

Digital Realty Trust, Inc.
Form 10-K
March 01, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

x Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2006.

.. Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Transition Period From to .

Commission file number 001-32336

DIGITAL REALTY TRUST, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
Incorporation or organization)

560 Mission Street, Suite 2900
San Francisco, CA
(Address of principal executive offices)

26-0081711
(IRS employer
identification number)

94105
(Zip Code)

Registrant's telephone number, including area code (415) 738-6500

Securities registered pursuant to Section 12(b) of the Act:

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Title of each class	Name of each exchange on which registered
Common stock, \$0.01 par value	New York Stock Exchange
Series A cumulative redeemable preferred stock, \$0.01 par value	New York Stock Exchange
Series B cumulative redeemable preferred stock, \$0.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

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

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

Large-accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.): Yes No

As of June 30, 2006, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$866.5 million based on the closing sale price as reported on the New York Stock Exchange.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Class	Outstanding at February 23, 2007
Common Stock, \$.01 par value per share	55,594,397

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement with respect to its 2007 Annual Meeting of Stockholders to be filed not later than 120 days after the end of the registrant's fiscal year are incorporated by reference into Part III hereof.

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FORM 10-K

FOR THE YEAR ENDED DECEMBER 31, 2006

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PART 1

ITEM 1. BUSINESS

General

As used herein, the terms we, our, us, the company 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 as our operating partnership. We target high-quality, strategically located properties containing applications and operations critical to the day-to-day operations of technology industry tenants and corporate enterprise datacenter users, including the information technology, or IT, departments of Fortune 1000 and financial services companies. Our tenant base is diversified and reflects a broad spectrum of regional, national and international tenants that are leaders in their respective areas. We operate as a real estate investment trust, or REIT, for federal income tax purposes.

Through our operating partnership, at December 31, 2006 we owned 59 properties, excluding one property held as an investment in an unconsolidated joint venture. Our properties are primarily located throughout North America with seven properties in Europe. Our properties contain a total of approximately 9.4 million net rentable square feet, excluding approximately 1.6 million square feet held for redevelopment. Our operations and acquisition activities are focused on a limited number of markets where technology industry tenants and corporate datacenter users are concentrated, including the Boston, Chicago, Dallas, Los Angeles, New York, San Francisco and Silicon Valley metropolitan areas. As of December 31, 2006, our portfolio, excluding space held for redevelopment, was approximately 95.0% leased at an average gross annualized rent per leased square foot of \$27.73. The types of properties within our focus include:

Internet gateways, which serve as hubs for Internet and data communications within and between major metropolitan areas;

Data centers, which provide secure, continuously available environments for the storage and processing of critical electronic information. Data centers are used for disaster recovery purposes, transaction processing and to house corporate IT operations;

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 offices of technology companies that are located in our target markets.

Most 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 also have approximately 1.6 million square feet available for redevelopment at December 31, 2006.

Our portfolio includes 20 properties contributed to us by Global Innovation Partners, LLC, or GI Partners, in connection with our initial public offering in November 2004. 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 Employees' Retirement System, or CalPERS, the largest U.S. pension fund.

Our principal executive offices are located at 560 Mission Street, Suite 2900, San Francisco, California 94105. Our telephone number at that location is (415) 738-6500. Our website is located at www.digitalrealtytrust.com. The information found on, or otherwise accessible through, our website is not

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incorporated into, and does not form a part of, this annual report on Form 10-K or any other report or document we file with or furnish to the United States Securities and Exchange Commission, or the Securities and Exchange Commission.

Recent Developments

On December 20, 2006 we acquired Unit 9, Blanchardstown Corporate Park, a property located in Dublin, Ireland for approximately 36.5 million (\$47.9 million based on the rate of exchange on December 20, 2006).

On December 5, 2006 we acquired 114 Rue Ambroise Croizat, a property located in Paris, France for approximately 40.4 million (\$53.8 million based on the rate of exchange on December 5, 2006).

On November 1, 2006 we acquired a 49% interest in 2001 Sixth Avenue, a property located in Seattle for approximately \$29.6 million.

On October 24, 2006, we completed the financing of 1100 Space Park Drive in Santa Clara, California. The new loan for \$55.0 million has a 10-year maturity with no principal amortization for three years, and a fixed rate of 5.886%.

On October 17, 2006 we acquired 2055 E. Technology Drive and a related ground lease, a property located in Tempe, Arizona for approximately \$9.7 million.

On October 4, 2006 we issued 9.2 million common shares for net proceeds of \$267.7 million after offering costs. We used proceeds from this issuance to pay \$133.8 million for the redemption of 4.6 million common Operating Partnership units tendered by GI Partners, with the balance being used to pay down our unsecured credit facility.

On October 1, 2006, we acquired three datacenters from AboveNet for approximately \$40.1 million. The purchase included a fee-simple ownership of 1807 Michael Faraday Court in Reston, Virginia and two leasehold interests at 111 Eight Avenue in New York City and 8100 Boone Boulevard in Vienna, Virginia.

Subsequent Events

On February 27, 2007 we acquired 44470 Chillum Place, a property located in Ashburn, Virginia, a suburb of Washington D.C. for approximately \$42.5 million. The acquisition was financed with borrowings under our unsecured credit facility.

On February 15, 2007, we declared the following distributions per share and the Operating Partnership made an equivalent distribution per unit.

Share Class	Series A Preferred Stock	Series B Preferred Stock	Common stock
Dividend and distribution amount	\$0.53125	\$0.49219	\$0.28625
Dividend and distribution payable date	April 2, 2007	April 2, 2007	April 2, 2007
Dividend payable to shareholders of record on	March 15, 2007	March 15, 2007	March 15, 2007
Annual equivalent rate of dividend and distribution	\$2.125	\$1.969	\$1.145

On February 2, 2007 we completed the financing of 150 South First Street in San Jose, California. The new loan for \$53.3 million has a 10-year maturity with no principal amortization for two years, and a fixed rate of 6.2995%.

On January 31, 2007 we completed the financing of 2045 & 2055 LaFayette in Santa Clara, California. The new loan for \$68.0 million has a 10-year maturity with no principal amortization for two years, and a fixed rate of 5.9265%.

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On January 22, 2007 we acquired 3011 LaFayette Street, a property located in Santa Clara, California for approximately \$13.5 million. The acquisition was financed with borrowings under our unsecured credit facility.

On January 5, 2007 we acquired 21110 Ridgetop Circle in Sterling, Virginia, a suburb of Washington, D.C. for approximately \$17.0 million. The acquisition was financed with borrowings under our unsecured credit facility.

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 that is Difficult to Replicate. Our portfolio contains state-of-the-art facilities with extensive tenant improvements. Based on current market rents and the estimated replacement costs of our 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 located in 25 metropolitan areas, including the Boston, Chicago, Dallas, Los Angeles, New York, San Francisco and Silicon Valley metropolitan areas, and is diversified so that no one market represented more than 20% of the aggregate gross annualized rent of our portfolio as of December 31, 2006.

Long-Term Leases. We have long-term leases with stable cash flows. As of December 31, 2006, our average lease term was in excess of 12.2 years, with an average of 6.9 years remaining, excluding renewal options. Through 2008, leases representing only 6.5% of our net rentable square feet excluding space held for development, or 11.3% of our aggregate gross annualized rent, are scheduled to expire. Moreover, through 2007, leases representing only 2.0% of our net rentable square feet excluding space held for development, or 4.2% of our aggregate gross annualized rent, are scheduled to expire.

Specialized Focus in Dynamic and Growing Industry. We focus solely on technology-related real estate because we believe that the growth of the technology industry, particularly Internet and data communications and corporate datacenter use, 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, particularly Internet and data communications and corporate datacenter use, to identify strategically located properties, market our properties to tenants with specific technology needs, evaluate tenants' creditworthiness and business models and assess the long-term value of in-place technical improvements.

Proven Acquisition Capability. As of December 31, 2006, our portfolio consists of 59 technology-related real estate properties, excluding one property held as an investment in an unconsolidated joint venture, that we, together with GI Partners, our predecessor, acquired beginning in 2002, (including 37 properties, which contain over 4.5 million net rentable square feet excluding 1.3 million square feet held for redevelopment, since our initial public offering in November 2004), for an aggregate of 9.4 million net rentable square feet, excluding approximately 1.6 million square feet held for redevelopment. Our broad network of contacts within a highly fragmented universe of sellers and brokers of technology-related real estate enables us to capitalize on acquisition opportunities. We have developed detailed, standardized procedures for evaluating acquisitions to ensure that they meet our financial, technical and other criteria, which allows us to evaluate investment opportunities efficiently and, as appropriate, commit and close quickly. We acquired more than half of our properties before they were broadly marketed by real estate brokers.

Experienced and Committed Management Team. Our senior management team, including our Executive Chairman, has an average of over 23 years of experience in the technology or real estate industries, including experience as investors in, advisors to and founders of technology companies. We

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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. At December 31, 2006 our senior management team collectively owned a common equity interest in our company of approximately 2.7%, which aligns management's interests with those of our stockholders.

Proven ability to sign new leases. We have considerable experience in identifying and leasing to new tenants. The combination of our specialized datacenter leasing team, external resources and customer referrals provided a robust funnel of new tenants in 2006. During the year ended December 31, 2006 we leased approximately 455,000 square feet to new tenants which resulted in gross annualized rent on a straight line basis of \$31.0 million.

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 corporate information technology groups, 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. Furthermore, the specialized nature of technology-related real estate makes it more difficult for traditional real estate investors to understand, which 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, excluding space held for redevelopment, was approximately 95.0% leased as of December 31, 2006, leaving approximately 0.5 million square feet of net rentable space available for lease-up and approximately 1.6 million square feet held for redevelopment. 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 control our costs 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 December 31, 2006 required tenants to pay all or a portion of increases in operating expenses, including real estate taxes, insurance, common area charges and other expenses. Since our initial public offering in November 2004, we have executed leases for approximately 820,000 square feet of technical space at an average gross annualized rent of \$59.19 per square foot and approximately 399,000 square feet of nontechnical space at an average gross annualized rent of \$22.49 per square foot, in each case including lease renewals and expansions commencing in 2004 through 2019.

Develop and obtain optimal returns on our space held for redevelopment. At December 31, 2006 we had approximately 1.6 million square feet held for redevelopment. We intend to redevelop this space for lease when justified by anticipated returns. The rate of return on our initial capital investment will be subject to many factors and we currently expect to obtain a 10% annual return on our investment.

Subdivide Improved Space for Turn-Key Datacenter Use. Turn-Key Datacenter space is move-in-ready space for the placement of computer and network equipment required to provide a datacenter environment. We own approximately 850,000 net rentable square feet of turn-key datacenter space with extensive datacenter improvements. We had leased approximately 681,000 square feet of this space at December 31, 2006. Rather than leasing all of this space to large single tenants, we are subdividing some of it for multi-tenant turn-key datacenter use, with tenants averaging between 100 and 15,000 square feet of net rentable space. Multi-tenant turn-key datacenters are effective solutions for

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tenants who lack the expertise or capital budget to provide their own extensive datacenter infrastructure and security. As experts in datacenter construction and operations, we are able to lease space to these tenants at a significant premium over other uses.

Leverage Strong Industry Relationships. We use our strong industry relationships with national and regional corporate enterprise information technology groups and technology-intensive companies to identify and comprehensively respond to their real estate needs. Our leasing and sales professionals are real estate and technology industry specialists who can develop complex facility solutions for the most demanding corporate datacenter and other technology tenants.

Use Capital Efficiently. We intend to occasionally sell our assets held for investment opportunistically. We believe that we can increase stockholder returns by effectively redeploying asset sales proceeds into new investment opportunities. Recently, datacenters 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 occasionally seek such opportunities to realize gains from these investment assets and reinvest our capital.

Competition

We compete with numerous regional developers, owners and operators of office and commercial real estate, many of which own properties similar to ours in the same submarkets in which our properties are located. If our competitors offer space at rental rates below current market rates, or below the rental rates we currently charge our tenants, we may lose potential tenants and we may be pressured to reduce our rental rates below those we currently charge in order to retain tenants when our tenants' leases expire. In addition, developers and operators may compete with us for acquisitions.

Regulation

General

Office properties in our submarkets are subject to various laws, ordinances and regulations, including regulations relating to common areas. We believe that each of our properties as of December 31, 2006 has the necessary permits and approvals to operate its business.

Americans With Disabilities Act

Our properties must comply with Title III of the Americans with Disabilities Act of 1990, or ADA, to the extent that such properties are public accommodations as defined by the ADA. The ADA may require removal of structural barriers to access by persons with disabilities in certain public areas of our properties where such removal is readily achievable. We believe that our properties are in substantial compliance with the ADA and that we will not be required to make substantial capital expenditures to address the requirements of the ADA. However, noncompliance with the ADA could result in imposition of fines or an award of damages to private litigants. The obligation to make readily achievable accommodations is an ongoing one, and we will continue to assess our properties and to make alterations as appropriate in this respect.

