanding. Until this offering, we have elected not to list our common stock on any securities market. We intend to reincorporate in Maryland and change our name to Government Properties Trust, Inc. immediately prior to the completion of this offering. See "Related Party Transactions." Our principal executive offices are located at 10250 Regency Circle, Suite 100, Omaha, Nebraska 68114. Our telephone number is (402) 391-0010.

SUMMARY FINANCIAL DATA

The following summary historical consolidated financial information as of December 31, 2002 and 2001 and for the years then ended were derived from our audited financial statements contained elsewhere in this prospectus. The following summary historical consolidated financial information as of September 30, 2003 and for the nine months ended September 30, 2003 and 2002, were derived from our unaudited financial statements contained elsewhere in this prospectus. The unaudited historical consolidated financial statements include all adjustments, consisting of normal recurring adjustments, which we considered necessary for a fair presentation of our financial condition and the results of operations as of such date and for such periods under generally accepted accounting principles.

You should read the information below in conjunction with the other financial information and analysis presented in this prospectus, including the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes.

	NINE MONTHS ENDED SEPTEMBER 30,		YEAR ENDED DECEMBER 31,	
	2003	2002	2002	2001
OPERATING INFORMATION(1):				
Revenue:				
Rental income..	$2,112,377	$ --	$ 4,885	$ --
Amortization of lease intangible costs...............	(148,997)	--	--	--
Total net revenue....................................	1,963,380	--	4,885	--
Expenses:				
Operating expenses...................................	(565,479)	--	--	--
Depreciation and amortization........................	(477,925)	--	(4,220)	--
General and administrative...........................	(398,824)	(51)	(8,836)	--
Interest income (expense), net.......................	(860,677)	(44)	2,361	1,340
Income tax (expense) benefit.........................	--		725	(725)
Total expenses, net..................................	(2,302,905)	(95)	(9,970)	615
Net income (loss)....................................	$ (339,525)	$ (95)	$(5,085)	$ 615
Earnings per share (basic and diluted)...............	$ (0.43)	$(0.01)	$ (0.24)	$ 0.06

	SEPTEMBER 30	DECEMBER 31	
	2003	2002	2001
BALANCE SHEET INFORMATION(1):			
Investment in real estate, net.........................	$38,645,992	$4,384,090	$ --
Cash and cash equivalents(2)...........................	1,062,060	2,314,319	956
Total assets...	40,186,261	6,879,595	181,101
Lines of credit..	2,397,655	337,867	--
Mortgage notes payable.................................	27,892,521	3,202,333	--
Mortgage note payable -- affiliate.....................	1,639,219	--	--
Total liabilities......................................	32,528,012	3,917,057	80,486
Total liabilities and shareholders' equity.............	40,186,261	6,879,595	181,101

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	NINE MONTHS ENDED SEPTEMBER 30,		YEAR ENDED DECEMBER 31,	
	2003	2002	2002	2001
OTHER INFORMATION:				
Cash flow:				
Provided by (used in) operating activity....	$ (325,997)	$ 14,662	$ 153,208	$ 5,989
Used in investing activity.................	$(32,256,934)	$ --	$(4,523,548)	$ --

Provided by (used in) financing activity....	$ 30,839,752	$(15,606)	$ 6,683,703	$(5,033)
Property rentable square footage(1)..........	248,848	--	70,707	--
EBITDA-historical(3).........................	$ 1,187,430	$ 82	$ (1,590)	$ 1,340
EBITDA-pro forma(3)..........................	$ 5,110,873		$ 4,960,839	

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(1) We acquired our first operating property on December 26, 2002.

(2) Includes restricted cash of $490,920 at September 30, 2003.

(3) EBITDA is defined as earnings before interest, income taxes, depreciation and amortization. We believe EBITDA is useful to investors as an indicator of our ability to service debt and pay cash distributions. EBITDA, as calculated by us, may not be comparable to EBITDA reported by other companies that do not define EBITDA exactly as we define the term. EBITDA does not represent cash generated from operating activities determined in accordance with generally accepted accounting principles (GAAP), and should not be considered as an alternative to operating income or net income determined in accordance with GAAP as an indicator of performance or as an alternative to cash flows from operating activities as an indicator of liquidity.

GAAP Reconciliation

	HISTORICAL				PRO FORMA	
	NINE MONTHS ENDED SEPTEMBER 30,		YEAR ENDED DECEMBER 31,		NINE MONTHS ENDED SEPTEMBER 30,	YEA DECE
	2003	2002	2002	2001	2003	
Net income (loss)...........	$ (339,525)	$(95)	$(5,085)	$ 615	$1,027,203	$
Add back (deduct):						
Depreciation and amortization(a)...........	626,922	--	4,220	--	2,819,148	3,
Interest expense............	900,033	177	--	--	1,264,522	1,
Income taxes................	--	--	(725)	725	--	
EBITDA......................	$1,187,430	$ 82	$(1,590)	$1,340	$5,110,873	$4,

(a) Includes amortization of lease intangibles of $148,977, $653,673 and $740,916 for the historical nine months ended September 30, 2003, the pro forma nine months ended September 30, 2003 and the pro forma year ended December 31, 2002, respectively, which is included as a reduction of rental revenue.

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RISK FACTORS

An investment in our common stock involves risks. You should carefully consider the following risks before making an investment decision. If any of these risks occurs, our business, financial condition, liquidity and results of operations could be seriously harmed, in which case the price of our common

stock could decline and you could lose all or a part of your investment.

RISKS RELATED TO OUR BUSINESS AND PROPERTIES

WE COMMENCED OPERATIONS IN DECEMBER 2002. OUR MANAGEMENT ONLY RECENTLY JOINED US AND DOES NOT HAVE ANY EXPERIENCE OPERATING A REIT OR A PUBLIC COMPANY. ACCORDINGLY, WE DO NOT HAVE A TRACK RECORD UPON WHICH YOU CAN BASE YOUR INVESTMENT DECISION.

We commenced operations in December 2002. We are, therefore, subject to the risks associated with the operation of any new business. Further, our president and chief executive officer joined us in June 2003, our chief financial officer joined us in September 2003, our director of asset acquisition joined us in December 2003, our director of asset management joined us in December 2003, and the remainder of our management will join us after the closing of this offering. Our management does not have any experience operating a REIT or a publicly-owned company. Consequently, you will be unable to fully evaluate our management's public company operational abilities. Given our recent organization and management experience, you should be especially cautious in drawing conclusions about our ability to execute our business plan.

WE EXPECT TO EXPERIENCE RAPID GROWTH IN THE NUMBER OF PROPERTIES ACQUIRED AND UNDER OUR MANAGEMENT.

We expect to experience a period of rapid growth upon the completion of this offering. Since December 2002, we have acquired five properties, containing 248,848 square feet for an aggregate purchase price of approximately $39.1 million. As of January 1, 2004, we intend to acquire eight GSA-leased properties containing approximately 487,000 square feet, for an aggregate purchase price of $128.9 million. Due to the anticipated rapid growth of our portfolio, we cannot assure you that we will be able to expand our management and staff with qualified and experienced personnel and implement administrative, accounting and operational systems sufficient to integrate these properties into our portfolio and manage any future acquisitions of additional properties without disruptions or unanticipated costs. Any failure to successfully integrate any future acquisitions into our portfolio could seriously harm our results of operations and financial condition and our ability to pay dividends.

