Digital Realty Trust, Inc.
Form 424B4
November 01, 2004
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Registration No. 333-117865

P R O S P E C T U S

20,000,000 Shares

Common Stock

This is the initial public offering of Digital Realty Trust, Inc. and no public market currently exists for our shares. All of the shares of our common stock offered by this prospectus are being sold by us. Our common stock has been approved for listing on the New York Stock Exchange, subject to official notice of issuance, under the symbol DLR . We have granted the underwriters an option to purchase up to 3,000,000 additional shares of our common stock to cover over-allotments. We expect to qualify as a real estate investment trust, or REIT, for federal income tax purposes.

We will receive or purchase from Global Innovation Partners, LLC, or GI Partners, and others contributions of our initial property investments in exchange for aggregate consideration with a value of $1,097.7 million, consisting of $21.4 million in cash, assumption of indebtedness and 38,262,206 limited partnership units in our operating partnership having a total value of $459.1 million based on the public offering price. Immediately following the completion of this offering, we will purchase 6,810,036 of these units (having an aggregate value of approximately $81.7 million based on the public offering price) from the investors in GI Partners for a per unit purchase price equal to the per share public offering price, net of underwriting discounts and commissions and financial advisory fees. If the underwriters exercise their over-allotment option, we will purchase additional units from these investors at the same price. Upon completion of this offering, consummation of the formation transactions and the purchase of units described above, GI Partners and the other third-party contributors, together with our directors and management, will own an approximate 62.8% interest in our company on a fully diluted basis.

See Risk Factors beginning on page 19 for certain risk factors relevant to an investment in our common stock, including, among others:

Our properties depend upon the technology industry and demand for technology-related real estate. A decline in the technology industry could lead to a decrease in the demand for technology-related real estate, which may have a greater adverse effect on our business and financial condition than if we owned a more diversified real estate portfolio.

We are dependent on significant tenants that may be costly or difficult to replace, and many of our properties are occupied by single tenants. The loss of significant tenants could cause a material decrease in cash available for distribution to you.

The majority of our initial properties are being contributed to our operating partnership by, or purchased from, GI Partners, an affiliated entity, for aggregate consideration with a value of $934.3 million, including $2.4 million in cash, assumption of indebtedness and 31,930,695 limited partnership units, having a total value of $383.2 million based on the public offering price. Conflicts of interest exist in connection with the transactions in which these properties will be contributed to us. We have not obtained appraisals for the initial properties in connection with the formation transactions and the consideration to be given by us in exchange for them may exceed their aggregate fair market value.

We have agreed to indemnify certain third-party contributors against adverse tax consequences if we were to sell, in taxable transactions, either of two of our properties that together represented 14.6% of our portfolio s annualized rent as of June 30, 2004, for a period of up to nine years, and to make up to $20.0 million of indebtedness available for guaranty by these contributors.

If we fail to qualify as a REIT for federal income tax purposes, we will be taxed as a corporation and our liability for certain federal, state and local income taxes may significantly increase, which could result in a material decrease in cash available for distribution to our stockholders.

	Per Share	Total
Public Offering Price	$ 12.00	$ 240,000,000
Underwriting Discount	$ 0.75	$ 15,000,000
Proceeds, before expenses, to us	$ 11.25	$ 225,000,000

The underwriters expect to deliver the shares on or about November 3, 2004.

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.

Citigroup **Merrill Lynch & Co.**

Credit Suisse First Boston

UBS Investment Bank

RBC Capital Markets

KeyBanc Capital Markets

JMP Securities

The date of this prospectus is October 28, 2004.

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You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with different information. You should not assume that the information in this prospectus is accurate as of any date other than the date on the front cover of this prospectus.

Dealer Prospectus Delivery Requirement

Until November 22, 2004 (25 days after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to a dealer s obligation to deliver a prospectus when acting as an underwriter and with respect to unsold allotments or subscriptions.

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PROSPECTUS SUMMARY

You should read the following summary together with the more detailed information regarding our company and the historical and pro forma financial statements appearing elsewhere in this prospectus, including under the caption Risk Factors. References in this prospectus to we, our, us and our company refer to Digital Realty Trust, Inc., a Maryland corporation, together with our consolidated subsidiaries, including Digital Realty Trust, L.P., a Maryland limited partnership of which we are the sole general partner and which we refer to in this prospectus as our operating partnership. Unless otherwise indicated, the information contained in this prospectus (including debt balances) is as of June 30, 2004, assumes that the underwriters over-allotment option is not exercised and gives effect to a 1.61193 for 1.0 stock and unit split immediately prior to the completion of this offering. Information related to the consideration to acquire our initial properties and with respect to uses of proceeds is estimated as of the anticipated consummation of this offering and the formation transactions.