Environmental Matters

Under various laws relating to the protection of the environment, a current or previous owner or operator of real estate may be liable for contamination resulting from the presence or discharge of hazardous or toxic substances at that property, and may be required to investigate and clean up such contamination at that property or emanating from that property. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence of the contaminants, and the liability may be joint and several. Previous owners used some of our properties for industrial and retail purposes, so those properties may contain some level of environmental contamination. The presence of contamination or the failure to remediate

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contamination at our properties may expose us to third-party liability or materially adversely affect our ability to sell, lease or develop the real estate or to borrow using the real estate as collateral.

Some of the properties may contain asbestos-containing building materials. Environmental laws require that asbestos-containing building materials be properly managed and maintained, and may impose fines and penalties on building owners or operators for failure to comply with these requirements. These laws may also allow third parties to seek recovery from owners or operators for personal injury associated with exposure to asbestos-containing building materials.

In addition, some of our tenants, particularly those in the biotechnology and life sciences industry and those in the technology manufacturing industry, routinely handle hazardous substances and wastes as part of their operations at our properties. Environmental laws and regulations subject our tenants, and potentially us, to liability resulting from these activities or from previous industrial or retail uses of those properties. Environmental liabilities could also affect a tenant's ability to make rental payments to us. We require our tenants to comply with these environmental laws and regulations and to indemnify us for any related liabilities.

Independent environmental consultants have conducted Phase I or similar environmental site assessments on all of the properties in our portfolio. Site assessments are intended to discover and evaluate information regarding the environmental condition of the surveyed property and surrounding properties. These assessments do not generally include soil samplings, subsurface investigations or an asbestos survey. None of the recent site assessments revealed any past or present environmental liability that we believe would have a material adverse effect on our business, assets or results of operations. However, the assessments may have failed to reveal all environmental conditions, liabilities or compliance concerns. Material environmental conditions, liabilities or compliance concerns may have arisen after the review was completed or may arise in the future; and future laws, ordinances or regulations may impose material additional environmental liability.

Insurance

We carry comprehensive liability, fire, extended coverage, earthquake, business interruption and rental loss insurance covering all of the properties in our portfolio under a blanket policy. We select policy specifications and insured limits which we believe to be appropriate given the relative risk of loss, the cost of the coverage and industry practice and, in the opinion of our company's management, the properties in our portfolio are currently adequately insured. We do not carry insurance for generally uninsured losses such as loss from riots, war, terrorist threats or nuclear reaction. In addition, we carry earthquake insurance on our properties in an amount and with deductibles which we believe are commercially reasonable. Certain of the properties in our portfolio are located in areas known to be seismically active. See Risk Factors Risks Related to Our Business and Operations Potential losses may not be covered by insurance.

Employees

As of December 31, 2006 we had 109 employees. None of these employees is represented by a labor union.

Offices

Our headquarters is located in San Francisco. We have regional offices in Boston, Chicago, Dallas, Los Angeles, New York and international offices in London and Dublin, Ireland.

ITEM 1A. RISK FACTORS

For purposes of this section, the term stockholders means the holders of shares of our common stock and of our preferred stock. Set forth below are the risks that we believe are material to our stockholders. You should carefully consider the following factors in evaluating our company, our properties and our business. The

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occurrence of any of the following risks might cause our stockholders to lose all or a part of their investment. Some statements in this report including statements in the following risk factors constitute forward-looking statements. Please refer to the section entitled "Forward-Looking Statements" on page 20.

Risks Related to Our Business and Operations

Our properties depend upon the demand for technology-related real estate.

Our portfolio of properties consists primarily of technology-related real estate. A decrease in the demand for or adoption of datacenter space, Internet gateway facilities or other technology-related real estate could have a greater adverse effect on our business and financial condition than if we owned a portfolio with a more diversified tenant base. We are susceptible to adverse developments in the corporate datacenter, Internet and data communications and broader technology industries (such as reduced corporate IT budgets, business layoffs or downsizing, industry slowdowns, relocations of businesses, costs of complying with government regulations or increased regulation and other factors) and the technology-related real estate market (such as oversupply of or reduced demand for space). Changes in technology or industry practice could reduce demand for the physical datacenter space we provide or make the tenant improvements in our facilities obsolete or in need of significant upgrades to remain viable. In addition, the development of new technologies, the adoption of new industry standards or other factors could render many of our tenants' current products and services obsolete or unmarketable and contribute to a downturn in their businesses, thereby increasing the likelihood that they default under their leases, become insolvent or file for bankruptcy.

We depend on significant tenants, and many of our properties are single-tenant properties or are currently occupied by single tenants.

As of December 31, 2006, the 15 largest tenants in our property portfolio represented approximately 50% of the total gross annualized rent generated by our properties. Our largest tenants by gross annualized rent are Savvis Communications and Qwest Communications International. Savvis Communications leased approximately 1.4 million square feet of net rentable space as of December 31, 2006, representing approximately 11.9% of the total gross annualized rent generated by our properties. Qwest Communications International leased approximately 685,000 square feet of net rentable space as of December 31, 2006, representing approximately 7.7% of the total gross annualized rent generated by our properties. In addition, 26 of our 59 properties are occupied by single tenants, including properties occupied solely by Savvis Communications and Qwest Communications International. Our tenants may experience a downturn in their businesses, which may weaken their financial condition and result in their failure to make timely rental payments or their default under their leases. If any tenant defaults or fails to make timely rent payments, we may experience delays in enforcing our rights as landlord and may incur substantial costs in protecting our investment.

The bankruptcy or insolvency of a major tenant may adversely affect the income produced by our properties.

If any tenant becomes a debtor in a case under the federal Bankruptcy Code, we cannot evict the tenant solely because of the bankruptcy. In addition, the bankruptcy court might authorize the tenant to reject and terminate its lease with us. Our claim against the tenant for unpaid, future rent would be subject to a statutory cap that might be substantially less than the remaining rent actually owed under the lease. In either case, our claim for unpaid rent would likely not be paid in full. At December 31, 2006, we had no tenants in bankruptcy.

Our revenue and cash available for distribution, including cash available to pay dividends to our preferred stockholders or pay distributions to our common stockholders, could be materially adversely affected if any of our significant tenants were to become bankrupt or insolvent, or suffer a downturn in its business, or fail to renew its lease or renew on terms less favorable to us than its current terms.

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Our properties are located in 25 metropolitan areas. We depend upon the local economic conditions in these markets, including local real estate conditions. Many of these markets experienced downturns within recent years. Our operations may also be affected if too many competing properties are built in any of these markets. If there is a downturn in the economy in any of these markets, our operations and our revenue and cash available for distribution, including cash available to pay dividends to our preferred stockholders or pay distributions to our common stockholders, could be materially adversely affected. We cannot assure you that these markets will grow or will remain favorable to technology-related real estate.

In addition, our portfolio is geographically concentrated in the following metropolitan markets.

Metropolitan Market	Percentage of 12/31/06 total gross annualized rent ⁽¹⁾
Silicon Valley	16.9%
Dallas	13.0%
Chicago	11.4%
New York	8.1%
San Francisco	6.5%
Los Angeles	6.4%
Boston	4.7%
Other	33.0%
	100.0%

(1) Gross annualized rent is monthly contractual rent under existing leases as of December 31, 2006 multiplied by 12. Any negative changes in real estate, technology or economic conditions in these markets in particular could negatively impact our performance.

We have owned our properties for a limited time.

We owned 59 properties at December 31, 2006, excluding one property held as an investment in an unconsolidated joint venture. These properties are primarily located throughout North America and seven properties are located in Europe. The properties contain a total of approximately 9.4 million net rentable square feet, excluding 1.6 million square feet held for redevelopment. All the properties have been under our management for less than five years, and we have owned 17 of the properties for less than one year at December 31, 2006. The properties may have characteristics or deficiencies unknown to us that could affect their valuation or revenue potential. We cannot assure you that the operating performance of the properties will not decline under our management.

We have space available for redevelopment that may be difficult to redevelop or successfully lease to tenants.

We have approximately 1.6 million square feet held for redevelopment at December 31, 2006 including 4 vacant buildings. Successful redevelopment of this space depends on numerous factors including success in engaging contractors, obtaining permits and availability of financing. We are and intend to continue building out a large portion of this space on a speculative basis at significant cost. In addition there can be no assurance that once completed we will be able to successfully lease redeveloped space to new or existing tenants. If we are not able to lease redevelopment space, or lease it at rates below those we expected to achieve when we started the project, our financial performance would be materially adversely affected.

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We may have difficulty managing our growth.

We have significantly expanded the size of our company. For example, during 2006, we acquired 16 properties, including five properties outside the United States, and our number of employees increased from 53 to 109. The growth in our company may significantly strain our management, operational and financial resources and systems. In addition, as a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, and the rules and regulations of the NYSE. The requirements of these rules and regulations have increased our accounting, legal and financial compliance costs and may strain our management and financial, legal and operational resources and systems. An inability to manage our growth effectively or the increased strain on management of our resources and systems could result in deficiencies in our disclosure controls and procedures or our internal control over financial reporting and could negatively impact our cash available for distribution, including cash available to pay preferred stock dividends to our preferred stockholders or pay distributions to our common stockholders.

We have limited operating history as a REIT and as a public company.

We were formed in March 2004 and have limited operating history as a REIT and as a public company. We cannot assure you that our past experience will be sufficient to successfully operate our company as a REIT or as a public company. Failure to maintain REIT status or failure to meet the requirements of being a public company would have an adverse effect on our cash available for distribution, including cash available to pay dividends to our preferred stockholders or pay distributions to our common stockholders.

Tax protection provisions on certain properties could limit our operating flexibility.

We have agreed with the third-party contributors who contributed the direct and indirect interests in the 200 Paul Avenue 1-4 and 1100 Space Park Drive properties to indemnify them against adverse tax consequences if we were to sell, convey, transfer or otherwise dispose of all or any portion of these interests, in a taxable transaction, in these properties. However, we can sell these properties in a taxable transaction if we pay the contributors cash in the amount of their tax liabilities arising from the transaction and tax payments. The 200 Paul Avenue 1-4 and 1100 Space Park Drive properties represented 9.3% of our portfolio's gross annualized rent as of December 31, 2006. These tax protection provisions apply for a period expiring on the earlier of November 3, 2013 and the date on which these contributors (or certain transferees) hold less than 25% of the units issued to them in connection with the contribution of these properties to our operating partnership. Although it may be in our stockholders' best interest that we sell a property, it may be economically disadvantageous for us to do so because of these obligations. We have also agreed to make up to \$20.0 million of debt available for these contributors to guarantee. We agreed to these provisions in order to assist these contributors in preserving their tax position after their contributions.

Potential losses may not be covered by insurance.

We carry comprehensive liability, fire, extended coverage, earthquake, business interruption and rental loss insurance covering all of the properties in our portfolio under various insurance policies. We select policy specifications and insured limits which we believe to be appropriate and adequate given the relative risk of loss, the cost of the coverage and industry practice. We do not carry insurance for generally uninsured losses such as loss from riots, terrorist threats, war or nuclear reaction. Most of our policies, like those covering losses due to floods, are insured subject to limitations involving large deductibles or co-payments and policy limits which may not be sufficient to cover losses. A substantial portion of the properties we own are located in California, an area especially subject to earthquakes. Together, these properties represented approximately 30% of our portfolio's gross annualized rent as of December 31, 2006. While we carry earthquake insurance on our properties, the amount of our earthquake insurance coverage may not be sufficient to fully cover losses from earthquakes. In addition, we may discontinue earthquake or other insurance on some or all of our properties in the future if the cost of premiums for any of these policies exceeds, in our judgment, the value of the coverage relative to the risk of loss.

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In addition, many of our buildings contain extensive and highly valuable technology-related improvements. Under the terms of our leases, tenants generally retain title to such improvements and are obligated to maintain adequate insurance coverage applicable to such improvements and under most circumstances use their insurance proceeds to restore such improvements after a casualty. 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 tenants' 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 tenants. Furthermore, the terms of our mortgage indebtedness at certain of our properties may require us to pay insurance proceeds over to our lenders under certain circumstances, rather than use the proceeds to repair the property.

If we or one or more of our tenants experiences a loss which is uninsured or which exceeds policy limits, we could lose the capital invested in the damaged properties as well as the anticipated future cash flows from those properties. In addition, if the damaged properties are subject to recourse indebtedness, we would continue to be liable for the indebtedness, even if these properties were irreparably damaged.

Payments on our debt reduce cash available for distribution and may expose us to the risk of default under our debt obligations.