THE CLOSINGS OF OUR PROPERTY ACQUISITIONS ARE SUBJECT TO CONDITIONS THAT MAY PREVENT US FROM ACQUIRING SUCH PROPERTIES.

As of January 1, 2004, we intend to acquire eight GSA-leased properties containing approximately 487,000 square feet for an aggregate purchase price of $128.9 million. Our ability to complete these acquisitions depends upon many factors, such as, in certain circumstances, the negotiation of definitive purchase agreements and, in general, the satisfaction of due diligence, completion of construction, and satisfaction of customary closing conditions. Any inability to complete these acquisitions within our anticipated time frames may harm our financial results and our ability to pay dividends.

OUR USE OF DEBT FINANCING COULD DECREASE OUR CASH FLOW AND EXPOSE US TO RISK OF DEFAULT UNDER OUR DEBT DOCUMENTS.

Our policy is to use debt to finance, on average, approximately 75% of the acquisition cost of the properties that we buy. We plan to implement this policy after we have completed the acquisitions described in this prospectus. As of September 30, 2003, we had approximately $32 million of outstanding indebtedness. We have a line of credit with an affiliate of FBR for up to $1 million, the outstanding balance of which will be repaid with a portion of the net proceeds of this offering.

Since we anticipate that our cash from operations will be insufficient to

repay all of our indebtedness prior to maturity, we expect that we will have to repay debt through refinancings, sale of properties or sale of

additional equity. If we are unable to refinance our indebtedness on acceptable terms, or at all, we might be forced to dispose of one or more of our properties on unfavorable terms, which might result in losses to us and which might adversely affect our cash available for distribution to our stockholders. If prevailing interest rates or other factors at the time of a refinancing result in higher interest rates on such refinancing, our interest expense would increase, which could seriously harm our operating results and financial condition and our ability to pay dividends.

Our debt and any increases in our debt may be detrimental to our business and financial results by:

- requiring us to use a substantial portion of our cash flow from operations to pay interest, which reduces the amount available for the operation of our properties or the payment of dividends;

- violating restrictive covenants in our loan documents, which would entitle the lenders to accelerate our debt obligations and foreclose on our properties;

- placing us at a competitive disadvantage compared to our competitors that have less debt;

- making us more vulnerable to economic and industry downturns and reducing our flexibility in responding to changing business and economic conditions;

- requiring us to sell one or more properties, possibly on unfavorable terms; and

- limiting our ability to borrow funds for operations or to finance acquisitions in the future or to refinance our indebtedness at maturity on terms as or more favorable than the terms of our original indebtedness.

BECAUSE OUR PRINCIPAL TENANT IS THE U.S. GOVERNMENT, OUR PROPERTIES MAY HAVE A HIGHER RISK OF TERRORIST ATTACK THAN SIMILAR PROPERTIES THAT ARE LEASED TO NON-GOVERNMENTAL TENANTS.

Because our principal tenant is the U.S. government, our properties may have a higher risk of terrorist attack than similar properties that are leased to non-governmental tenants. Terrorist attacks may negatively affect our operations and your investment in our common stock. We cannot assure you that there will not be further terrorist attacks against the United States or the United States government. Some of our properties could be considered "high profile" government buildings, which may make these properties more likely to be viewed as terrorist targets. These attacks or armed conflicts may directly impact the value of our properties through damage, destruction, loss or increased security costs. Certain losses resulting from these types of events are uninsurable and others would not be covered by our current terrorism insurance. Additional terrorism insurance may not be available at a reasonable price or at all.

WE MAY BE UNABLE TO INVEST THE PROCEEDS OF THIS OFFERING ON ACCEPTABLE TERMS WHICH MAY HARM OUR FINANCIAL CONDITION AND OPERATING RESULTS.

Until we are able to acquire the government-leased properties we have under contract and are able to identify and purchase other government-leased properties, we intend to invest temporarily the portion of the proceeds of this offering not used to fund property acquisitions, in marketable, investment-grade securities. We do not have any policies that limit the duration of these temporary investments or the amount of the offering proceeds that may be invested in those securities. We cannot assure you that we will be able to acquire the properties we have under contract or identify and purchase other government-leased properties that meet our investment criteria in sufficient time or on acceptable terms to produce an acceptable return on our investment. We will have broad authority to invest the remaining proceeds of this offering in other government-leased properties that we may identify in the future.

WE DEPEND ON THE U.S. GOVERNMENT FOR A SIGNIFICANT PORTION OF OUR REVENUES. ANY FAILURE BY THE U.S. GOVERNMENT TO PERFORM ITS OBLIGATIONS OR RENEW ITS LEASES UPON EXPIRATION MAY HARM OUR CASH FLOW AND ABILITY TO PAY DIVIDENDS.

Rent from the U.S. government represented approximately 87% of our revenues for the nine months ended September 30, 2003. In addition, the U.S. government leased approximately 72% of our total leased square feet as of September 30, 2003. Any default by the U.S. government, or its failure to renew its leases

with us upon their expiration, could cause interruptions in the receipt of lease revenue or result in vacancies, or both, which would reduce our revenue until the affected property is leased, and could decrease the ultimate value of the affected property upon sale. Further, failure on the part of a tenant to comply with the terms of a lease may give us the right to terminate the lease, repossess the applicable property and enforce the payment obligations under the lease; however, we would be required to find another tenant. We cannot assure you that we would be able to find another tenant without incurring substantial costs, or at all, or that, if another tenant were found, we would be able to enter into a new lease on favorable terms. Our leases with the U.S. government provide that the U.S. government may assign the lease and be relieved from all obligations under the lease, other than unpaid rent and other liabilities outstanding on the date of the assignment, subject to our prior written consent, which we may not unreasonably withhold. If this were to occur, it is unlikely that a successor tenant would have the same credit strength as the U.S. government.

AN INCREASE IN THE OPERATING COSTS OF OUR GOVERNMENT-LEASED PROPERTIES WOULD HARM OUR CASH FLOW AND ABILITY TO PAY DIVIDENDS.

Our objective is to acquire government-leased properties in which the tenant is wholly responsible for any increases in operating costs that apply to the property. However, this type of triple-net lease is not typical of the leases entered into through the GSA. Under present practice, GSA leases cover increases in real estate taxes above a base amount. GSA leases also increase that portion of the rent applicable to other operating expenses by an agreed upon percentage based upon the Consumer Price Index. To the extent operating costs other than real estate taxes increase at a rate greater than the specified percentage, our cash flow would be harmed and our ability to pay dividends may be harmed.

IF WE ARE UNABLE TO LEASE PROPERTIES THAT ARE PARTIALLY OR COMPLETELY VACANT, WE MAY BE REQUIRED TO RECOGNIZE AN IMPAIRMENT LOSS WITH RESPECT TO THE CARRYING VALUES OF THESE PROPERTIES, WHICH MAY SERIOUSLY HARM OUR OPERATING RESULTS AND FINANCIAL CONDITION.

We intend to acquire properties that are fully leased to government

entities. However, any of our properties may become partially or completely vacant in the future. If we are unable to lease these properties and generate sufficient cash flow to recover the carrying value of these properties, we may be required to recognize an impairment loss, which could seriously harm our operating results and financial condition.