Digital Realty Trust, Inc.

Overview

We own, acquire, reposition and manage technology-related real estate. We target high quality, strategically located properties containing applications and operations critical to the day-to-day operations of technology industry tenants. Our tenant base is diversified within the technology industry and reflects a broad spectrum of regional, national and international tenants that are leaders in their respective areas. We expect to qualify as a REIT for federal income tax purposes beginning with our initial taxable year ending December 31, 2004.

Upon completion of this offering and consummation of the formation transactions, we will own 22 properties located throughout the U.S. and one property located in London, England, containing a total of approximately 5.6 million net rentable square feet. Our operations and acquisition activities are focused on a limited number of markets where technology tenants are concentrated, including the Atlanta, Boston, Dallas, Denver, Los Angeles, Miami, New York, Phoenix, Sacramento, San Francisco and Silicon Valley metropolitan areas. As of June 30, 2004, our properties were approximately 87.1% leased at an average annualized rent per leased square foot of $20.01. The property types within our focus include:

- telecommunications infrastructure properties, which provide the infrastructure required by companies in the data, voice and wireless communications industries;
- information technology, or IT, infrastructure properties, which provide the physical environment required for disaster recovery, IT outsourcing and collocation;
- technology manufacturing properties, which contain highly specialized manufacturing environments for such purposes as disk drive manufacturing, semiconductor manufacturing and specialty pharmaceutical manufacturing; and
- regional or national headquarters of technology companies that are located in our target markets.

Many of our properties have extensive tenant improvements that have been installed at our tenants expense. Unlike traditional office and flex/research and development space, the location of and improvements to our facilities are generally essential to our tenants businesses, which we believe results in high occupancy levels, long lease terms and low tenant turnover. The tenant-installed improvements in our facilities are readily adaptable for use by similar tenants.

We will pay to the entities that will contribute or sell our initial properties aggregate consideration with a value of $1,097.7 million, consisting of $21.4 million in cash, assumption of indebtedness and 38,262,206 units, having a total value of $459.1 million based upon the public offering price. Of this amount, we will pay

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consideration with a value of $934.3 million to our predecessor, Global Innovation Partners, LLC, or GI Partners, including $2.4 million in cash, assumption of indebtedness and 31,930,695 units. We will use a portion of the proceeds of this offering to purchase 6,810,036 of these units from the investing members of GI Partners. Subsequent to the completion of this offering and the purchase by us of such units, GI Partners will own 25,120,659 units, or an approximate 46.8% interest in our company on a fully diluted basis.

GI Partners is a private equity fund that was formed to pursue investment opportunities that intersect the real estate and technology industries. GI Partners was formed in February 2001 after a competitive six-month selection process conducted by the California Public Employee Retirement System, or CalPERS, the largest U.S. pension fund. Upon GI Partners selection, CalPERS provided a $500 million equity commitment to GI Partners to invest in technology-related real estate and technology operating businesses. In addition, CB Richard Ellis Investors, a subsidiary of CB Richard Ellis, or CBRE, the largest global real estate services firm, and members of GI Partners management provided a commitment of $26.3 million.

Our Competitive Strengths

We believe we distinguish ourselves from other owners, acquirors and managers of technology-related real estate through our competitive strengths, which include:

High Quality Portfolio. Our portfolio contains state-of-the-art facilities with extensive tenant improvements. Based on current market rents and estimated costs to construct such properties and their improvements, we believe that they could not be replicated today on a cost-competitive basis. Many of the properties in our portfolio are located on major aggregation points formed by the physical presence of multiple major telecommunications service providers, which reduces our tenants costs and operational risks and increases the attractiveness of our buildings.

Presence in Key Markets. Our portfolio is primarily located in 11 major metropolitan areas, including the Boston, Dallas, Los Angeles, New York, San Francisco and Silicon Valley metropolitan areas, and is diversified so that no one market represents more than 28.9% of the aggregate annualized rent of our portfolio as of June 30, 2004.

Long-Term Leases. We have long-term leases with stable cash flows. As of June 30, 2004, our average lease term was in excess of 12.6 years, with an average of 7.9 years remaining. Through 2007, leases representing only 7.9% of our net rentable square feet, or 7.8% of our aggregate annualized rent are scheduled to expire. Moreover, through 2005, only 1.6% of our net rentable square feet is scheduled to expire.