Our total consolidated indebtedness at December 31, 2006 was approximately \$1,122.6 million, and we may incur significant additional debt to finance future acquisition and development activities. We also have an unsecured credit facility which has a borrowing limit based upon a percentage of the value of our unsecured properties included in the facility's borrowing base. At December 31, 2006, \$148.0 million was available under this facility. In addition, under our contribution agreement with respect to the 200 Paul Avenue 1-4 and 1100 Space Park Drive properties, we have agreed to make available for guarantee up to \$20.0 million of indebtedness and may enter into similar agreements in the future.

Payments of principal and interest on borrowings may leave us with insufficient cash resources to operate our properties, pay the dividends to our preferred stockholders or pay distributions to our common stockholders necessary to maintain our REIT qualification. Our level of debt and the limitations imposed on us by our debt agreements could have significant adverse consequences, including the following:

our cash flow may be insufficient to meet our required principal and interest payments;

we may be unable to borrow additional funds as needed or on favorable terms;

we may be unable to refinance our indebtedness at maturity or the refinancing terms may be less favorable than the terms of our original indebtedness;

because a significant portion of our debt bears interest at variable rates, increases in interest rates could materially increase our interest expense;

we may be forced to dispose of one or more of our properties, possibly on disadvantageous terms;

we may default on our obligations and the lenders or mortgagees may foreclose on our properties or our interests in the entities that own the properties that secure their loans and receive an assignment of rents and leases;

we may violate restrictive covenants in our loan documents, which would entitle the lenders to accelerate our debt obligations; and

our default under any one of our mortgage loans with cross default provisions could result in a default on other indebtedness.

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If any one of these events were to occur, our financial condition, results of operations, cash flow, cash available for distribution, including cash available to pay dividends to our preferred stockholders or pay distributions to our common stockholders, per share trading price of our common stock or preferred stock, and

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our ability to satisfy our debt service obligations could be materially adversely affected. Furthermore, foreclosures could create taxable income without accompanying cash proceeds, a circumstance which could hinder our ability to meet the REIT distribution requirements imposed by the Internal Revenue Code of 1986 as amended (the Code).

We may be unable to identify and complete acquisitions and successfully operate acquired properties.

We continually evaluate the market of available properties and may acquire additional technology-related real estate when opportunities exist. Our ability to acquire properties on favorable terms and successfully operate them may be exposed to the following significant risks:

we may be unable to acquire a desired property because of competition from other real estate investors with significant capital, including both publicly traded REITs and institutional investment funds;

even if we are able to acquire a desired property, competition from other potential acquirors may significantly increase the purchase price or result in other less favorable terms;

even if we enter into agreements for the acquisition of technology-related real estate, these agreements are subject to customary conditions to closing, including completion of due diligence investigations to our satisfaction;

we may be unable to finance acquisitions on favorable terms or at all;

we may spend more than budgeted amounts to make necessary improvements or renovations to acquired properties;

we may be unable to integrate new acquisitions quickly and efficiently, particularly acquisitions of operating businesses or portfolios of properties, into our existing operations, and our results of operations and financial condition could be adversely affected;

acquired properties may be subject to reassessment, which may result in higher than expected property tax payments;

market conditions may result in higher than expected vacancy rates and lower than expected rental rates; and

we may acquire properties subject to liabilities and without any recourse, or with only limited recourse, with respect to unknown liabilities such as liabilities for clean-up of undisclosed environmental contamination, claims by tenants, vendors or other persons dealing with the former owners of the properties and claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties.

If we cannot finance property acquisitions on favorable terms, or operate acquired properties to meet our financial expectations, our financial condition, results of operations, cash flow, cash available for distribution, including cash available to pay dividends to our preferred stockholders or pay distributions to our common stockholders, per share trading price of our common stock or preferred stock, and ability to satisfy our debt service obligations could be materially adversely affected.

We may be unable to source off-market deal flow in the future.

A key component of our growth strategy is to continue to acquire additional technology-related real estate. To date, more than half of our acquisitions were acquired before they were widely marketed by real estate brokers, or off-market. Properties that are acquired off-market are typically more attractive to us as a purchaser because of the absence of competitive bidding, which could potentially lead to higher prices. We

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obtain access to off-market deal flow from numerous sources. If we cannot obtain off-market deal flow in the future, our ability to locate and acquire additional properties at attractive prices could be adversely affected.

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We face significant competition, which may decrease or prevent increases of the occupancy and rental rates of our properties.

We compete with numerous regional developers, owners and operators of real estate, many of which own properties similar to ours in the same submarkets in which our properties are located. If our competitors offer space at rental rates below current market rates, or below the rental rates we currently charge our tenants, we may lose potential tenants and we may be pressured to reduce our rental rates below those we currently charge in order to retain tenants when our tenants' leases expire. As a result, our financial condition, results of operations, cash flow, cash available for distribution, including cash available to pay dividends to our preferred stockholders or pay distributions to our common stockholders, per share trading price of our common stock or preferred stock, and ability to satisfy our debt service obligations could be materially adversely affected.

We may be unable to renew leases, lease vacant space or re-lease space as leases expire.

As of December 31, 2006, leases representing 2.0% of the square footage of the properties in our portfolio, excluding space held for redevelopment were scheduled to expire in 2007, and an additional 5.0% of the net rentable square footage excluding space held for redevelopment was available to be leased. We cannot assure you that leases will be renewed or that our properties will be re-leased at net effective rental rates equal to or above the current average net effective rental rates. If the rental rates for our properties decrease, our existing tenants do not renew their leases or we do not re-lease a significant portion of our available space and space for which leases are scheduled to expire, our financial condition, results of operations, cash flow, cash available for distribution, including cash available to pay dividends to our preferred stockholders or pay distributions to our common stockholders, per share trading price of our common stock or preferred stock, and our ability to satisfy our debt service obligations could be materially adversely affected.

In addition at December 31, 2006 we owned approximately 1.6 million square feet held for redevelopment. Successful redevelopment of this space depends on numerous factors including success in engaging contractors, obtaining environmental and legal permits and availability of financing. In addition, there can be no assurance that once we have redeveloped a space we will be able to successfully lease to new or existing tenants. If we are not able to successfully redevelop this space, if redevelopment costs are higher than we currently estimate, or if we are not able to lease space that has been redeveloped, our revenue and operating results could be adversely effected.

Our growth depends on external sources of capital which are outside of our control.

In order to maintain our qualification as a REIT, we are required under the Code to annually distribute at least 90% of our net taxable income, determined without regard to the dividends paid deduction and excluding any net capital gain. In addition, we will be subject to income tax at regular corporate rates to the extent that we distribute less than 100% of our net taxable income, including any net capital gains. Because of these distribution requirements, we may not be able to fund future capital needs, including any necessary acquisition or redevelopment financing, from operating cash flow. Consequently, we rely on third-party sources to fund our capital needs. We may not be able to obtain the financing on favorable terms or at all. Any additional debt we incur will increase our leverage. Our access to third-party sources of capital depends, in part, on:

general market conditions;

the market's perception of our business prospects and growth potential;

our current debt levels;

our current and expected future earnings;

our cash flow and cash distributions; and

the market price per share of our common stock and preferred stock.

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If we cannot obtain capital from third-party sources, we may not be able to acquire or develop properties when strategic opportunities exist, satisfy our debt service obligations or make the cash distributions to our stockholders necessary to maintain our qualification as a REIT.

Our unsecured credit facility restricts our ability to engage in some business activities.

Our unsecured credit facility contains negative covenants and other financial and operating covenants that, among other things:

restrict our ability to incur additional indebtedness;

restrict our ability to make certain investments;

restrict our ability to merge with another company;

restrict our ability to create, incur or assume liens;

restrict our ability to make distributions to our stockholders;

require us to maintain financial coverage ratios; and

require us to maintain a pool of unencumbered assets approved by the lenders.

These restrictions could cause us to default on our unsecured credit facility or negatively affect our operations and our ability to pay dividends to our preferred stockholders or distributions to our common stockholders.

The exchange and repurchase rights of our exchangeable debentures may be detrimental to holders of common stock.

Our operating partnership has \$172.5 million principal amount of 4.125% Exchangeable Senior Debentures due 2026, which we refer to as the exchangeable debentures. The exchangeable debentures may under certain circumstances, be exchanged for cash (up to the principal amount of the exchangeable debentures) and, with respect to any excess exchange value, into cash, shares of our common stock or a combination of cash and shares of our common stock at an initial exchange rate of 30.6828 shares per \$1,000 principal amount of exchangeable debentures. At the initial exchange rate, the exchangeable debentures are exchangeable for our common stock at an exchange price of approximately \$32.5916 per share. The exchange rate of the exchangeable debentures is subject to adjustment for certain events, including, but not limited to, certain dividends on our common stock in excess of \$0.265 per share per quarter, the issuance of certain rights, options or warrants to holders of our common stock, subdivisions or combinations of our common stock, certain distributions of assets, debt securities, capital stock or cash to holders of our common stock and certain tender or exchange offers. The exchangeable debentures are redeemable at the Company's option for cash at any time on or after August 18, 2011 and are subject to repurchase for cash at the option of the holder on August 15 in the years 2011, 2016 and 2021, or upon the occurrence of certain events. The exchangeable debentures are our senior unsecured and unsubordinated obligations.

The exchange of exchangeable debentures for our common stock would dilute stockholder ownership in our company, and could adversely affect the market price of our common stock and could impair our ability to raise capital through the sale of additional equity securities. Any adjustments to the exchange rate of the exchangeable debentures would exacerbate their dilutive effect. If the exchangeable debentures are not exchanged, the repurchase rights of holder of the exchangeable debentures may discourage or impede transactions that might otherwise be in the interest of holders of common stock. Further, these exchange or repurchase rights might be triggered in situations where we need to conserve our cash reserves, in which event such repurchase might adversely affect us and our stockholders.

Joint venture investments could be adversely affected by our lack of sole decision-making authority, our reliance on co-venturers financial condition and disputes between us and our co-venturers.

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We currently and may in the future co-invest in the future with third parties through partnerships, joint ventures or other entities, acquiring non-controlling interests in or sharing responsibility for managing the affairs

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of a property, partnership, joint venture or other entity. In that event, we would not be in a position to exercise sole decision-making authority regarding the property, partnership, joint venture or other entity. Investments in partnerships, joint ventures, or other entities may, under certain circumstances, involve risks not present when a third party is not involved, including the possibility that partners or co-venturers might become bankrupt or fail to fund their share of required capital contributions. Partners or co-venturers may have economic, tax or other business interests or goals which are inconsistent with our business interests or goals, and may be in a position to take actions contrary to our policies or objectives. Our joint venture partners may take actions that are not within our control, which would require us to dispose of the joint venture asset or transfer it to a taxable REIT subsidiary in order to maintain our status as a REIT. Such investments may also lead to impasses, for example, as to whether to sell a property, because neither we nor the partner or co-venturer would have full control over the partnership or joint venture. Disputes between us and partners or co-venturers may result in litigation or arbitration that would increase our expenses and prevent our officers and/or directors from focusing their time and effort on our day-to-day business. Consequently, actions by or disputes with partners or co-venturers may subject properties owned by the partnership or joint venture to additional risk. In addition, we may in certain circumstances be liable for the actions of our third-party partners or co-venturers. Each of these factors may result in returns on these investments being less than we expect or in losses and our financial and operating results may be adversely effected.

Our success depends on key personnel whose continued service is not guaranteed.

We depend on the efforts of key personnel, particularly Michael Foust, our Chief Executive Officer, A. William Stein, our Chief Financial Officer and Chief Investment Officer, Scott Peterson, our Senior Vice President, Acquisitions, Christopher Crosby, our Senior Vice President, Sales and Technical Services and James R. Trout, our Senior Vice President of Portfolio and Technical Operations. They are important to our success for many reasons, including that each has a national or regional reputation in our industry and the investment community that attracts investors and business and investment opportunities and assists us in negotiations with investors, lenders, existing and potential tenants and industry personnel. If we lost their services, our business and investment opportunities and our relationships with lenders and other capital markets participants, existing and prospective tenants and industry personnel could suffer. Many of our other senior executives also have strong technology and real estate industry reputations. As a result, we have greater access to potential acquisitions and leasing and other opportunities, and are better able to negotiate with tenants. The loss of any of these key personnel would result in the loss of these and other benefits and could materially and adversely affect our results of operations.

Failure to hedge effectively against interest rate changes may adversely affect results of operations.