RESTRICTIVE COVENANTS IN OUR LOAN DOCUMENTS MAY RESTRICT OUR OPERATING OR ACQUISITION ACTIVITIES, WHICH MAY HARM OUR FINANCIAL CONDITION AND OPERATING RESULTS.

The mortgages on our properties contain customary restrictive covenants, including provisions that may limit the borrowing subsidiary's ability, without the prior consent of the lender, to incur additional indebtedness, further mortgage or transfer the applicable property, purchase or acquire additional property, discontinue insurance coverage, change the conduct of its business or make loans or advances to, enter into any transaction of merger or consolidation with, or acquire the business, assets or equity of, any third party. In addition, any of our future lines of credit or loans may contain financial covenants, further restrictive covenants and other obligations. If we breach covenants or obligations in our debt agreements, the lender can generally declare a default and require us to repay the debt immediately and, if the debt is secured, can foreclose on the property securing the loan. In order to meet our debt service obligations, we may have to sell properties either potentially at a loss or at times that prohibit us from achieving attractive returns. Any failure to pay our indebtedness when due or failure to cure events of default could result in higher interest rates during the period of the loan default and could ultimately result in the loss of properties through foreclosure.

INCREASING COMPETITION FOR THE ACQUISITION OF GOVERNMENT-LEASED PROPERTIES MAY IMPEDE OUR ABILITY TO MAKE FUTURE ACQUISITIONS OR MAY INCREASE THE COST OF THESE ACQUISITIONS, WHICH COULD HARM OUR OPERATING RESULTS AND FINANCIAL CONDITION.

We compete with many other entities for the acquisition of government-leased properties. Our competitors include financial institutions, institutional pension funds, other REITs, other public and private real estate companies and private real estate investors. These competitors may prevent us from acquiring

desirable properties or increase the price we must pay for our real estate investments. Our competitors may have greater resources than we do, and may be willing to pay more for similar property. In particular, larger REITs may enjoy significant competitive advantages that result from, among other things, a lower cost of capital and enhanced operating efficiencies. In addition, the number of entities and the amount of funds competing for government-leased properties may increase, resulting in increased demand and increased prices paid for these properties. If we are forced to pay higher prices for properties, our profitability may decrease, and you may experience a lower return on your investment. Increased competition for properties may also preclude us from acquiring those that would generate attractive returns to us.

OUR ACQUISITIONS OF GOVERNMENT-LEASED PROPERTIES MAY RESULT IN DISRUPTIONS TO OUR BUSINESS AS A RESULT OF THE BURDEN PLACED ON MANAGEMENT.

Our growth strategy involves the acquisition of government-leased properties. These acquisitions may cause disruptions in our operations and divert management's attention away from our day-to-day operations, which could impair our relationships with our current tenants and employees. In addition, if we were to acquire properties indirectly by acquiring another entity, we may be unable to integrate effectively the operations and personnel of the acquired

business or to train, retain and motivate any key personnel from the acquired business. Any inability of our management to implement effectively our acquisitions may cause disruptions to our business and may harm our operating results and financial condition, as well as our ability to pay dividends.

WE HAVE LIMITED TIME TO PERFORM DUE DILIGENCE ON MANY OF OUR ACQUIRED PROPERTIES, WHICH COULD SUBJECT US TO SIGNIFICANT UNEXPECTED LIABILITIES AND UNDER-PERFORMANCE OF THE ACQUIRED PROPERTIES.

When we enter into an agreement to acquire a property, we often have limited time to complete our due diligence prior to acquiring the property. Because our internal resources are limited, we may rely on third parties to conduct a portion of our due diligence. For example, we have in the past engaged environmental consultants, appraisers, professional engineers and lawyers to help perform due diligence. To the extent we or these third parties underestimate or fail to identify risks and liabilities associated with the properties we acquire, we may incur unexpected liabilities or the property may fail to perform in accordance with our projections. If we do not accurately assess during the due diligence phase the value of, and liabilities associated with, properties prior to their acquisition, we may pay a purchase price that exceeds the current fair value of the assets. As a result, material goodwill and other intangible assets would be required to be recorded, which could result in significant charges in future periods. These charges, in addition to the financial impact of significant liabilities that we may assume, could seriously harm our financial and operating results, as well as our ability to pay dividends.

OUR CASH FLOW IS NOT ASSURED. IF OUR CASH FLOW IS REDUCED, WE MAY NOT BE ABLE TO PAY DIVIDENDS.

We intend to distribute to our stockholders all or substantially all of our taxable REIT income each year in order to comply with the distribution requirements of the federal tax laws and to avoid federal income tax and the nondeductible excise tax. We have not established a minimum dividend payment level. Our ability to pay dividends may be adversely affected by the risks described in this prospectus. All distributions will be made at the discretion of our board of directors and will depend on our earnings, our financial condition, maintenance of our REIT status and other factors that our board of directors may deem relevant from time to time. We cannot assure you that we will be able to pay dividends in the future.

Our ability to pay dividends is based on many factors, including:

- our ability to make additional acquisitions;

- our success in negotiating favorable lease terms;

- our tenants' ability to perform under their leases; and

- efficient management of our properties.

We also cannot assure you that the level of our dividends will increase over time or the receipt of rental revenue in connection with future acquisitions of properties will increase our cash available for distribution to stockholders. In the event of defaults or lease terminations by our tenants, rental payments could decrease or cease, which would result in a reduction in cash available for distribution to our stockholders. If our cash available for distributions generated by our assets is less than our expected dividend distributions, or if such cash available for distribution decreases in future

periods from expected levels, our ability to make the expected distributions would be adversely affected. Any such failure to make expected distributions may result in a decrease in the market price of our stock. See "Dividend Policy and Distributions."

OUR BOARD OF DIRECTORS MAY ALTER OUR INVESTMENT POLICIES AT ANY TIME WITHOUT STOCKHOLDER APPROVAL.

Our board of directors may alter our investment policies at any time without stockholder approval. Changes to these policies may adversely affect our financial performance and your investment.

WE HAVE INCURRED HISTORICAL LOSSES AND MAY INCUR FUTURE LOSSES.

We have had historical accounting losses of $339,525 and $5,085 for the nine months ended September 30, 2003 and the year ended December 31, 2002, respectively, and had an accumulated deficit of $713,739 as of September 30, 2003. We cannot assure you that we will not have similar losses in the future.

RISKS RELATED TO THIS OFFERING

WE HAVE BORROWED MONEY FROM AN AFFILIATE OF ONE OF OUR UNDERWRITERS, WHICH CAUSES A CONFLICT OF INTEREST.

In connection with this offering, one of our underwriters, FBR, will receive benefits in addition to customary underwriting compensation. These benefits consist of the repayment of the loan made by an affiliate of FBR of approximately $950,000 and the issuance to such affiliate of FBR of a warrant to purchase shares of our common stock. These transactions create a conflict of interest because FBR has an interest in the successful outcome of this offering in addition to receiving customary underwriter compensation.

THERE IS CURRENTLY NO PUBLIC MARKET FOR OUR COMMON STOCK. AN ACTIVE TRADING MARKET FOR OUR COMMON STOCK MAY NOT DEVELOP FOLLOWING THIS OFFERING.