Specialized Focus in Dynamic and Growing Industry. We focus solely on technology-related real estate because we believe that the growth in the technology industry will be superior to that of the overall economy. We believe that our specialized understanding of both real estate and technology gives us a significant competitive advantage over less specialized investors. We use our in-depth knowledge of the technology industry to identify strategically located properties, evaluate tenants creditworthiness and business models and assess the long-term value of in-place technical improvements.

Proven Acquisition Capability. Since 2002, we have acquired or will acquire upon completion of this offering and consummation of the formation transactions an aggregate of 23 technology-related real estate properties with 5.6 million net rentable square feet. Our acquisition capability is driven by our broad network of contacts within a highly fragmented universe of sellers and brokers of technology-related real estate. We have developed detailed, standardized procedures for evaluating acquisitions to ensure that they meet our financial and other criteria, which allows us to efficiently evaluate investment opportunities and, as appropriate, commit and close quickly. More than half of our acquisitions were acquired before they were broadly marketed by real estate brokers. We intend to continue to acquire additional technology-related real estate as a key component of our growth strategy.

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Experienced and Committed Management Team. Our senior management team, including our Executive Chairman, collectively have an average of over 22 years of experience in the technology or real estate industries, including experience as investors in, advisors to and founders of technology companies. We believe that our senior management team s extensive knowledge of both the real estate and the technology industries provides us with a key competitive advantage. Upon completion of this offering, our senior management team is expected to collectively own an approximate 3.2% equity interest in our company on a fully diluted basis, which aligns management s interests with those of our stockholders.

Unique Sourcing Relationships. Upon completion of this offering, the members of our contributors will hold a substantial indirect investment in our company, and accordingly, we anticipate that they will continue to play an active role. We expect that CBRE will assist us with obtaining property deal flow that has not been widely marketed, and GI Partners private equity investment professionals will provide additional technology industry expertise and access to proprietary deal flow. In addition, we expect that CalPERS will provide us with introductions to potential sources of acquisitions and access to its technology industry experts and will be a potential source of co-investment capital.

Business and Growth Strategies

Our primary business objectives are to maximize sustainable long-term growth in earnings, funds from operations and cash flow per share and to maximize returns to our stockholders. Our business strategies to achieve these objectives are:

Capitalize on Acquisition Opportunities. We believe that acquisitions enable us to increase cash flow and create long-term stockholder value. Our relationships with technology tenants and real estate brokers who are dedicated to serving these tenants provide us with ongoing access to potential acquisitions and often enable us to avoid competitive bidding situations. Furthermore, technology-related real estate is specialized, which makes it more difficult for traditional real estate investors to understand and fosters reduced competition for acquisitions relative to other property types. We believe this dynamic creates an opportunity for us to obtain better risk-adjusted returns on our capital.

Maximize the Cash Flow of our Properties. We aggressively manage and lease our assets to increase their cash flow. We often acquire properties with substantial in-place cash flow and some vacancy, which enables us to create upside through lease-up. Our portfolio was approximately 87.1% leased as of June 30, 2004, leaving approximately 720,000 square feet of net rentable space available for lease-up. Moreover, many of our properties contain extensive in-place infrastructure or buildout which may result in higher rents when leased to tenants seeking these improvements. We have also implemented cost control measures by negotiating expense pass-through provisions in tenant leases for operating expenses and certain capital expenditures. Leases covering more than 95% of the leased net rentable square feet in our portfolio as of June 30, 2004 required tenants to pay all or a portion of increases in operating expenses, including real estate taxes, insurance, common area charges and other expenses.

Convert Improved Space to Collocation Use. We own approximately 181,000 net rentable square feet of data center space with extensive installed tenant improvements that is currently, or will shortly be, available for lease. Rather than leasing such space to large single tenants, we have and intend to continue to convert these spaces to multi-tenant collocation use, with each tenant averaging between 100 and 1,000 square feet of net rentable space. Multi-tenant collocation is a cost-effective solution for smaller tenants who cannot afford their own extensive infrastructure and security. Because we can provide such features, we are able to lease space to these smaller tenants at a significant premium to other uses.

Leverage Strong Industry Relationships. We use our strong industry relationships with national and regional technology intensive companies to comprehensively identify and respond to their real estate

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needs. Our leasing and sales professionals are real estate and technology industry specialists who can develop complex facility solutions for the most demanding technology tenants.