We seek to manage our exposure to interest rate volatility by using interest rate hedging arrangements, such as interest cap and interest rate swap agreements. These agreements involve risks, such as the risk that counterparties may fail to honor their obligations under these arrangements, that these arrangements may not be effective in reducing our exposure to interest rate changes and that a court could rule that such an agreement is not legally enforceable. Our policy is to use derivatives only to hedge interest rate risks related to our borrowings, not for speculative or trading purposes, and to enter into contracts only with major financial institutions based on their credit ratings and other factors. However, we may choose to change this policy in the future. Including loans currently subject to interest rate swaps, approximately 87% of our total indebtedness as of December 31, 2006 was subject to fixed interest rates. We do not currently hedge our unsecured credit facility and as our borrowings under our unsecured credit facility increases, so will our percentage of indebtedness not subject to fixed rates and our exposure to interest rates increases. Hedging may reduce the overall returns on our investments. Failure to hedge effectively against interest rate changes may materially adversely affect our results of operations.

Our properties may not be suitable for lease to traditional datacenter or technology office tenants without significant expenditures or renovations.

Because many of our properties contain extensive tenant improvements installed at our tenants' expense, they may be better suited for a specific corporate enterprise datacenter user or technology industry tenant and could require modification in order for us to re-lease vacant space to another corporate enterprise datacenter user.

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or technology industry tenant. The tenant improvements may also become outdated or obsolete as the result of technological change, the passage of time or other factors. In addition, our redevelopment space will generally require substantial improvement to be suitable for datacenter use. For the same reason, our properties also may not be suitable for lease to traditional office tenants without significant expenditures or renovations. As a result, we may be required to invest significant amounts or offer significant discounts to tenants in order to lease or re-lease that space, either of which could adversely effect our financial and operating results.

Ownership of properties located outside of the United States subjects us to foreign currency and related risks which may adversely impact our ability to make distributions.

We owned eight properties located outside of the U.S. at December 31, 2006 and have a right of first offer with respect to another property. In addition, we are currently considering, and will in the future consider, additional international acquisitions.

The ownership of properties located outside of the U.S. subjects us to risk from fluctuations in exchange rates between foreign currencies and the U.S. dollar. We expect that our principal foreign currency exposure will be to the British pound and the Euro. Changes in the relation of these currencies to U.S. dollars will affect our revenues and operating margins, may materially adversely impact our financial condition, results of operations, cash flow, cash available for distribution, including cash available to pay dividends to our preferred stockholders or pay distributions to our common stockholders, per share trading price of our common stock or preferred stock, ability to satisfy our debt obligations and ability to qualify as a REIT.

We may attempt to mitigate some or all of the risk of currency fluctuation by financing our properties in the local currency denominations, although we cannot assure you that we will be able to do so or that this will be effective. We may also engage in direct hedging activities to mitigate the risks of exchange rate fluctuations.

Any foreign currency gain recognized with respect to changes in exchange rates as well as any income recognized with respect to foreign currency exchange rate hedging activities may not qualify under the 75% gross income test or the 95% gross income test that we must satisfy annually in order to qualify and maintain our status as a REIT.

Acquisition and ownership of foreign properties involve risks greater than those faced by us in the U.S.

Foreign real estate investments usually involve risks not generally associated with investments in the United States. Our international acquisitions and operations are subject to a number of risks, including:

acquisition risk resulting from our lack of knowledge of local real estate markets, economies and business practices and customs;

our limited knowledge of and relationships with sellers and tenants in these markets;

due diligence, transaction and structuring costs higher than those we may face in the U.S.;

complexity and costs associated with managing international operations;

difficulty in hiring qualified management, sales personnel and service providers in a timely fashion;

multiple, conflicting and changing legal, regulatory, tax and treaty environments;

exposure to increased taxation, confiscation or expropriation;

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currency transfer restrictions and limitations on our ability to distribute cash earned in foreign jurisdictions to the U.S.;

difficulty in enforcing agreements in non-U.S. jurisdictions, including those entered into in connection with our acquisitions or in the event of a default by one or more of our tenants; and

political and economic instability in certain geographic regions.

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Our inability to overcome these risks could adversely affect our foreign operations and could harm our business and results of operations.

Risks Related to the Real Estate Industry

Our performance and value are subject to risks associated with real estate assets and with the real estate industry.

Our ability to pay dividends to our preferred stockholders or pay distributions to our common stockholders depends on our ability to generate revenues in excess of expenses, scheduled principal payments on debt and capital expenditure requirements. Events and conditions generally applicable to owners and operators of real property that are beyond our control may decrease cash available for distribution, including cash available to pay dividends to our preferred stockholders or pay distributions to our common stockholders, and the value of our properties. These events and conditions include:

local oversupply, increased competition or reduction in demand for technology-related space;

inability to collect rent from tenants;

vacancies or our inability to rent space on favorable terms;

inability to finance property development and acquisitions on favorable terms;

increased operating costs, including insurance premiums, utilities and real estate taxes;

costs of complying with changes in governmental regulations; and

the relative illiquidity of real estate investments.

In addition, periods of economic slowdown or recession, rising interest rates or declining demand for real estate, or the public perception that any of these events may occur, could result in a general decline in rents or an increased incidence of defaults under existing leases, which would materially adversely affect our financial condition, results of operations, cash flow, cash available for distribution, including cash available to pay dividends to our preferred stockholders or pay distributions to our common stockholders, per share trading price of our common stock or preferred stock and ability to satisfy our debt service obligations.

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 properties in our portfolio in response to adverse changes in their performance may be limited, which may harm our financial condition. 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;

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changes in 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, terrorist attacks and natural disasters, including earthquakes and floods, which may result in uninsured and underinsured losses.

We could incur significant costs related to government regulation and private litigation over environmental matters.

Under various laws relating to the protection of the environment, a current or previous owner or operator of real estate may be liable for contamination resulting from the presence or discharge of hazardous or toxic

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substances at that property, and may be required to investigate and clean up such contamination at or emanating from that property. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence of the contaminants, and the liability may be joint and several. Previous owners used some of our properties for industrial and retail purposes, so those properties may contain some level of environmental contamination. The presence of contamination or the failure to remediate contamination at our properties may expose us to third-party liability or materially adversely affect our ability to sell, lease or develop the real estate or to borrow using the real estate as collateral.

Some of the properties may contain asbestos-containing building materials. Environmental laws require that asbestos-containing building materials be properly managed and maintained, and may impose fines and penalties on building owners or operators for failure to comply with these requirements. These laws may also allow third parties to seek recovery from owners or operators for personal injury associated with exposure to asbestos-containing building materials.

In addition, some of our tenants, particularly those in the biotechnology and life sciences industry and those in the technology manufacturing industry, routinely handle hazardous substances and wastes as part of their operations at our properties. Environmental laws and regulations subject our tenants, and potentially us, to liability resulting from these activities or from previous industrial or retail uses of those properties. Environmental liabilities could also affect a tenant's ability to make rental payments to us.

Existing conditions at some of our properties may expose us to liability related to environmental matters.

Independent environmental consultants have conducted Phase I or similar environmental site assessments on all of the properties in our portfolio. Site assessments are intended to discover and evaluate information regarding the environmental condition of the surveyed property and surrounding properties. These assessments do not generally include soil samplings, subsurface investigations or an asbestos survey and the assessments may fail to reveal all environmental conditions, liabilities or compliance concerns. In addition material environmental conditions, liabilities or compliance concerns may arise after these reviews are completed or may arise in the future. Future laws, ordinances or regulations may impose additional material environmental liability.

We cannot assure you that costs of future environmental compliance will not affect our ability to pay dividends to our preferred stockholders or pay distributions to our common stockholders or that such costs or other remedial measures will not have a material adverse effect on our business, assets or results of operations.

Our properties may contain or develop harmful mold or suffer from other air quality issues, which could lead to liability for adverse health effects and costs to remedy the problem.

When excessive moisture accumulates in buildings or on building materials, mold may grow, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Indoor air quality issues can also stem from inadequate ventilation, chemical contamination from indoor or outdoor sources and other biological contaminants such as pollen, viruses and bacteria. Indoor exposure to airborne toxins or irritants above certain levels can be alleged to cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, the presence of significant mold or other airborne contaminants at any of our properties could require us to undertake a costly remediation program to contain or remove the mold or other airborne contaminants from the affected property or increase indoor ventilation. In addition, the presence of significant mold or other airborne contaminants could expose us to liability from our tenants, employees of our tenants and others if property damage or health concerns arise.

We may incur significant costs complying with the Americans with Disabilities Act and similar laws.

Under the Americans with Disabilities Act of 1990, or the ADA, all public accommodations must meet federal requirements related to access and use by disabled persons. We have not conducted an audit or investigation of all of our properties to determine our compliance with the ADA. If one or more of the properties

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in our portfolio does not comply with the ADA, then we would be required to incur additional costs to bring the property into compliance. Additional federal, state and local laws also may require modifications to our properties, or restrict our ability to renovate our properties. We cannot predict the ultimate cost of compliance with the ADA or other legislation. If we incur substantial costs to comply with the ADA and any other similar legislation, our financial condition, results of operations, cash flow, cash available for distribution, including cash available to pay dividends to our preferred stockholders or pay distributions to our common stockholders, per share trading price of our common stock or preferred stock and our ability to satisfy our debt service obligations could be materially adversely affected.

We may incur significant costs complying with other regulations.

The properties in our portfolio are subject to various federal, state and local regulations, such as state and local fire and life safety regulations. If we fail to comply with these various regulations, we may have to pay fines or private damage awards. In addition, we do not know whether existing regulations will change or whether future regulations will require us to make significant unanticipated expenditures that will materially adversely impact our financial condition, results of operations, cash flow, cash available for distribution, including cash available to pay dividends to our preferred stockholders or pay distributions to our common stockholders, per share trading price of our common stock or preferred stock and our ability to satisfy our debt service obligations.

Risks Related to Our Organizational Structure

Conflicts of interest may exist or could arise in the future with holders of units in our operating partnership.

Conflicts of interest may exist or could arise in the future as a result of the relationships between us and our affiliates, on the one hand, and our operating partnership or any partner thereof, on the other. Our directors and officers have duties to our company and our stockholders under Maryland law in connection with their management of our company. At the same time, we, as general partner, have fiduciary duties under Maryland law to our operating partnership and to the limited partners in connection with the management of our operating partnership. Our duties as general partner to our operating partnership and its partners may come into conflict with the duties of our directors and officers to our company and our stockholders. Under Maryland law, a general partner of a Maryland limited partnership owes its limited partners the duties of good faith, fairness and loyalty, unless the partnership agreement provides otherwise. The partnership agreement of our operating partnership provides that for so long as we own a controlling interest in our operating partnership, any conflict that cannot be resolved in a manner not adverse to either our stockholders or the limited partners will be resolved in favor of our stockholders.

The provisions of Maryland law that allow the fiduciary duties of a general partner to be modified by a partnership agreement have not been tested in a court of law, and we have not obtained an opinion of counsel covering the provisions set forth in the partnership agreement that purport to waive or restrict our fiduciary duties.

We are also subject to the following additional conflicts of interest with holders of units in our operating partnership:

We may pursue less vigorous enforcement of terms of certain agreements because of conflicts of interest with GI Partners and certain of our officers. GI Partners and its related funds, which collectively owned a 9.5% interest in our operating partnership at December 31, 2006, owns a property on which we have a right of first offer. In addition, GI Partners owns The Linc Group, a provider of operations and maintenance repair services for mechanical, electrical, plumbing and general building service systems that we have contracted with to provide these services at five of our properties. GI Partners Fund II, LLP, or GI Partners II, owns The tel(x) Group, an operator of Meet-Me-Room network interconnection facilities that leases 87,305 square feet from us under ten lease agreements. Richard Magnuson, the Chairman of our board of directors, is also, and will continue to be, the chief executive officer of the advisor to GI Partners and GI Partners II. In the future, we may enter into additional

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agreements with The Linc Group, The tel(x) Group or other companies owned by GI Partners or GI Partners II. We may choose not to enforce, or to enforce less vigorously, our rights under these agreements because of our desire to maintain our ongoing relationship with GI Partners and the other individuals involved.

Tax consequences upon sale or refinancing. Sales of properties and repayment of related indebtedness will affect holders of common units in our operating partnership and our stockholders differently. The parties who contributed the 200 Paul Avenue 1-4 and 1100 Space Park Drive properties to our operating partnership would incur adverse tax consequences upon the sale of these properties and on the repayment of related debt which differ from the tax consequences to us and our stockholders. Consequently, these holders of common units in our operating partnership may have different objectives regarding the appropriate pricing and timing of any such sale or repayment of debt. While we have exclusive authority under the limited partnership agreement of our operating partnership to determine when to refinance or repay debt or whether, when, and on what terms to sell a property, any such decision would require the approval of our board of directors. Certain of our directors and executive officers could exercise their influence in a manner inconsistent with the interests of some, or a majority, of our stockholders, including in a manner which could prevent completion of a sale of a property or the repayment of indebtedness.

Our charter and Maryland law contain provisions that may delay, defer or prevent a change of control transaction.