There has not been any public market for our common stock prior to this offering. We have applied to have our common stock listed on the NYSE following the completion of this offering. We cannot assure you, however, that an active trading market for our common stock will develop after the offering or, if one does develop, that it will be sustained.

THE MARKET PRICE AND TRADING VOLUME OF OUR COMMON STOCK MAY BE VOLATILE FOLLOWING THIS OFFERING.

Even if an active trading market develops for our common stock, the market price of our common stock may be volatile. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur. If the market price of our common stock declines significantly, you may be unable to resell your shares at or above the public offering price. We cannot assure you that the market price of our common stock will not fluctuate or decline significantly in the future. Some of the factors that could negatively affect our share price or result in fluctuations in the price or trading volume of our common stock include:

- actual or anticipated variations in our quarterly operating results or dividends;

- changes in our funds from operations or earnings estimates;

- publication of research reports about us or the real estate industry;

- increases in market interest rates that lead purchasers of our shares 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 management personnel;

- actions by institutional stockholders;

- speculation in the press or investment community; and

- general market and economic conditions.

BROAD MARKET FLUCTUATIONS COULD NEGATIVELY IMPACT THE MARKET PRICE OF OUR COMMON STOCK.

The stock market has experienced extreme price and volume fluctuations that have affected the market price of many companies in industries similar or related to ours and that have been unrelated to these companies' operating performances. These broad market fluctuations could reduce the market price of our common stock. Furthermore, our operating results and prospects may be below the expectations of public market analysts and investors or may be lower than those of companies with comparable market capitalizations, which could seriously harm the market price of our common stock.

AN INCREASE IN MARKET INTEREST RATES MAY HARM THE MARKET PRICE OF OUR STOCK.

One of the factors that investors may consider in deciding whether to buy or sell our common stock is our dividend rate as a percentage of our share price, relative to market interest rates. If market interest rates increase, prospective investors may desire higher dividends on our stock or seek other securities paying higher dividends or rates of interest. The market price of our common stock likely will be based primarily on the earnings that we derive from rental income with respect to our properties and our related distributions to stockholders, 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 price of our common stock. For instance, if interest rates rise without an increase in our dividend rate, the market price of our common stock could decrease because potential investors may require a higher dividend yield on our common stock as market rates on interest-bearing securities, such as bonds, rise. In addition, rising interest rates would result in increased interest expense on our variable rate debt, thereby adversely affecting cash flow and our ability to service our indebtedness and pay dividends.

PURCHASERS OF OUR COMMON STOCK WILL EXPERIENCE IMMEDIATE DILUTION.

The assumed public offering price of our common stock in this offering is higher than the book value per share of our outstanding common stock. If you purchase common stock in this offering, you will experience immediate dilution in book value per share.

FUTURE SALES OF OUR COMMON STOCK MAY HARM OUR SHARE PRICE.

We cannot predict the effect, if any, of future sales of common stock, or

the availability of stock for future sales, on the market price of our common stock. Sales of substantial amounts of common stock or the perception that these sales could occur, may harm prevailing market prices for our common stock.

RISKS RELATED TO OUR ORGANIZATION AND STRUCTURE

WE DEPEND ON KEY PERSONNEL WITH LONG-STANDING BUSINESS RELATIONSHIPS, THE LOSS OF WHOM COULD THREATEN OUR ABILITY TO OPERATE OUR BUSINESS SUCCESSFULLY.

Our future success depends, to a significant extent, upon the continued services of Thomas D. Peschio, our president and chief executive officer, and of the other members of our management team. In particular, the relationships that Mr. Peschio and the other members of our management team have developed with existing and prospective developers of government-leased properties is critically important to the success of our business. Although we have an employment agreement with Mr. Peschio and other key executives, we cannot assure you that Mr. Peschio or the other executives will remain employed with us. We do not maintain key person life insurance on any of our officers. The loss of services of Mr. Peschio or other senior managers would harm our business and our prospects.

OUR BOARD OF DIRECTORS MAY AUTHORIZE THE ISSUANCE OF ADDITIONAL SHARES THAT MAY CAUSE DILUTION.

In connection with future equity offerings, the board of directors may authorize the issuance of additional shares of common stock. The issuance of additional shares could substantially dilute our existing stockholders.

OUR BOARD OF DIRECTORS MAY AUTHORIZE THE ISSUANCE OF SHARES WITH DIFFERING DIVIDEND RIGHTS THAT COULD HARM YOUR RIGHT TO RECEIVE DIVIDENDS

Our board of directors has the power to issue preferred stock or other securities that have distribution rights senior to that of the common stock. Any superior dividend rights could prevent us from paying dividends to the holders of our common stock.

OUR RIGHTS AND THE RIGHTS OF OUR STOCKHOLDERS TO TAKE ACTION AGAINST DIRECTORS AND OFFICERS ARE LIMITED, WHICH COULD LIMIT YOUR RECOURSE IN THE EVENT OF ACTIONS THEY TAKE OR FAIL TO TAKE WHICH ARE NOT IN YOUR BEST INTERESTS.

Maryland law provides that a director 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 interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. Our governing documents obligate us to indemnify our directors and officers for actions taken by them in those capacities to the extent permitted by Maryland law. Generally, Maryland law permits indemnification except in instances where the person seeking indemnification acted in bad faith or with active and deliberate dishonesty, or in instances where the person actually received an improper personal benefit in money, property or services or, in the case of a criminal proceeding, the person had reasonable cause to believe that his or her actions were unlawful. Additionally, we may be obligated to fund the defense costs incurred by our directors and officers. In addition, our governing documents limit the liability of our directors and officers for money damages, except for liability resulting from:

- actual receipt of an improper benefit or profit in money, property or services; or

- a final judgment based upon a finding of active and deliberate dishonesty by the director, trustee or officer that was material to the cause of action adjudicated.

As a result, we and our stockholders may have more limited rights against our directors and officers than might otherwise exist. See "Certain Provisions of Maryland Law and our Charter and Bylaws -- Limitation of Liability and Indemnification."

OUR OWNERSHIP LIMITATIONS MAY RESTRICT BUSINESS COMBINATION OPPORTUNITIES.

To qualify as a REIT under the federal tax laws, no more than 50% of our outstanding shares may be owned, directly or indirectly by five or fewer individuals (as defined in the federal tax laws to include certain entities) during the last half of each taxable year (other than our first REIT taxable year). To preserve our REIT status, our charter generally prohibits direct or indirect ownership by any person of more than 9.8% of the number or value of outstanding shares of any class of our securities, including our common stock. Generally, common stock owned by affiliated owners will be aggregated for purposes of the ownership limitation. Any transfer of our common stock that would disqualify our REIT status will be null and void, and the intended transferee will acquire no rights in such stock. The ownership limitation could have the effect of delaying, deterring or preventing a change in control or other transaction in which holders of common stock might receive a premium for their common stock over the then current market price or which such holders might believe to be otherwise in their best interest. Further, shares that are transferred in excess of the 9.8% ownership limit will be designated as "excess shares" subject to redemption. The ownership limitation provisions also may make our common stock an unsuitable investment vehicle for any person seeking to obtain, either alone or with others as a group, ownership of more than 9.8% of the number or value of outstanding shares of any class of our securities.