Use Capital Efficiently. We have and will continue to opportunistically sell assets. We believe that we can increase stockholder returns by effectively redeploying asset sales proceeds into new acquisition opportunities. Recently, data centers have been particularly attractive candidates for sale to owner/users, as the cost of acquisition is usually substantially lower than the cost to construct a new facility. We will seek such opportunities to realize profits and re-invest our capital.

Our principal executive offices are located at 2730 Sand Hill Road, Suite 280, Menlo Park, California 94025. Our telephone number at that location is (650) 233-3600.

Summary Risk Factors

You should carefully consider the following important risks as well as the additional risks described in Risk Factors beginning on page 19:

Our portfolio of properties consists primarily of technology-related real estate. A decline in the technology industry could lead to a decrease in the demand for technology-related real estate, which may have a greater adverse effect on our business and financial condition than if we owned a more diversified real estate portfolio.

We are dependent on significant tenants that may be costly or difficult to replace, and many of our properties are occupied by single tenants. The loss of significant tenants could cause a material decrease in cash available for distribution to you.

The majority of our initial properties are being contributed or sold by GI Partners, an affiliated entity, for aggregate consideration with a value of $934.3 million, consisting of $2.4 million in cash, assumption of indebtedness and 31,930,695 units, having a total value of $383.2 million based upon the public offering price. Conflicts of interest exist in connection with the contribution of such properties to our operating partnership. We have not obtained appraisals of the properties and other assets to be contributed to our operating partnership. The negotiation with GI Partners of the contribution of the contributed properties and other assets and liabilities was not conducted at arm s length, and the consideration to be given by us in exchange for them may exceed their aggregate fair market value.

Under the contribution agreement with the third party contributors who will contribute the direct and indirect interests in the 200 Paul Avenue and 1100 Space Park Drive properties to our operating partnership, we agreed to indemnify them against adverse tax consequences if we were to sell, exchange or otherwise dispose of these properties in a taxable transaction until the earlier of the ninth anniversary of the completion of this offering and the date on which these contributors (or certain transferees) hold less than 25% of the units of our operating partnership issued to them in the formation transactions. These properties represented 14.6% of our portfolio s annualized rent as of June 30, 2004. In addition, under this contribution agreement, we agreed to make up to $20.0 million of indebtedness available for guaranty by these contributors which will, among other things, allow them to defer the recognition of gain in connection with the formation transactions.

We have owned our properties for a limited time and therefore our properties may have characteristics or deficiencies unknown to us that could affect such properties valuation or revenue potential.

If we fail to qualify as a REIT for federal income tax purposes, we will be taxed as a corporation and our liability for certain federal, state and local income taxes may significantly increase, which could result in a material decrease in cash available for distribution to you.

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Potential losses from fires, floods, earthquakes, terrorist attacks or other liabilities, including liabilities for environmental matters, may not be fully covered by our insurance policies or may be subject to significant deductibles. Our tenants generally retain title to the extensive and highly valuable technology-related improvements in many of our buildings, and as such are generally required to insure them. In the event of a casualty or other loss involving one of our buildings with extensive installed tenant improvements, our tenants may have the right to terminate their leases if we do not rebuild the base building within prescribed times. In such cases, the proceeds from the tenant s insurance will not be available to us to restore the improvements, and our insurance coverage may be insufficient to replicate the technology-related improvements made by such tenant.

Upon completion of this offering and consummation of the formation transactions, we anticipate that our total consolidated indebtedness will be approximately $510.0 million, and we may incur significant additional debt to finance future acquisition and development activities. Our debt service obligations with respect to such indebtedness will reduce cash available for distribution and expose us to the risk of default.

Our charter and bylaws, the Maryland General Corporation Law and the partnership agreement of our operating partnership contain provisions that may delay or prevent a change of control transaction or limit the opportunity for stockholders to receive a premium for their common stock in such a transaction, including a 9.8% limit on ownership of our common stock and a 9.8% limit on ownership of the value of our outstanding capital stock.

Upon completion of this offering, we will repay $243.7 million of a bridge loan made to GI Partners by an affiliate of Citigroup Global Markets Inc., one of the underwriters in this offering, and will assume the remaining $8.0 million outstanding under this loan. Additionally, affiliates of Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated are joint lead arrangers and joint bookrunning managers of our unsecured credit facility and we expect that affiliates of one or more of our underwriters may participate as agents or lenders under this facility. These transactions create potential conflicts of interest because the underwriters have an interest in the successful completion of this offering beyond the underwriting discounts and commissions and financial advisory fees they will receive. Consequently, the initial public offering price recommended by the underwriters could be higher than if such conflicts of interest did not exist.