Our charter and the articles supplementary with respect to the preferred stock contain 9.8% ownership limits. Our charter, subject to certain exceptions, authorizes our directors to take such actions as are necessary and desirable to preserve our qualification as a REIT and to limit any person to actual or constructive ownership of no more than 9.8% (by value or by number of shares, whichever is more restrictive) of the outstanding shares of our common stock, 9.8% (by value or by number of shares, whichever is more restrictive) of the outstanding shares of any series of preferred stock and 9.8% of the value of our outstanding capital stock. Our board of directors, in its sole discretion, may exempt a proposed transferee from the ownership limit. However, our board of directors may not grant an exemption from the ownership limit to any proposed transferee whose direct or indirect ownership of more than 9.8% of the outstanding shares of our common stock, more than of 9.8% of the outstanding shares of any series of preferred stock or more than 9.8% of the value of our outstanding capital stock could jeopardize our status as a REIT. These restrictions on transferability and ownership will not apply if our board of directors determines that it is no longer in our best interests to attempt to qualify, or to continue to qualify, as a REIT. The ownership limit may delay, defer or prevent a transaction or a change of control that might be in the best interest of our common or preferred stockholders.

We could increase the number of authorized shares of stock and issue stock without stockholder approval. Our charter authorizes our board of directors, without stockholder approval, to increase the aggregate number of authorized shares of stock or the number of authorized shares of stock of any class or series, to issue authorized but unissued shares of our common stock or preferred stock and, subject to the voting rights of holders of preferred stock, to classify or reclassify any unissued shares of our common stock or preferred stock and to set the preferences, rights and other terms of such classified or reclassified shares. Although our board of directors has no such intention at the present time, it could establish a series of preferred stock that could, depending on the terms of such series, delay, defer or prevent a transaction or a change of control that might be in the best interest of our common or preferred stockholders.

Certain provisions of Maryland law could inhibit changes in control. Certain provisions of the MGCL may have the effect of impeding a third party from making a proposal to acquire us or of impeding a change of control under circumstances that otherwise could be in the best interests of our common or preferred stockholders, including:

business combination provisions that, subject to limitations, prohibit certain business combinations between us and an interested stockholder (defined generally as any person who beneficially owns 10%

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or more of the voting power of our shares or an affiliate or associate of ours who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of our then outstanding voting shares) or an affiliate thereof for five years after the most recent date on which the stockholder becomes an interested stockholder, and thereafter imposes special appraisal rights and special stockholder voting requirements on these combinations; and

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

We have opted out of these provisions of the MGCL, in the case of the business combination provisions of the MGCL by resolution of our board of directors, and in the case of the control share provisions of the MGCL pursuant to a provision in our bylaws. However, our board of directors may by resolution elect to opt in to the business combination provisions of the MGCL and we may, by amendment to our bylaws, opt in to the control share provisions of the MGCL in the future.

The provisions of our charter on removal of directors and the advance notice provisions of the bylaws could delay, defer or prevent a transaction or a change of control of our company that might be in the best interest of our common or preferred stockholders. Likewise, if our company's board of directors were to opt in to the business combination provisions of the MGCL or the provisions of Title 3, Subtitle 8 of the MGCL, or if the provision in our bylaws opting out of the control share acquisition provisions of the MGCL were rescinded, these provisions of the MGCL could have similar anti-takeover effects. Further, our partnership agreement provides that our company may not engage in any merger, consolidation or other combination with or into another person, sale of all or substantially all of our assets or any reclassification or any recapitalization or change in outstanding shares of our common stock, unless in connection with such transaction we obtain the consent of the holders of at least 35% of our operating partnership's common and long-term incentive units (including units held by us), and certain other conditions are met.

Our board of directors may change our investment and financing policies without stockholder approval and we may become more highly leveraged, which may increase our risk of default under our debt obligations.

Our board of directors adopted a policy of limiting our indebtedness to 60% of our total market capitalization. Our total market capitalization is defined as the sum of the market value of our outstanding common stock (which may decrease, thereby increasing our debt to total capitalization ratio), excluding options issued under our incentive award plan, plus the aggregate value of the units not held by us, plus the liquidation preference of outstanding preferred stock, plus the book value of our total consolidated indebtedness. However, our organizational documents do not limit the amount or percentage of indebtedness, funded or otherwise, that we may incur. Our board of directors may alter or eliminate our current policy on borrowing at any time without stockholder approval. If this policy changed, we could become more highly leveraged which could result in an increase in our debt service and which could materially adversely affect our cash flow and our ability to make distributions, including cash available to pay dividends to our preferred stockholders or pay distribution to our common stockholders. Higher leverage also increases the risk of default on our obligations.

Our rights and the rights of our stockholders to take action against our directors and officers are limited.

Maryland law provides that our directors and officers have no liability in their capacities as directors or officers if they perform their duties in good faith, in a manner they reasonably believe to be in our best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. As permitted

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by the MGCL, our charter limits the liability of our directors and officers to us and our stockholders for money damages, except for liability resulting from:

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

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

In addition, our charter authorizes us to obligate our company, and our bylaws require us, to indemnify our directors and officers for actions taken by them in those capacities to the maximum extent permitted by Maryland law and we have entered in indemnification agreements with our officers and directors. As a result, we and our stockholders may have more limited rights against our directors and officers than might otherwise exist under common law. Accordingly, in the event that actions taken in good faith by any of our directors or officers impede the performance of our company, your ability to recover damages from that director or officer will be limited.

Risks Related to Our Status as a REIT

Failure to qualify as a REIT would have significant adverse consequences to us and the value of our stock.

We have operated and intend to continue operating in a manner that we believe will allow us to qualify as a REIT for federal income tax purposes under the Code. We have not requested and do not plan to request a ruling from the IRS that we qualify as a REIT. If we lose our REIT status, we will face serious tax consequences that would substantially reduce our cash available for distribution, including cash available to pay dividends to our preferred stockholders or pay distributions to our common stockholders, for each of the years involved because:

we would not be allowed a deduction for distributions to stockholders in computing our taxable income and would be subject to federal income tax at regular corporate rates;

we also could be subject to the federal alternative minimum tax and possibly increased state and local taxes; and

unless we are entitled to relief under applicable statutory provisions, we could not elect to be taxed as a REIT for four taxable years following the year during which we were disqualified.

In addition, if we fail to qualify as a REIT, we will not be required to make distributions to stockholders. As a result of all these factors, our failure to qualify as a REIT also could impair our ability to expand our business and raise capital, and would materially adversely affect the value of our capital stock.

Qualification as a REIT involves the application of highly technical and complex Code provisions for which there are only limited judicial and administrative interpretations. The complexity of these provisions and of the applicable Treasury Regulations that have been promulgated under the Code is greater in the case of a REIT that, like us, holds its assets through a partnership. Our ability to qualify as a REIT may be affected by facts and circumstances that are not entirely within our control. In order to qualify as a REIT, we must satisfy a number of requirements, including requirements regarding the composition of our assets and a requirement that at least 95% of our gross income in any year must be derived from qualifying sources, such as rents from real property. Also, we must make distributions to stockholders aggregating annually at least 90% of our net taxable income, excluding net capital gains. In addition, legislation, new regulations, administrative interpretations or court decisions may materially adversely affect our investors, our ability to qualify as a REIT for federal income tax purposes or the desirability of an investment in a REIT relative to other investments.

Even if we qualify as a REIT for federal income tax purposes, we may be subject to some federal, state and local taxes on our income or property and, in certain cases, a 100% penalty tax, in the event we sell property as a dealer. In addition, our domestic taxable REIT subsidiary could be subject to Federal and state taxes, and our foreign properties and companies are subject to tax in the jurisdictions in which they operate and are located.

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To maintain our REIT status, we may be forced to borrow funds on a short-term basis during unfavorable market conditions.

To qualify as a REIT, we generally must distribute to our stockholders at least 90% of our net taxable income each year, excluding capital gains, and we will be subject to regular corporate income taxes to the extent that we distribute less than 100% of our net taxable income each year. In addition, we will be subject to a 4% nondeductible excise tax on the amount, if any, by which distributions paid by us in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income and 100% of our undistributed income from prior years. In order to maintain our REIT status and avoid the payment of income and excise taxes, we may need to borrow funds on a short-term basis to meet the REIT distribution requirements even if the then prevailing market conditions are not favorable for these borrowings. These short-term borrowing needs could result from differences in timing between the actual receipt of cash and inclusion of income for federal income tax purposes, or the effect of non-deductible capital expenditures, the creation of reserves or required debt or amortization payments.

The ability of our board of directors to revoke our REIT election without stockholder approval may cause adverse consequences to our stockholders.

Our charter provides that our board of directors may revoke or otherwise terminate our REIT election, without the approval of our stockholders, if it determines that it is no longer in our best interests to continue to qualify as a REIT. If we cease to qualify as a REIT, we would become subject to U.S. federal income tax on our taxable income and we would no longer be required to distribute most of our taxable income to our stockholders, which may have adverse consequences on the total return to our common or preferred stockholders.

Forward-Looking Statements

We make statements in this report that are forward-looking statements within the meaning of the federal securities laws. In particular, statements pertaining to our capital resources, portfolio performance and results of operations contain forward-looking statements. Likewise, all of our statements regarding anticipated market conditions, demographics and results of operations are forward-looking statements. You can identify forward-looking statements by the use of forward-looking terminology such as believes, expects, may, will, should, seeks, approximately, intends, plans, pro forma, estimates or anticipates or the negative of these words and phrases or similar words or phrases which are predictions or indicate future events or trends and which do not relate solely to historical matters. You can also identify forward looking statements by discussions of strategy, plans or intentions.

Forward-looking statements involve numerous risks and uncertainties and you should not rely on them as predictions of future events. Forward-looking statements depend on assumptions, data or methods which may be incorrect or imprecise and we may not be able to realize them. We do not guarantee that the transactions and events described will happen as described (or that they will happen at all). The following factors, among others, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements:

adverse economic or real estate developments in our markets or the technology industry;

our dependence upon significant tenants;

our inability to comply with the rules and regulations applicable to public companies or to manage our growth effectively;

difficulty acquiring or operating properties in foreign jurisdictions;

defaults on or non-renewal of leases by tenants;

increased interest rates and operating costs;

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our failure to obtain necessary outside financing;

decreased rental rates or increased vacancy rates;

difficulties in identifying properties to acquire and completing acquisitions;

our failure to successfully operate acquired properties and operations;

our failure to maintain our status as a REIT;

possible adverse changes to tax laws;

environmental uncertainties and risks related to natural disasters;

financial market fluctuations;

changes in foreign currency exchange rates;

changes in foreign laws and regulations, including those related to taxation and real estate ownership and operation;

changes in real estate and zoning laws and increases in real property tax rates; and

inability to successfully redevelop and lease space held for redevelopment.

While forward-looking statements reflect our good faith beliefs, they are not guaranties of future performance. We disclaim any obligation to publicly update or revise any forward-looking statement to reflect changes in underlying assumptions or factors, new information, data or methods, future events or other changes. For a further discussion of these and other factors that could impact our future results, performance or transactions, see the sections above.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our Portfolio

As of December 31, 2006, we owned 59 properties through our operating partnership, excluding one property held as an investment in an unconsolidated joint venture. These properties are primarily located throughout North America, with seven properties located in Europe, and contain a total of approximately 9.4 million net rentable square feet excluding 1.6 million square feet held for redevelopment. The following

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table presents an overview of our portfolio of properties excluding the one property held as an investment in a joint venture, based on information as of December 31, 2006.