PROVISIONS OF OUR CHARTER DOCUMENTS COULD DETER A TAKEOVER, WHICH COULD INHIBIT YOUR ABILITY TO RECEIVE AN ACQUISITION PREMIUM FOR YOUR SHARES.

Provisions of our charter and bylaws could make it more difficult for a third party to acquire us, even if doing so would be beneficial to our stockholders. See "Material Provisions of Maryland Law and of our Charter and Bylaws."

MARYLAND LAW MAY DISCOURAGE A THIRD PARTY FROM ACQUIRING US, WHICH COULD INHIBIT YOUR ABILITY TO RECEIVE AN ACQUISITION PREMIUM FOR YOUR SHARES.

Maryland law provides broad discretion to our board of directors with respect to its duties in considering a change in control of our company, including that our board is subject to no greater level of scrutiny in considering a change in control transaction than with respect to any other act by our board.

Maryland law restricts mergers and other business combinations between our company and an interested stockholder. An "interested stockholder" is defined as any person who is the beneficial owner of 10% or more of the voting power of our common stock and also includes any of our affiliates or associates that, at any time within the two year period prior to the date of a proposed merger or other business combination, was the beneficial owner of 10% or more of our voting power. A person is not an interested stockholder if, prior to the most recent time at which the person would otherwise have become an interested stockholder, our board of directors approved the transaction which otherwise would have resulted in the person becoming an interested stockholder. For a period of five

years after the most recent acquisition of shares by an interested stockholder, we may not engage in any merger or other business combination with that interested stockholder or any affiliate of that interested stockholder. After the five year period, any merger or other business combination must be approved by our board of directors and by at least 80% of all the votes entitled to be cast by holders of outstanding voting stock and two-thirds of all the votes entitled to be cast by holders of outstanding voting stock other than the interested stockholder or any affiliate or associate of the interested stockholder unless, among other things, the stockholders (other than the interested stockholder) receive a minimum price for their common stock and the consideration received by those stockholders is in cash or in the same form as previously paid by the interested stockholder for its common stock. These provisions of the business combination statute do not apply to business combinations that are approved or exempted by our board of directors prior to the time that the interested stockholder becomes an interested stockholder. However, the business combination statute could have the effect of discouraging offers from third parties to acquire us and increasing the difficulty of successfully completing this type of offer. See "Material Provisions of Maryland Law and of our Charter and Bylaws -- Maryland Takeover Statutes."

OUR PRESIDENT AND CEO HAS AN EMPLOYMENT AGREEMENT THAT PROVIDES HIM WITH BENEFITS IN THE EVENT HIS EMPLOYMENT IS TERMINATED, WHICH COULD PREVENT OR DETER A POTENTIAL ACQUIRER FROM PURSUING A CHANGE OF CONTROL OF OUR COMPANY.

We have entered into an employment agreement with Thomas D. Peschio, our president and chief executive officer, that provides him with severance benefits if his employment ends due to a termination by us without cause. In the case of such termination, the vesting of his restricted stock will accelerate. Mr. Peschio also has the right to terminate his employment agreement for good reason, which includes a change of control. Mr. Peschio's ability to terminate his employment with us could prevent or deter a change of control of our company that might involve a premium price for our common stock or otherwise be in the best interests of our stockholders. See "Management -- Employment Agreements."

RISKS RELATED TO THE REAL ESTATE INDUSTRY

MORTGAGE DEBT OBLIGATIONS EXPOSE US TO INCREASED RISK OF PROPERTY LOSSES, WHICH COULD HARM OUR FINANCIAL CONDITION, CASH FLOW AND ABILITY TO SATISFY OUR OTHER DEBT OBLIGATIONS AND PAY DIVIDENDS.

Our policy is to use debt to finance, on average, approximately 75% of the acquisition cost of the properties that we buy. We will implement this policy after we have completed the acquisitions described in this prospectus. Incurring mortgage debt increases our risk of property losses because defaults on indebtedness

secured by properties may result in foreclosure actions initiated by lenders and ultimately our loss of the property securing any loans for which we are 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. The outstanding balance of the debt secured by the mortgage could exceed our tax basis in the property. If this occurs, we would recognize taxable income on foreclosure, but would not receive any cash proceeds. As a result, we may be required to identify and utilize other sources of cash to pay our taxes, which may result in a decrease in cash available for distribution to our stockholders.

In addition, our default under any one of our mortgage debt obligations may increase the risk of our default on our other indebtedness. If this occurs, our

financial condition, cash flow and ability to satisfy our other debt obligations or ability to pay dividends may be harmed.

ILLIQUIDITY OF REAL ESTATE INVESTMENTS COULD SIGNIFICANTLY IMPEDE OUR ABILITY TO RESPOND TO ADVERSE CHANGES IN THE PERFORMANCE OF OUR PROPERTIES AND HARM OUR FINANCIAL CONDITION.

Because real estate investments are relatively illiquid, our ability to promptly sell 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 factors that are beyond our control, including:

- adverse changes in national and local economic and market conditions;

- changes in interest rates and in the availability, cost and terms of debt financing;

- changes in governmental laws and regulations, fiscal policies and zoning ordinances and costs of compliance with laws and regulations, fiscal policies and ordinances;

- the ongoing need for capital improvements, particularly in older structures;

- changes in operating expenses; and

- civil unrest, acts of war and natural disasters, including earthquakes and floods, which may result in uninsured and underinsured losses.

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. These factors and any others that would impede our ability to respond to adverse changes in the performance of our properties could harm our operating results and financial condition, as well as our ability to pay dividends to stockholders.

COMPLIANCE WITH ENVIRONMENTAL LAWS COULD MATERIALLY INCREASE OUR OPERATING EXPENSES.

Our properties may be subject to environmental liabilities. An owner of real property can face liability for environmental contamination created by the presence or discharge of hazardous substances on the property. We may face liability regardless of:

- our knowledge of the contamination;

- the timing of the contamination;

- the cause of the contamination; or

- the party responsible for the contamination of the property.

There may be environmental problems associated with our properties of which we are unaware. Some of our properties use, or may have used in the past, underground tanks for the storage of petroleum-based or waste products that could create a potential for release of hazardous substances. If environmental contamination exists on our properties, we could become subject to strict, joint and several liability for the contamination by virtue of our ownership interest.

The presence of hazardous substances on a property may adversely affect our ability to sell the property and we may incur substantial remediation costs. In addition, although we may require in our leases that tenants operate in compliance with all applicable laws and to indemnify us against any environmental liabilities arising from a tenant's activities on the property, we could nonetheless be subject to strict liability by virtue of our ownership interest, and we cannot be sure that our tenants would satisfy their indemnification obligations under the applicable sales agreement or lease. The discovery of environmental liabilities attached to our properties could harm our results of operations and financial condition and our ability to pay dividends to stockholders.

OUR PROPERTIES MAY CONTAIN OR DEVELOP HARMFUL MOLD, WHICH COULD LEAD TO LIABILITY FOR ADVERSE HEALTH EFFECTS AND COSTS OF REMEDIATING THE PROBLEM.