Our performance and value are subject to risks associated with events and conditions generally applicable to owners and operators of real property that are beyond our control. Because real estate investments are relatively illiquid, our ability to promptly sell one or more properties in our portfolio in response to adverse changes in the performance of such properties may be limited, thus harming our financial condition.

Our estimated initial distributions represent approximately 94.7% of our estimated initial cash available for distribution for the 12 months ending June 30, 2005. We are party to debt agreements that contain lockbox and cash management provisions pursuant to which revenues generated by properties subject to such indebtedness are immediately swept into an account for the benefit of the lenders and are typically available to be distributed to us only after the funding of reserve accounts for, among other things, debt service, taxes, insurance, tenant improvements and leasing commissions. If our properties do not generate sufficient cash flow, we may be required to fund distributions from working capital or borrowings under our new credit facility or reduce such distributions.

Differences between the book value of properties contributed to our operating partnership and the aggregate price paid for our common stock in this offering will result in an immediate and substantial dilution in the pro forma net tangible book value of our common stock equal to $6.65 per share.

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The Properties

Our Initial Portfolio

The following table presents an overview of the initial portfolio of properties that we will own upon completion of this offering and consummation of the formation transactions, referred to herein as our portfolio, based on information as of June 30, 2004:

Property[1]	Metropolitan Area	Percent Ownership	Year Built/ Renovated	Net Rentable Square Feet[2]	Percent Leased	Annualized Rent[3]	Annualized Rent Per Leased Square Foot[4]	Annualized Net Effective Rent Per Leased Square Foot[5]
Telecommunications Infrastructure								
200 Paul Avenue	San Francisco	100.0%	1955/1999&2001	532,238	82.9%	$ 10,617,600	$ 24.05	$ 28.02
Univision Tower	Dallas	100.0	1983	477,107	79.7	7,949,798	20.90	19.99
Carrier Center[6]	Los Angeles	100.0	1922/1999	449,254	80.5	7,484,586	20.70	24.53
Camperdown House[7]	London, UK	100.0	1983/1999	63,233	100.0	4,023,972	63.64	63.64
1100 Space Park Drive	Silicon Valley	100.0	2001	167,951	46.6	3,481,041	44.51	52.35
36 Northeast Second Street	Miami	100.0	1927/1999	162,140	81.1	2,986,641	22.72	25.69
VarTec Building	Dallas	100.0	1999	135,250	100.0	1,352,500	10.00	10.45
				1,987,173	**80.1**	**37,896,138**	**23.81**	**26.23**
Information Technology Infrastructure								
Hudson Corporate Center	New York	100.0	1989/2000	311,950	88.7	6,207,590	22.43	24.46
Savvis Data Center	Silicon Valley	100.0	2000	300,000	100.0	5,580,000	18.60	22.07
AboveNet Data Center	Silicon Valley	100.0	1987/1999	179,489	97.1	4,259,986	24.45	35.73
Webb at LBJ	Dallas	100.0	1966/2000	365,449	78.9	4,176,959	14.48	14.75
NTT/Verio Premier Data Center	Silicon Valley	100.0	1982-83/2001	130,752	100.0	3,781,200	28.92	31.11
eBay Data Center	Sacramento	75.0[8]	1983/2000	62,957	100.0[9]	1,133,226	18.00	19.20
Brea Data Center	Los Angeles	100.0	1981/2000	68,807	100.0	1,176,600	17.10	19.83
AT&T Web Hosting Facility	Atlanta	100.0	1998	250,191	50.0	1,098,036	8.78	10.59
				1,669,595	**85.5**	**27,413,597**	**19.21**	**22.31**
Technology Manufacturing								
Ardenwood Corporate Park	Silicon Valley	100.0	1985-86	307,657	100.0	7,580,645	24.64	25.39
Maxtor Manufacturing Facility	Silicon Valley	100.0	1991 & 1997[10]	183,050	100.0	3,272,934	17.88	19.92
ASM Lithography Facility[11]	Phoenix	100.0	2002	113,405	100.0	2,549,165	22.48	25.52
				604,112	**100.0**	**13,402,744**	**22.19**	**23.75**
Technology Office/Corporate Headquarters								
Comverse Technology Building	Boston	100.0	1957 & 1999[12]	388,000	99.7	5,891,393	15.22	16.11
Stanford Place II	Denver	98.0[13]	1982	348,573	78.4	3,081,267	11.28	