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Property (1)	Acquisition Date	Metropolitan Area	Net			Gross Annualized Rent (\$000) ⁽⁵⁾	Gross Annualized Rent per Square Foot (\$) ⁽⁶⁾
			Rentable Square Feet Excluding Redevelopment Space ⁽²⁾	Redevelopment Space ⁽³⁾	Percent Leased ⁽⁴⁾		
Internet Gateways							
350 East Cermak Road	May-05	Chicago	892,843	240,896	94.2%	23,282	27.69
200 Paul Avenue 1-4	Nov-04	San Francisco	501,761	25,919	97.2%	16,037	32.90
2323 Bryan Street	Jan-02	Dallas	457,217	19,890	83.7%	11,899	31.11
600 West Seventh Street	May-04	Los Angeles	444,001	45,721	97.8%	11,049	25.46
1100 Space Park Drive	Nov-04	Silicon Valley	165,297		97.6%	6,953	43.10
6 Braham Street ⁽⁷⁾	Jul-02	London, England	63,233		100.0%	6,434	101.75
600-780 S. Federal	Sep-05	Chicago	161,547		83.6%	4,895	36.24
12001 North Freeway	Apr-06	Houston	281,426	19,279	98.1%	4,185	15.15
36 NE 2nd Street	Jan-02	Miami	162,140		95.9%	4,166	26.81
731 East Trade Street	Aug-05	Charlotte	40,879		100.0%	1,098	26.86
113 North Myers	Aug-05	Charlotte	20,086	9,132	100.0%	690	34.35
125 North Myers	Aug-05	Charlotte	12,160	13,242	100.0%	309	25.41
			3,202,590	374,079	94.0%	90,997	30.24
Datacenters							
300 Boulevard East	Nov-02	New York	311,950		99.7%	12,199	39.22
833 Chestnut Street	Mar-05	Philadelphia	535,098	119,660	78.6%	8,727	20.75
111 Eighth Avenue ⁽⁸⁾	Oct-06	New York	83,137		100.0%	7,725	92.92
Unit 9, Blanchardstown Corporate Park ⁽⁷⁾	Dec-06	Dublin, Ireland	120,000		85.9%	7,363	71.41
2045 & 2055 LaFayette Street	May-04	Silicon Valley	300,000		100.0%	6,120	20.40
120 E. Van Buren Street	Jul-06	Phoenix	206,359	81,155	96.8%	21,521	107.78
11830 Webb Chapel Road	Aug-04	Dallas	365,647		95.0%	5,716	16.46
150 South First Street	Sep-04	Silicon Valley	179,761		100.0%	4,913	27.33
14901 FAA Boulevard	Jun-06	Dallas	263,700		100.0%	4,364	16.55
2334 Lundy Place	Dec-02	Silicon Valley	130,752		100.0%	4,090	31.28
114 Rue Amboise Croizat ⁽⁷⁾	Dec-06	Paris, France	122,627	229,519	56.0%	3,471	50.51
2401 Walsh Street	Jun-05	Silicon Valley	167,932		100.0%	3,118	18.57
200 North Nash Street	Jun-05	Los Angeles	113,606		100.0%	2,110	18.57
Gyroscoopweg 2E-2F ⁽⁷⁾	Jul-06	Amsterdam, Netherlands	55,585		100.0%	2,093	37.65
2403 Walsh Street	Jun-05	Silicon Valley	103,940		100.0%	1,930	18.57
4025 Midway Road	Jan-06	Dallas	36,856	63,734	100.0%	1,862	50.52
Paul van Vlissingenstraat 16 ⁽⁷⁾	Aug-05	Amsterdam, Netherlands	77,472	35,000	58.8%	1,810	39.74
4700 Old Ironsides Drive	Jun-05	Silicon Valley	90,139		100.0%	1,674	18.57
8534 Concord Center Drive	Jun-05	Denver	82,229		100.0%	1,567	19.06
6800 Millcreek Drive	Apr-06	Toronto, Canada	83,758		100.0%	1,530	18.27

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Property (1)	Acquisition Date	Metropolitan Area	Net			Gross Annualized Rent (\$000) ⁽⁵⁾	Gross Annualized Rent per Square Foot (\$) ⁽⁶⁾
			Rentable Square Feet Excluding Redevelopment Space ⁽²⁾	Redevelopment Space ⁽³⁾	Percent Leased ⁽⁴⁾		
3065 Gold Camp Drive	Oct-04	Sacramento	62,957		100.0%	1,494	23.73
3015 Winona Avenue	Dec-04	Los Angeles	82,911		100.0%	1,457	17.57
251 Exchange Place	Nov-05	Northern Virginia	70,982		100.0%	1,415	19.93
101 Aquila Way	Apr-06	Atlanta	313,581		100.0%	1,411	4.50
8100 Boone Boulevard ⁽⁸⁾	Oct-06	Northern Virginia	17,015		100.0%	1,379	81.05
1125 Energy Park Drive	Mar-05	Minneapolis/St. Paul	112,827		100.0%	1,340	11.88
Chemin de l'Épingle 2 ⁽⁷⁾	Nov-05	Geneva, Switzerland	59,190		100.0%	1,328	22.44
3300 East Birch Street	Aug-03	Los Angeles	68,807		100.0%	1,277	18.56
Clonsaugh Industrial Estate ⁽⁷⁾	Feb-06	Dublin, Ireland	20,000		100.0%	1,201	60.05
375 Riverside Parkway	Jun-03	Atlanta	126,300	123,891	100.0%	1,179	9.33
2440 Marsh Lane	Jan-03	Dallas	6,705	128,545	100.0%	960	143.18
600 Winter Street	Sep-06	Boston	30,400		100.0%	748	24.61
7620 Metro Center Drive	Dec-05	Austin	45,000		100.0%	605	13.44
2300 NW 89th Place	Sep-06	Miami	64,174		100.0%	564	8.79
1807 Michael Faraday Court	Oct-06	Northern Virginia	19,237		100.0%	1,918	99.70
7500 Metro Center Drive	Dec-05	Austin		74,962			
3 Corporate Place	Dec-05	New York		283,124			
115 Second Avenue	Oct-05	Boston	10,494	56,236	0.0%		
2055 E. Technology Circle ⁽⁹⁾	Nov-06	Phoenix		76,350			
			4,541,128	1,272,176	94.4%	122,179	28.50
Technology Manufacturing							
34551 Ardenwood Boulevard 1-4	Jan-03	Silicon Valley	307,657		100.0%	7,927	25.76
47700 Kato Road & 1055 Page Avenue	Sep-03	Silicon Valley	183,050		100.0%	3,576	19.54
2010 East Centennial Circle ⁽¹⁰⁾	May-03	Phoenix	113,405		100.0%	2,549	22.48
			604,112		100.0%	14,052	23.26
Technology Office							
100 & 200 Quannapowitt Parkway	Jun-04	Boston	386,956		100.0%	7,203	18.61
4055 Valley View Lane	Sep-03	Dallas	240,153		90.5%	4,507	20.74
100 Technology Center Drive	Feb-04	Boston	197,000		100.0%	3,743	19.00
4849 Alpha Road	Apr-04	Dallas	125,538		100.0%	2,856	22.75
4650 Old Ironsides Drive	Jun-05	Silicon Valley	84,383		100.0%	1,567	18.57
			1,034,030		97.8%	19,876	19.66
Portfolio Total/Weighted Average							
			9,381,860	1,646,255	95.0%	247,104	\$ 27.73

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- (1) We have categorized the properties in our portfolio by their principal use based on gross annualized rent. However, many of our properties support multiple uses.
- (2) Net rentable square feet at a building represents the current square feet at that building under lease as specified in the lease agreements plus management's estimate of space available for lease based on engineering drawings. Net rentable square feet includes tenants' proportional share of common areas but excludes space held for redevelopment.
- (3) Redevelopment space is unoccupied space that requires significant capital investment in order to develop datacenter facilities that are ready for use. Most often this is shell space. However, in certain circumstances this may include partially built datacenter space that was not completed by previous ownership and requires a large capital investment in order to build out the space.
- (4) Excludes space held for redevelopment. Includes unoccupied space for which we are receiving rent and excludes space for which leases had been executed as of December 31, 2006 but for which we are not receiving rent.
- (5) Gross annualized rent represents the monthly contractual rent under existing leases as of December 31, 2006 multiplied by 12.
- (6) Gross annualized rent per square foot represents gross annualized rent as computed above, divided by the total square footage under lease as of the same date.
- (7) Rental amounts for 6 Braham Street were calculated based on the exchange rate in effect on December 31, 2006 of \$1.96 per £1.00 and rental amounts for Unit 9, Blanchardstown Corporate Park, 114 Rue Ambroise Croizat, Gyroscopweg 2E-2F, Paul van Vlissingenstraat 16, Chemin de l'Épinglier 2 and Clonshaugh Industrial Estate were calculated based on the exchange rate in effect on December 31, 2006 of \$1.32 per £1.00. Paul Van Vlissingenstraat 16, Chemin de l'Épinglier 2 and Clonshaugh Industrial Estate are subject to ground leases, which expire in the years 2054, 2074 and 2981, respectively.
- (8) 111 Eighth Avenue and 8100 Boone Boulevard are subject to operating leases, which expire in June 2014 and October 2007, respectively.
- (9) We are party to a ground sublease for this property. The term of the ground sublease expires in September 2083. All of the lease payments were prepaid by prior owner of this property.
- (10) We are party to a ground sublease for this property. The term of the ground sublease expires in the year 2082.

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As of December 31, 2006 our portfolio was leased to more than 426 companies, many of which are nationally recognized firms. The following table sets forth information regarding the 15 largest tenants in our portfolio based on gross annualized rent as of December 31, 2006.

Tenant	Number of Locations	Total Occupied Square Feet ⁽¹⁾	Percentage of Net Rentable Square Feet	Gross Annualized Rent (\$ 000) ⁽²⁾	Percentage of Gross Annualized Rent	Weighted Average Remaining Lease Term in Months
1 Savvis Communications	(3) 11	1,408,809	15.0%	\$ 29,322	11.9%	124
2 Qwest Communications International, Inc.	10	684,691	7.3%	19,115	7.7%	98
3 tel(x) Group, Inc.	10	87,305	0.9%	9,109	3.7%	238
4 Comverse Technology, Inc.	1	367,033	3.9%	6,904	2.8%	49
5 JPMorgan Chase & Co.	2	41,957	0.4%	6,834	2.8%	84
6 Verio, Inc.	(4) 2	241,370	2.6%	6,718	2.7%	69
7 Leslie & Godwin	(5) 1	63,233	0.7%	6,434	2.6%	36
8 Equinix Operating Company, Inc.	2	295,338	3.1%	6,210	2.5%	101
9 Level 3 Communications, LLC.	(6) 11	282,589	3.0%	5,551	2.2%	65
10 AT & T	8	286,454	3.1%	5,513	2.2%	75
11 Amgen, Inc.	1	131,386	1.4%	5,346	2.2%	52
12 AboveNet, Inc.	6	150,661	1.6%	5,207	2.1%	139
13 Thomas Jefferson University	1	179,707	1.9%	3,864	1.6%	46
14 Stone & Webster, Inc.	(7) 1	197,000	2.1%	3,743	1.5%	75
15 Seagate Technology	1	183,050	2.0%	3,576	1.4%	57
Total/Weighted Average		4,600,583	49.0%	\$ 123,446	49.9%	94

(1) Occupied square footage is defined as leases that have commenced on or before December 31, 2006.

(2) Gross annualized rent represents the monthly contractual rent under existing leases as of December 31, 2006 multiplied by 12.

(3) Microsoft subleases 192,000 net rentable square feet (approximately \$3.8 million of gross annualized rent) of this space and has the right to become tenant if the primary lessor defaults.

(4) Verio is a wholly-owned subsidiary of Nippon Telegraph & Telephone.

(5) Leslie & Godwin is a UK subsidiary of AON Corporation.

(6) Level 3 Communications includes Witel Communications, OnFiber Communications & Broadwing Communications.

(7) Stone & Webster is a subsidiary of The Shaw Group.

Lease Distribution

The following table sets forth information relating to the distribution of leases in the properties in our portfolio, based on net rentable square feet (excluding space held for redevelopment) under lease as of December 31, 2006.

Square Feet Under Lease	Number of Leases	Percentage of All Leases	Total Net Rentable Square Feet	Percentage of Net Rentable Square Feet	Gross Annualized Rent (\$000)	Percentage of Gross Annualized Rent
Available ⁽¹⁾			470,053	5.0%		0.0%
2,500 or less	492	62.4%	184,888	2.0%	38,192	15.5%
2,501-10,000	128	16.2%	668,911	7.1%	26,174	10.6%
10,001-20,000	63	8.0%	951,877	10.1%	27,873	11.3%
20,001-40,000	44	5.6%	1,253,361	13.4%	26,401	10.7%
40,001-100,000	39	5.0%	2,463,532	26.3%	62,943	25.5%

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Greater than 100,000	22	2.8%	3,389,238	36.1%	65,521	26.4%
Portfolio Total	788	100.0%	9,381,860	100.0%	\$ 247,104	100.0%

(1) Excludes approximately 1.6 million square feet held for redevelopment at December 31, 2006.

Table of Contents**Lease Expirations**

The following table sets forth a summary schedule of the lease expirations for leases in place as of December 31, 2006 plus available space for each of the next ten full calendar years at the properties in our portfolio. Unless otherwise stated in the footnotes, the information set forth in the table assumes that tenants exercise no renewal options and all early termination rights.