When excessive moisture accumulates in buildings or on building materials, mold growth may occur, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Concern about indoor exposure to mold has been increasing as exposure to mold may cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, the presence of significant mold at any of our properties could require us to undertake a costly remediation program to contain or remove the mold from the affected property. In addition, the presence of significant mold could expose us to liability from our tenants, employees of our tenants and others if property damage for health concerns arise.

COMPLIANCE WITH THE AMERICANS WITH DISABILITIES ACT AND FIRE, SAFETY AND OTHER REGULATIONS MAY REQUIRE US TO MAKE UNEXPECTED EXPENDITURES THAT ADVERSELY IMPACT OUR ABILITY TO PAY DIVIDENDS.

Some or all of our properties may be required to comply with the Americans with Disabilities Act, or the ADA. The ADA has separate compliance requirements for "public accommodations" and "commercial facilities," but generally requires that buildings be made accessible to people with disabilities. Compliance with the ADA requirements could require removal of access barriers and non-compliance could result in imposition of fines by the U.S. government or an award of damages to private litigants, or both. We will attempt to shift the cost of compliance with the ADA to our tenants whenever possible. However, if we are unable to negotiate lease terms to this effect, if required changes involve greater expenditures than anticipated, or if the changes must be made on a more accelerated basis than anticipated, we could be required to expend our own funds to comply with the provisions of the ADA, which could adversely affect our results of operations and financial condition and our ability to make distributions to stockholders. In addition, we are required to operate our properties in compliance with fire and safety regulations, building codes and other land use regulations, as they may be adopted by governmental agencies and bodies and become applicable to our properties. We may be required to make substantial capital expenditures to comply with those requirements and these expenditures could harm our ability to pay dividends to our stockholders.

AN UNINSURED LOSS OR A LOSS THAT EXCEEDS THE INSURANCE POLICY LIMITS ON OUR PROPERTIES COULD SUBJECT US TO LOST CAPITAL OR REVENUE ON THOSE PROPERTIES.

Some of our properties may be covered by flood and earthquake insurance policies obtained by and paid for by the tenants as part of their risk management programs. Additionally, we have obtained blanket liability, flood and property damage insurance policies to protect us and our properties against loss should the indemnities and insurance policies provided by the tenants fail to restore the properties to their condition prior to a loss. All of these policies

may involve substantial deductibles and certain exclusions. In certain areas, we may have to obtain earthquake insurance on specific properties as required by our lenders or by law. We have also obtained terrorism insurance on all of our GSA-leased properties, but this insurance is subject to exclusions for loss or damage caused by nuclear substances, pollutants, contaminants and biological and chemical weapons. Should a loss occur that is uninsured or in an amount exceeding the combined aggregate limits for the policies noted above, or in the event of a loss that is subject to a substantial deductible under an insurance policy, we could lose all or part of our capital invested in, and anticipated revenue from, one or more

of the properties, which could harm our operations results and financial condition, as well as our ability to pay dividends to stockholders at historical levels or at all.

TAX RISKS OF OUR BUSINESS AND STRUCTURE

AN INVESTMENT IN OUR COMMON STOCK HAS VARIOUS TAX RISKS THAT COULD AFFECT THE VALUE OF YOUR INVESTMENT, INCLUDING THE TREATMENT OF DISTRIBUTIONS IN EXCESS OF EARNINGS, THE TIMING OF DIVIDEND PAYMENTS, AND THE INABILITY TO APPLY "PASSIVE LOSSES" AGAINST DISTRIBUTIONS.

Although the provisions of the federal tax laws relevant to your investment in our common stock are generally described in "Material United States Federal Income Tax Consequences," we urge you to consult your own tax advisor concerning the effects of federal, state and local income tax law on an investment in our common stock, because of the complex nature of the tax rules applicable to REITs and their stockholders, including the treatment of distributions in excess of current and accumulated earnings and profits, to the extent that they exceed the adjusted basis of an investor's common stock, as long-term capital gain (or short-term capital gain if the shares have been held for less than one year), the treatment of any dividend declared by us in October, November or December of any year payable to a stockholder of record on a specific date in any such month as being paid by us and received by the stockholder on December 31 of such year, the treatment of any gain or loss realized upon a taxable disposition of shares by a stockholder who is not a dealer in securities as a long-term capital gain or loss if the shares have been held for more than one year, otherwise as short-term capital gain or loss, the treatment of distributions that we properly designate as capital gain dividends as taxable to stockholders as gains (to the extent that they do not exceed our actual net capital gain for the taxable year) from the sale or disposition of a capital asset held for greater than one year, and the failure to treat distributions we make and gain arising from the sale or exchange by a stockholder of shares of our stock as passive income, meaning stockholders generally will not be able to apply any "passive losses" against such income or gain.

FUTURE DISTRIBUTIONS MAY INCLUDE A SIGNIFICANT PORTION AS A RETURN OF CAPITAL. WHILE WE HAVE NOT BORROWED FOR THE SPECIFIC PURPOSE OF PAYING DISTRIBUTIONS IN THE PAST, OUR PRIOR BORROWINGS ALLOWED US TO PAY DISTRIBUTIONS FROM OUR CASH FROM OPERATIONS.

Our distributions may exceed the amount of our income as a REIT. If so, the

excess distributions will be treated as a return of capital to the extent of the stockholder's basis in our stock and the stockholder's basis in our stock will be reduced by such amount. To the extent distributions exceed a stockholder's basis in our stock, the stockholder will recognize capital gain, assuming the stock is held as a capital asset. All of our prior distributions consisted of a return of capital.

DISTRIBUTION REQUIREMENTS IMPOSED BY LAW LIMIT OUR FLEXIBILITY IN EXECUTING OUR BUSINESS PLAN.

After our election to become a REIT, we generally will be required to distribute to our stockholders at least 90% of our taxable REIT income each year in order to maintain our status as a REIT for federal income tax purposes. Taxable REIT income is determined without regard to the deduction for dividends paid and by excluding net capital gains. We are also required to pay tax at regular corporate rates to the extent that we distribute less than 100% of our taxable income (including net capital gains) each year. In addition, we are required to pay 4% nondeductible excise tax on the amount, if any, by which certain distributions we pay with respect to any calendar year are less than the sum of 85% of our ordinary income for that calendar year, 95% of our capital gain net income for the calendar year and any amount of our income that was not distributed in prior years.

We intend to distribute to our stockholders all or substantially all of our taxable REIT income each year in order to comply with the distribution requirements of the federal tax laws and to avoid federal income tax and the nondeductible excise tax. Differences in timing between the receipt of income and the payment of expenses in arriving at taxable REIT income and the effect of required debt amortization payments could

require us to borrow funds on a short-term basis to meet the distribution requirements that are necessary to achieve the tax benefits associated with qualifying as a REIT.

WE MAY INCUR ADDITIONAL INDEBTEDNESS IN ORDER TO MEET OUR DISTRIBUTION REQUIREMENTS. WHILE WE HAVE NOT BORROWED FOR THE SPECIFIC PURPOSE OF PAYING DISTRIBUTIONS, OUR PRIOR BORROWINGS ALLOWED US TO PAY DISTRIBUTIONS FROM OUR CASH FROM OPERATIONS.