Year	Number of Leases Expiring	Square Footage of Expiring Leases	Percentage of Net Rentable Square Feet	Gross Annualized Rent (\$000)	Percentage of Gross Annualized Rent	Gross	Gross	Gross
						Annualized Rent Per Occupied Square Foot	Annualized Rent Per Occupied Square Foot at Expiration	Annualized Rent at Expiration (\$000)
Available ⁽¹⁾		470,053	5.0%	\$	0.0%			
2007	191	188,572	2.0%	10,371	4.2%	\$ 55.00	55.03	10,377
2008	102	421,575	4.5%	17,468	7.1%	\$ 41.44	43.30	18,254
2009	87	506,412	5.4%	22,251	9.0%	\$ 43.94	45.04	22,809
2010	63	864,674	9.2%	22,294	9.0%	\$ 25.78	27.11	23,439
2011	70	1,269,751	13.5%	34,251	13.9%	\$ 26.97	28.85	36,631
2012	38	529,812	5.6%	7,390	3.0%	\$ 13.95	15.74	8,337
2013	26	564,145	6.0%	12,155	4.9%	\$ 21.55	26.53	14,965
2014 ⁽²⁾	32	543,225	5.8%	12,241	5.0%	\$ 22.53	27.79	15,095
2015	72	1,642,474	17.5%	45,400	18.4%	\$ 27.64	33.16	54,464
2016	49	743,571	7.9%	23,093	9.3%	\$ 31.06	38.37	28,530
Thereafter	58	1,637,596	17.6%	40,190	16.2%	\$ 24.54	37.26	61,024
Portfolio Total / Weighted Average	788	9,381,860	100.0%	\$ 247,104	100.0%	\$ 27.73	\$ 32.98	\$ 293,925

(1) Excludes approximately 1.6 million square feet held for redevelopment at December 31, 2006.

(2) Includes 63,233 square feet of net rentable space in 6 Braham Street. This property is subleased by Level 3 Communications from Leslie & Godwin, a United Kingdom subsidiary of AON Corporation, through December 2009. Level 3 Communications has executed a lease that will commence upon expiration of the Leslie & Godwin lease and continue through December 2014. Leslie & Godwin remain liable to us for rents under its lease.

Right of First Offer Property

At December 31, 2006 there is one property located in Germany owned by GI Partners that is subject to right of first offer agreements, whereby we have the right to make the first offer to purchase this property if GI Partners decides to sell it. We acquired one property from GI Partners that was subject to a right of first offer in June 2005.

ITEM 3. LEGAL PROCEEDINGS

In the ordinary course of our business, we may become subject to tort claims and other claims and administrative proceedings. As of December 31, 2006, we were not a party to any legal proceedings which we believe would have a material adverse effect on us.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of our stockholders during the fourth quarter of the year ended December 31, 2006.

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock has been listed and is traded on the NYSE under the symbol DLR since October 29, 2004. The following table sets forth, for the periods indicated, the high, low and last sale prices in dollars on the NYSE for our common stock and the distributions we declared with respect to the periods indicated.

	High	Low	Last	Dividends Declared
First Quarter 2005	\$ 14.81	\$ 12.50	\$ 14.37	\$ 0.24375
Second Quarter 2005	\$ 17.49	\$ 13.67	\$ 17.38	\$ 0.24375
Third Quarter 2005	\$ 19.97	\$ 16.80	\$ 18.00	\$ 0.24375
Fourth Quarter 2005	\$ 24.70	\$ 17.73	\$ 22.63	\$ 0.26500
First Quarter 2006	\$ 28.59	\$ 22.29	\$ 28.17	\$ 0.26500
Second Quarter 2006	\$ 29.54	\$ 22.66	\$ 24.69	\$ 0.26500
Third Quarter 2006	\$ 31.88	\$ 24.58	\$ 31.32	\$ 0.26500
Fourth Quarter 2006	\$ 37.31	\$ 30.73	\$ 34.23	\$ 0.28625

We intend to continue to declare quarterly dividends on our common stock. The actual amount and timing of dividends, however, will be at the discretion of our board of directors and will depend upon our financial condition in addition to the requirements of the Code, and no assurance can be given as to the amounts or timing of future dividends. The exchange rate on our \$172.5 million principal amount of exchangeable debentures is subject to adjustment for certain events, including, but not limited to, certain dividends on our common stock in excess of \$0.265 per share per quarter. Therefore, increases to our quarterly dividend may increase the dilutive impact of the exchangeable debentures on our common stockholders. See Part I, Item 1A, Risk Factors – Risks Related to Our Business and Operations. The exchange and repurchase rights of our exchangeable debentures may be detrimental to holders of common stock.

Subject to the dividend requirements applicable to REITs under the Code, we intend, to the extent practicable, to invest substantially all of the proceeds from sales and refinancings of our assets in real estate-related assets and other assets. We may, however, under certain circumstances, make a dividend of capital or of assets. Such dividends, if any, will be made at the discretion of our board of directors. Dividends will be made in cash to the extent that cash is available for dividend.

As of February 23, 2007, there were 8 stockholders of record of our common stock. This figure does not reflect the beneficial ownership of shares held in nominee name.

STOCK PERFORMANCE GRAPH

The following graph compares the yearly change in the cumulative total stockholder return on our common stock during the period from November 3, 2004 (the date of our initial public offering) through December 31, 2006, with the cumulative total return on the Morgan Stanley REIT Index (RMS) and the S&P 500 Market Index. The comparison assumes that \$100 was invested on November 3, 2004 in our common stock and in each of these indices and assumes reinvestment of dividends, if any.

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COMPARE CUMULATIVE TOTAL RETURN

AMONG DIGITAL REALTY TRUST, INC, S&P 500 INDEX AND RMS INDEX

Assumes \$100 invested on November 3, 2004

Assumes dividends reinvested

Fiscal year ending December 31, 2006

Pricing Date	DLR(\$)	S&P 500	RMS
November 3, 2004	100.0	100.0	100.0
December 31, 2004	113.6	106.3	107.8
December 31, 2005	202.0	111.6	121.5
December 31, 2006	317.5	113.3	164.6

- (1) This graph and the accompanying text is not soliciting material, is not deemed filed with the SEC and is not to be incorporated by reference in any filing by us under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.
- (2) The stock price performance shown on the graph is not necessarily indicative of future price performance.
- (3) The hypothetical investment in our common stock presented in the stock performance graph above is based on an initial price of \$12.00 per share, the price on November 3, 2004, the date of our initial public offering.

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ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected consolidated financial and operating data on an historical basis for our company and on a combined historical basis for our company's Predecessor. The Predecessor is comprised of the real estate activities and holdings of GI Partners related to the properties in our portfolio. We have not presented historical information for the Company for periods prior to the consummation of our initial public offering because we did not have any corporate activity until the completion of our initial public offering other than the issuance of shares of common stock in connection with the initial capitalization of our company, and because we believe that a discussion of the results of the Company would not be meaningful. The Predecessor's combined historical financial information includes:

the wholly owned real estate subsidiaries and majority-owned real estate joint ventures that GI Partners contributed to our operating partnership in connection with our initial public offering;

an allocation of GI Partners' line of credit to the extent that borrowings and related interest expense relate to (1) borrowings to fund acquisitions of the properties in our portfolio and (2) borrowings to pay asset management fees paid by GI Partners that were allocated to the properties in our portfolio; and

an allocation of the asset management fees paid to a related party and incurred by GI Partners, along with an allocation of the liability for any such fees that were unpaid as of December 31, 2003 and an allocation of GI Partners' general and administrative expenses.

The following data should be read in conjunction with our financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included below in this Form 10-K. Certain prior year amounts have been reclassified to conform to the current year presentation.

Table of Contents**The Company and the Company Predecessor**

(Amounts in thousands, except per share data)

	The Company			The Predecessor		
	Year Ended December 31,		Period from	Period	Year ended	
	2006	2005	November 3, 2004 to December 31,	from January 1, 2004 to November 2,	December 31,	2002
Statement of Operations Data:						
Operating Revenues:						
Rental	\$ 229,742	\$ 158,428	\$ 20,121	\$ 63,748	\$ 48,673	\$ 21,203
Tenant reimbursements	51,796	37,174	3,992	12,012	8,632	3,894
Other	365	5,829			4,283	407
Total operating revenues	281,903	201,431	24,113	75,760	61,588	25,504
Operating Expenses:						
Rental property operating and maintenance	61,052	41,030	4,790	12,291	8,205	4,997
Property taxes	28,052	20,992	1,959	6,642	4,479	2,755
Insurance	3,757	2,728	455	1,296	597	83
Asset management fees to related party				2,655	3,185	3,185
Depreciation and amortization	89,936	59,616	6,983	21,806	15,637	7,659
General and administrative	20,441	12,615	20,766	223	312	249
Other	1,111	1,635	57	1,021	2,459	1,249
Total operating expenses	204,349	138,616	35,010	45,934	34,874	20,177
Operating income (loss)	77,554	62,815	(10,897)	29,826	26,714	5,327
Other Income (Expenses):						
Equity in earnings of unconsolidated joint venture	177					
Interest and other income	1,275	1,274	30	71	45	51
Interest expense	(51,924)	(37,724)	(5,316)	(17,786)	(10,022)	(5,249)
Loss from early extinguishment of debt	(527)	(1,021)	(283)			
Income (loss) from continuing operations before minority interests	26,555	25,344	(16,466)	12,111	16,737	129
Minority interests in consolidated joint ventures of continuing operations			(20)	14	(149)	(190)
Minority interests in continuing operations of operating partnership	(5,383)	(8,818)	10,274			
Income (loss) from continuing operations	21,172	16,526	(6,212)	12,125	16,588	(61)
Income (loss) from discontinued operations before minority interests	(348)	(987)	96	(1,422)	54	
Gain on sale of assets	18,096					
Minority interests attributable to discontinued operations	(7,528)	562	(53)	23		
Income (loss) from discontinued operations	10,220	(425)	43	(1,399)	54	
Net income (loss)	31,392	16,101	(6,169)	\$ 10,726	\$ 16,642	\$ (61)

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Preferred stock dividends	(13,780)	(10,014)	
Net income (loss) available to common stockholders	\$ 17,612	\$ 6,087	\$ (6,169)
Per Share Data:			
Basic income (loss) per share available to common stockholders	\$ 0.49	\$ 0.25	\$ (0.30)
Diluted income (loss) per share available to common stockholders	\$ 0.47	\$ 0.25	\$ (0.30)
Cash dividend per common share	\$ 1.08	\$ 1.00	\$ 0.16
Weighted average common shares outstanding:			
Basic	36,134,983	23,986,288	20,770,875
Diluted	37,442,192	24,221,732	20,770,875

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	2006	The Company December 31, 2005	2004	The Predecessor December 31, 2003	2002
Balance Sheet Data:					
Net investments in real estate	\$ 1,736,802	\$ 1,194,106	\$ 787,412	\$ 391,737	\$ 217,009
Total assets	2,186,219	1,529,170	1,013,287	479,698	269,836
Notes payable under line of credit	145,452	181,000	44,000	44,436	53,000
Mortgages and other secured loans	804,686	568,067	475,498	253,429	103,560
Exchangeable senior debentures	172,500				
Total liabilities	1,338,031	880,228	584,229	328,303	183,524
Minority interests in consolidated joint ventures		206	997	3,444	3,135
Minority interests in operating partnership	138,416	262,239	254,862		
Total stockholders'/owner's equity	709,772	386,497	173,199	147,951	83,177
Total liabilities and stockholders'/owner's equity	\$ 2,186,219	\$ 1,529,170	\$ 1,013,287	\$ 479,698	\$ 269,836

	The Company		The Company and the Predecessor	The Predecessor	
	Year Ended December 31,	Year Ended December 31,		Year ended December 31,	
	2006	2005	2004	2003	2002
Cash flows from (used in):					
Operating activities	\$ 103,001	\$ 82,848	\$ 44,638	\$ 27,628	\$ 9,645
Investing activities	(601,788)	(480,815)	(371,277)	(213,905)	(164,755)
Financing activities	510,118	404,340	326,022	187,873	158,688

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the consolidated and combined financial statements and notes thereto appearing elsewhere in this report. Where appropriate, the following discussion includes analysis of the effects of our initial public offering, the formation transactions and related refinancing transactions and certain other transactions. We make statements in this section that are forward-looking statements within the meaning of the federal securities laws. For a complete discussion of forward-looking statements, see the section in this Form 10-K entitled "Forward-Looking Statements." Certain risk factors may cause our actual results, performance or achievements to differ materially from those expressed or implied by the following discussion. For a discussion of such risk factors, see the sections in this report entitled "Risk Factors" and "Forward-Looking Statements."

Overview

Our company. We completed our initial public offering, or IPO, of common stock on November 3, 2004. We have operated in a manner that we believe has enabled us to qualify, and have elected to be treated, as a Real Estate Investment Trust (REIT) under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended, which we refer to as the Code. Our company was formed on March 9, 2004. During the period from our formation until we commenced operations in connection with the completion of our IPO, we did not have any corporate activity other than the issuance of shares of common stock in connection with the initial capitalization of our company. Because we believe that a discussion of the results of our company prior to the completion of our IPO would not be meaningful, we have set forth below a discussion of historical combined operations for our company and our company's Predecessor and as such, any reference in the Management's Discussion and Analysis of Financial Condition and Results of Operations to our, we and us in this Item 7 includes the Predecessor.