We intend to elect REIT status for the taxable year ending December 31, 2003. Assuming we qualify as a REIT, we will be required to distribute at least 90% of our taxable REIT income, which limits the amount of cash we will have available for other business purposes, including amounts to fund our growth. It is possible that the differences between the time we actually receive revenue or pay expenses and the period we report those items for distribution purposes, and potentially insufficient cash, could result in our having to borrow funds on a short-term basis to meet the 90% distribution requirement. While we have not borrowed for the specific purpose of paying distributions, our prior borrowings allowed us to pay distributions from our operations. These borrowings may decrease cash available for distribution.

OUR DISPOSAL OF PROPERTIES MAY HAVE NEGATIVE IMPLICATIONS, INCLUDING UNFAVORABLE TAX CONSEQUENCES.

If we make a sale of a property directly, and it is deemed to be a sale of dealer property or inventory, the sale may be deemed to be a "prohibited transaction" under the provisions of the federal tax laws applicable to REITs, in which case our gain from the sale would be subject to a 100% penalty tax. If we believe that a sale of a property might be treated as a prohibited transaction, we will attempt to structure a sale through a taxable REIT subsidiary, in which case the gain from the sale would be subject to corporate income tax but not the 100% prohibited transaction tax. We cannot assure you, however, that the IRS would not assert successfully that sales of properties that we make directly, rather than through a taxable REIT subsidiary, were sales of dealer property or inventory, in which case the 100% penalty tax would apply.

WE HAVE NOT YET ELECTED TO BE TAXED AS A REIT. IF WE FAIL TO MAKE SUCH ELECTION OR IF WE FAIL TO REMAIN QUALIFIED AS A REIT AFTER OUR REIT ELECTION, OUR DIVIDENDS WILL NOT BE DEDUCTIBLE BY US, AND OUR INCOME WILL BE SUBJECT TO TAXATION.

We have not yet elected to be taxed as a REIT. If we fail to make such election or if we fail to remain qualified as a REIT after our REIT election, our dividends will not be deductible by us and we will be subject to a corporate level tax on our taxable income. This would substantially reduce our cash available to pay dividends and the yield on your investment. Incurring corporate income tax liability might cause us to borrow funds, liquidate some of our investments or take other steps which could negatively affect our operating results. If our REIT status is terminated because of our failure to meet a REIT qualification requirement or if we voluntarily revoke our election, we would be disqualified from electing treatment as a REIT for the four taxable years following the year in which REIT status is lost.

WE MAY BE SUBJECT TO FEDERAL AND STATE INCOME TAXES THAT WOULD HARM OUR FINANCIAL CONDITION.

Even if we qualify and maintain our status as a REIT, we may become subject to federal income taxes and related state taxes. For example, if we have net income from a sale of dealer property or inventory, that income will be subject to a 100% penalty tax. In addition, we may not be able to pay sufficient distributions to avoid corporate income tax and the 4% excise tax on undistributed income. We may also be subject to state and local taxes on our income or property, either directly or at the level of our operating partnership or at a level of the other entities through which we indirectly own our properties that would aversely affect our operating results. We cannot assure you that we will be able to maintain REIT status, or that it will be in our best interests to continue to do so.

WE MAY BE SUBJECT TO ADVERSE LEGISLATIVE OR REGULATORY TAX CHANGES THAT COULD REDUCE THE MARKET PRICE OF OUR COMMON STOCK.

The federal tax laws governing REITs and the administrative interpretations of those laws may be amended at any time. Any of those new laws or interpretations may take effect retroactively. On May 28, 2003, President Bush signed into law a tax bill that reduces the tax rate on both dividends and long-term capital gains for most non-corporate taxpayers to 15% until 2008. This reduced tax rate generally does not apply to ordinary REIT dividends, which will continue to be taxed at the higher tax rates applicable to ordinary income. This legislation could cause shares in non-REIT corporations to be a more attractive investment to individual investors than they had been, and could harm the market price of our common stock.

FORWARD-LOOKING STATEMENTS

We make forward-looking statements in this prospectus that are subject to risks and uncertainties. These forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us. Our actual results could vary materially from those expressed in our forward-looking statements.

When we use the words "expect," "anticipate," "estimate," "may," "will," "should," "intend," "plan" or similar expressions, we intend to identify forward-looking statements. Forward-looking statements also include the assumptions that underlie such statements. The pro forma financial information in this prospectus and our expectations about our probable acquisitions also include forward-looking statements. We assume no obligation to update any of our forward-looking statements.

You should not place undue reliance on these forward-looking statements because they depend on assumptions, data or methodology that may be incorrect or imprecise and we may not be able to realize them. You should carefully consider the risks described in "Risk Factors" and elsewhere in this prospectus, which could cause our actual results to differ materially from those contemplated in our forward-looking statements.

USE OF PROCEEDS

Our net proceeds from this offering will be approximately $128.7 million, after deducting the underwriting discount and estimated offering expenses payable by us. If the underwriters' over-allotment option is exercised in full, our net proceeds will be approximately $148.1 million.

We plan to use these proceeds as follows:

- approximately $950,000 to repay outstanding indebtedness owed to an affiliate of one of our underwriters, FBR. This indebtedness was incurred in the fourth quarter of 2003, accrues interest on an annual basis at a rate of 20% and matures on the earlier of March 31, 2004 or the closing of this offering. Of this outstanding indebtedness, $800,000 was used to fund property acquisitions and $150,000 was used for working capital;

- approximately $1.6 million to repay outstanding indebtedness owed to Genesis Financial Group, Inc. used to finance the acquisition of our Bakersfield property. This indebtedness was incurred in January 2003, accrues interest on an annual basis at an annual rate of LIBOR plus 250 basis points (3.64% at September 30, 2003) and matures on December 30, 2004;

- approximately $2.3 million to repay outstanding indebtedness under a line of credit owed to Citizens First Bancorp, Inc. and used to finance the acquisition of our Charleston property. This indebtedness was incurred in April 2003, accrues interest on an annual basis at prime plus 50 basis points (4.50% at September 30, 2003) and matures on February 20, 2004;

- approximately $110,000 to repay outstanding indebtedness owed to Citizens First Savings Bank and used for working capital purposes. This indebtedness was incurred in June 2003, accrues interest on an annual basis at prime (4.00% at September 30, 2003) and matures on October 31,

2004;

- approximately $108.9 million to fund the purchase price (including closing costs but excluding indebtedness owed to FBR) of the Harlingen, Baton Rouge, Parkersburg, Mineral Wells and Pittsburgh properties described under "Acquisition Properties." We will pay an acquisition fee to Genesis equal to 1% of the purchase price of these properties;

- approximately $4.9 million to fund the equity portion of the purchase price (including closing costs) of the College Park property described under "Acquisition Properties." We will pay an acquisition fee to Genesis equal to 1% of the purchase price of this property;

- approximately $8.6 million to fund the purchase price (including closing costs) of the additional properties to be purchased in 2004; and

- the remainder for general corporate and working capital purposes.

Pending these uses, we intend to invest the net offering proceeds in marketable, investment-grade securities that are consistent with our intention to qualify as a REIT. We do not have any policies in place that would limit the duration of investments in these securities or the amount of the proceeds that may be invested in those securities.

As of January 1, 2004, we believe that the acquisition of the following properties is probable:

LOCATION	PURCHASE PRICE	TENANT/ OCCUPANT	YEAR BUILT/ RENOVATED	SQ. FT. LEASED	RENT/SQ. FOOT
Harlingen, Texas......	$ 19,125,000	United States of America/Border Patrol*	2000	53,075	$32.33
Harlingen, Texas......	$ 26,750,000	United States of America/Immigration & Naturalization Service I*	1998	17,423	$16.87
		United States of America/Immigration & Naturalization Service II*	2002(2)	107,836	$22.53
Baton Rouge, Louisiana...........	$ 6,600,000	United States of America/Veterans Administration**	Under construction (completion expected first quarter 2004)	36,287	$19.94
Parkersburg, West Virginia............	$ 20,270,000	United States of America/Bureau of Public Debt*	Under construction (completion expected fourth quarter 2004)	80,657	$26.63

College Park, Maryland............	$ 21,100,000(4)	United States of America/Food and Drug Administration**	Under construction (completion expected first quarter 2004)	65,760(4)	$35.23
Mineral Wells, West Virginia............	$ 5,035,000	United States of America/Bureau of Public Debt*	2003	38,324	$15.44
Pittsburgh, Pennsylvania.........	$ 30,000,000	United States of America/Federal Bureau of Investigation**	2001	87,178	$36.38
Total................	$128,880,000			486,540	

LOCATION	LEASE TYPE
Harlingen, Texas......	Modified Gross Lease
Harlingen, Texas......	Modified Gross Lease
	Modified Gross Lease
Baton Rouge, Louisiana...........	Modified Gross Lease
Parkersburg, West Virginia............	Modified Gross Lease
College Park, Maryland............	Modified Gross Lease
Mineral Wells, West Virginia............	Modified Gross Lease
Pittsburgh, Pennsylvania.........	Modified Gross Lease
Total................	

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* Under contract

** Under letter of intent

(1) The GSA has agreed to extend the term of this lease to August 2020 with no early termination provision. We are finalizing this agreement. We will not acquire the property unless and until the lease extension is finalized.

(2) The GSA has agreed to extend the term of these leases to October 2022 with no early termination provisions. We are finalizing this agreement. We will not acquire the property unless and until the lease extension is finalized.

(3) The lease is for a fixed term commencing on the property completion date. The Lease Maturity Date is estimated based on an assumed property completion date. See "Business and Properties -- Acquisition Properties."

(4) Does not include approximately 15,000 square feet of vacant office space that may be leased in the future. If this vacant space is leased prior to building completion, we must pay an additional $2.4 million.

While we believe that these acquisitions will close, we cannot guarantee that they will close because they remain subject to, in certain circumstances, the negotiation of definitive purchase agreements and, in general, our completion of due diligence and customary closing conditions.

As used in the table above and throughout this prospectus, "Gross Annualized Rent" is determined by multiplying November 2003 rents by 12 and "Rent Per Square Foot" is determined by dividing the Gross Annualized Rent by the leased square footage of the property.

CAPITALIZATION

The following table sets forth:

- our actual capitalization as of September 30, 2003; and

- our pro forma capitalization, as adjusted to give effect to the sale of common stock in this offering at an assumed offering price of $10.00 per share, not including shares subject to the underwriters' over-allotment option, net of the underwriting discount and estimated expenses payable by us in connection with this offering and the assumption of an additional mortgage note payable associated with the purchase of the College Park property identified in "Acquisition Properties."

This table should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our historical and unaudited pro forma financial information and related notes included elsewhere in this prospectus. This table does not reflect the effects of any of our acquisition properties.

	HISTORICAL SEPTEMBER 30, 2003	PRO FORMA ADJUSTMENTS	PRO FORMA SEPTEMBER 30, 2003
DEBT:			
Line of credit.......................	$ 2,397,655	$ (2,397,655)	$ --

Mortgage notes payable	27,892,521	16,500,000	44,392,521
Mortgage note payable-affiliate	1,639,219	(1,639,219)	--
Total debt	31,929,395	12,463,126	44,392,521
SHAREHOLDERS' EQUITY:			
Common stock(a)	8,371,988	128,700,000	137,071,988
Retained deficit	(713,739)	--	(713,739)
Total shareholders' equity	7,658,249	128,700,000	136,358,249
Total capitalization	$39,587,644	$141,163,126	$180,750,770

(a) As of September 30, 2003, we had 10,000,000 shares of common stock authorized, of which 975,552 shares were outstanding, with a par value of $10.00 per share. All of these outstanding shares were sold at $10.00 per share. Immediately upon the completion of this offering and our reincorporation as a Maryland corporation, we will have 50,000,000 shares of common stock authorized, of which 15,223,052 will be outstanding, with a par value of $0.01 per share.

The following summarizes the changes in our common stock as a result of this offering, assuming a sales price of $10.00 per share:

Gross proceeds	$140,000,000
Underwriting discounts, commissions and expenses	(10,450,000)
Other offering costs	(850,000)
Net offering proceeds	$128,700,000

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DILUTION

NET TANGIBLE BOOK VALUE

As of September 30, 2003, we had net tangible book value of $1,234,901 or approximately $1.27 per share. Net tangible book value per share represents the amount of our total tangible assets less our total liabilities, divided by the number of shares of our common stock outstanding.

In connection with the purchase of the five properties in our initial portfolio, we allocated $3,022,778 to tenant origination costs and $3,657,682 to intangible lease costs. If we included the net, unamortized amount of these tenant origination costs and intangible lease costs at September 30, 2003 of $6,423,368 to our net tangible book value at September 30, 2003, our net tangible book value per share would be $7.85 per share.

DILUTION AFTER THIS OFFERING

Dilution in net tangible book value per share represents the difference between the amount per share paid by purchasers of common stock in this offering and the net tangible book value per share of our common stock immediately after

this offering. After giving effect to the sale of the common stock offered by this prospectus, at an assumed public offering price of $10.00 per share, and our receipt of approximately $128.7 million in net proceeds from this offering, after deducting the underwriting discount and estimated offering expenses (assuming no exercise of the underwriters' overallotment option), our pro forma net tangible book value as of September 30, 2003 would have been approximately $107.6 million, or $7.07 per share. This amount represents an immediate increase in net tangible book value of $5.80 per share to existing stockholders prior to this offering and an immediate dilution in pro forma net tangible book value of $2.93 per share to new investors. The following table illustrates this per share dilution:

Public offering price per share in this offering............	$10.00
Historical net tangible book value per share as of September 30, 2003...	$ 1.27
Increase in pro forma net tangible book value per share to existing stockholders attributable to this offering.......	$ 5.80
Pro forma net tangible book value per share after this offering...	$ 7.07
Dilution in pro forma net tangible book value per share to new investors...	$ 2.93

With respect to the purchase of our five properties in our initial portfolio and the three properties in our acquisitions under contract included in our consolidated pro forma balance sheet, $28,969,648 was allocated to tenant origination costs and intangible lease costs. If we included the pro forma net, unamortized amount of the tenant origination costs and intangible lease at September 30, 2003 of $28,712,536 to our pro forma tangible net book at September 30, 2003, our pro forma tangible net book value per share would be $8.96 per share.

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DIVIDEND POLICY AND DISTRIBUTIONS

We intend to distribute to our sto