Business and strategy. 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. We expect to achieve our objectives by focusing on our core business of investing in technology-related real estate. We target high quality, strategically located properties containing applications and operations critical to the day-to-day operations of corporate enterprise datacenter and technology industry tenants. Most of our properties contain fully redundant electrical supply systems, multiple power feeds, above-standard precision cooling systems, raised floor areas, extensive in-building communications cabling and high-level security systems. We focus solely on technology-related real estate because we believe that the growth in corporate datacenter adoption and the technology-related real estate industry generally will be superior to that of the overall economy.

As of December 31, 2006, our portfolio consisted of an aggregate of 59 technology-related real estate properties that we acquired beginning in 2002 with 9.4 million net rentable square feet excluding approximately 1.6 million square feet of space held for redevelopment, excluding one property held as an investment in an unconsolidated joint venture. We have developed detailed, standardized procedures for evaluating acquisitions to ensure that they meet our financial and other criteria. We expect to continue to acquire additional assets as a key part of our growth strategy. We intend to aggressively manage and lease our assets to increase their cash flow.

We may acquire properties subject to existing mortgage financing and other indebtedness or we may incur new indebtedness in connection with acquiring or refinancing these properties. Debt service on such indebtedness will have a priority over any dividends with respect to our common stock and our preferred stock. As mandated by our board of directors, we limit our indebtedness to 60% of our total market capitalization and, based on the closing price of our common stock on December 31, 2006 of \$34.23, our ratio of debt to total market capitalization was approximately 31%. Our total market capitalization is defined as the sum of the market value of our outstanding common stock (which may decrease, thereby increasing our debt to total market capitalization ratio), excluding options issued under our incentive award plan, plus the liquidation value of our preferred stock, plus the aggregate value of the units not held by us, plus the book value of our total consolidated indebtedness.

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In addition, we may sell properties from time to time that no longer meet our business objectives. In June 2006, 7979 East Tufts Avenue met the criteria to be presented as held for sale, which resulted in the reclassification of the operating results of this property to discontinued operations for all periods presented. This property was sold on July 12, 2006.

Revenue Base. As of December 31, 2006, we owned 59 properties through our Operating Partnership, excluding one property held as an investment in an unconsolidated joint venture. These properties are mainly located throughout the U.S., with seven properties located in Europe and one property in Canada. We acquired our first portfolio property in January 2002 and have added properties as follows:

Year Ended December 31:	Properties Acquired⁽¹⁾	Net Rentable Square Feet Acquired⁽²⁾	Square Feet of Space Held for Redevelopment as of December 31, 2006⁽³⁾
2002	5	1,125,292	19,890
2003	7	1,046,077	252,436
2004	11	2,811,829	71,640
2005	20	2,680,807	832,252
2006	16	1,717,855	470,037
Properties owned as of December 31, 2006	59	9,381,860	1,646,255

(1) Excludes 7979 East Tufts Avenue, a property we acquired in October 2003 and sold on July 12, 2006.

(2) Excludes space held for redevelopment.

(3) Redevelopment space is unoccupied space that requires significant capital investment in order to develop datacenter facilities that are ready for use. Most often this is shell space. However, in certain circumstances this may include partially built datacenter space that was not completed by previous ownership and requires a large capital investment in order to build out the space. The amounts included in this table represent redevelopment space as of December 31, 2006 in the properties acquired during the relevant period.

As of December 31, 2006, the properties in our portfolio were approximately 95.0% leased excluding 1.6 million square feet held for redevelopment. Due to the capital intensive and long term nature of the operations being supported, our lease terms are generally longer than standard commercial leases. As of December 31, 2006, our original average lease term was approximately 12 years, with an average of seven years remaining. Leasing since the completion of our initial public offering in November 2004 has been at lease terms shorter than 12 years. Our lease expirations through 2008 are 6.5% of net rentable square feet excluding space held for redevelopment as of December 31, 2006. Operating revenues from properties outside the United States were \$13.2 million, \$6.0 million and \$4.4 million for the years ended December 31, 2006, 2005 and 2004, respectively.

Operating expenses. Our operating expenses generally consist of utilities, property and ad valorem taxes, property management fees, insurance and site operating and maintenance costs, as well as rental expenses. Since the consummation of our IPO, our asset management function has been internalized and we currently incur our general and administrative expenses directly. Prior to April 2005, we had a transition services agreement with CB Richard Ellis Investors with respect to transitional accounting and other services. In addition, as a public company, we incur significant legal, accounting and other expenses related to corporate governance, U.S. Securities and Exchange Commission reporting and compliance with the various provisions of Sarbanes-Oxley Act of 2002. In addition, we engage third-party property managers to manage most of our properties. As of December 31, 2006, 32 of our properties were managed by CB Richard Ellis, an affiliate of GI Partners.

Formation Transactions. In connection with the completion of our IPO, our operating partnership received contributions of direct and indirect interests in 23 of the properties in our portfolio in exchange for consideration that included cash, assumption of debt, and an aggregate of 38,262,206 units in our operating partnership (with the cash, assumed debt and units having an aggregate value of \$1,097.7 million based on the IPO price per share of \$12.00).

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We accounted for the ownership interests contributed to us by GI Partners in exchange for a partnership interest in our operating partnership as a reorganization of entities under common control in a manner similar to a pooling of interests. Accordingly, the assets and liabilities contributed by GI Partners are accounted for by our operating partnership at GI Partners' historical cost. We utilized purchase accounting to account for the acquisition of ownership interests in 200 Paul Avenue 1-4 and 1100 Space Park Drive, which were contributed to us by third parties in exchange for interests in our operating partnership, cash and the assumption of debt and the 10% minority ownership interest in 2323 Bryan Street, which was contributed to us by our joint venture partner in exchange for an interest in our operating partnership and the repayment of debt. Accordingly, the purchase price for these interests, which are equal to the value of the operating partnership units that we issued in exchange for these interests plus cash paid and debt assumed, were allocated to the assets acquired and liabilities assumed based on the fair value of the assets and liabilities.

Factors Which May Influence Future Results of Operations

Rental income. The amount of net rental income generated by the properties in our portfolio depends principally on our ability to maintain the occupancy rates of currently leased space and to lease currently available space and space available from lease terminations. Excluding 1.6 million square feet held for redevelopment, as of December 31, 2006, the occupancy rate in the properties in our portfolio was approximately 95.0% of our net rentable square feet.

The amount of rental income generated by us also depends on our ability to maintain or increase rental rates at our properties. Included in our approximately 9.4 million square feet of net rentable square feet excluding redevelopment space at December 31, 2006 is approximately 850,000 net rentable square feet of space with extensive datacenter improvements that is currently, or will shortly be, available for lease. We had leased approximately 681,000 square feet of similar space at December 31, 2006. Rather than leasing all of this space to large single tenants, we are subdividing some of it for multi-tenant turn-key datacenter use, with tenants averaging between 100 and 15,000 square feet of net rentable space. Multi-tenant turn-key datacenters are effective solutions for tenants who lack the expertise or capital budget to provide their own extensive datacenter infrastructure and security. As experts in datacenter construction and operations we are able to lease space to these tenants at a significant premium over other uses. Negative trends in one or more of these factors could adversely affect our rental income in future periods.

In addition, as of December 31, 2006, we had approximately 1.6 million square feet of redevelopment space, or approximately 14.5% of the total space in our portfolio, including four vacant properties comprising approximately 501,000 square feet. Redevelopment space requires significant capital investment in order to develop datacenter facilities that are ready for use, and in addition, we may require additional time or encounter delays in securing tenants for redevelopment space. We intend to purchase additional vacant properties and properties with vacant redevelopment space in the future.

Future economic downturns or regional downturns affecting our submarkets or downturns in the technology-related real estate industry that impair our ability to renew or re-lease space and the ability of our tenants to fulfill their lease commitments, as in the case of tenant bankruptcies, could adversely affect our ability to maintain or increase rental rates at our properties. As of December 31, 2006, we had no material tenants in bankruptcy.

Scheduled lease expirations. Our ability to re-lease expiring space will impact our results of operations. In addition to approximately 0.5 million square feet of available space in our portfolio, excluding approximately 1.6 million square feet available for redevelopment as of December 31, 2006, leases representing approximately 2.0% and 4.5% of the square footage of our portfolio, excluding redevelopment space, and approximately 4.2% and 7.1% of our gross annualized rents, are scheduled to expire during the years ending December 31, 2007 and 2008, respectively.

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Market concentration. We depend on the market for technology based real estate in specific geographic regions and significant changes in these regional markets can impact our future results. As of December 31, 2006 our portfolio was geographically concentrated in the following metropolitan markets:

Metropolitan Market	Percentage of total gross annualized rent⁽¹⁾
Silicon Valley	16.9%
Dallas	13.0%
Chicago	11.4%
New York	8.1%
San Francisco	6.5%
Los Angeles	6.4%
Boston	4.7%
Other	33.0%
	100.0%

(1) Gross annualized rent is monthly contractual rent under existing leases as of December 31, 2006 multiplied by 12.

Operating expenses. Our operating expenses generally consist of utilities, property and ad valorem taxes, property management fees, insurance and site maintenance costs, as well as rental expense. We are also incurring general and administrative expenses, including expenses relating to the internalization of our asset management function, as well as significant legal, accounting and other expenses related to corporate governance, U.S. Securities and Exchange Commission reporting and compliance with the various provisions of the Sarbanes-Oxley Act. Increases or decreases in such operating expenses will impact our overall performance. We expect to incur additional operating expenses as we expand our various business functions.

Interest Rates. As of December 31, 2006, we had approximately \$435.1 million of variable rate debt, of which approximately \$289.6 million was mortgage debt subject to interest rate swap agreements, and \$145.5 million was outstanding on our line of credit facility. Since 2002, the United States Federal Reserve has generally been increasing short term interest rates, which has recently had a significant upward impact on shorter-term interest rates, including the interest rates that our variable rate debt is based upon. Continued increases in interest rates may increase our interest expense and therefore negatively affect our financial condition and results of operations. Increased interest rates may also increase the risk that the counterparties to our swap agreements will default on their obligations, which would further increase our interest expense.

Critical Accounting Policies

Our discussion and analysis of financial condition and results of operations are based upon our consolidated and combined financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). The preparation of these financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses in the reporting period. Our actual results may differ from these estimates. We have provided a summary of our significant accounting policies in Note 2 to our financial statements included elsewhere in this report. We describe below those accounting policies that require material subjective or complex judgments and that have the most significant impact on our financial condition and results of operations. Our management evaluates these estimates on an ongoing basis, based upon information currently available and on various assumptions management believes are reasonable as of the date on the front cover of this report.

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Investments in Real Estate

Acquisition of real estate. The price that we pay to acquire a property is impacted by many factors including the condition of the property and improvements, the occupancy of the building, the existence of above and below market tenant leases, the creditworthiness of the tenants, favorable or unfavorable financing, above or below market ground leases and numerous other factors. Accordingly, we are required to make subjective assessments to allocate the purchase price paid to acquire investments in real estate among the assets acquired and liabilities assumed based on our estimate of the fair values of such assets and liabilities. This includes determining the value of the property and improvements, land, any ground leases, tenant improvements, in-place tenant leases, tenant relationships, the value (or negative value) of above (or below) market leases and any debt assumed from the seller or loans made by the seller to us. Each of these estimates requires a great deal of judgment and some of the estimates involve complex calculations. Our allocation methodology is summarized in Note 2 to our consolidated financial statements. These allocation assessments have a direct impact on our results of operations. For example, if we were to allocate more value to land, there would be no depreciation with respect to such amount. If we were to allocate more value to the property as opposed to allocating to the value of tenant leases, this amount would be recognized as an expense over a much longer period of time. This potential effect occurs because the amounts allocated to property are depreciated over the estimated lives of the property whereas amounts allocated to tenant leases are amortized over the terms of the leases. Additionally, the amortization of value (or negative value) assigned to above (or below) market rate leases is recorded as an adjustment to rental revenue as compared to amortization of the value of in-place leases and tenant relationships, which is included in depreciation and amortization in our consolidated statements of operations.

Useful lives of assets. We are required to make subjective assessments as to the useful lives of our properties for purposes of determining the amount of depreciation to record on an annual basis with respect to our investments in real estate. These assessments have a direct impact on our net income because if we were to shorten the expected useful lives of our investments in real estate we would depreciate such investments over fewer years, resulting in more depreciation expense and lower net income on an annual basis.

Asset impairment evaluation. We review the carrying value of our properties when circumstances, such as adverse market conditions, indicate potential impairment may exist. We base our review on an estimate of the future cash flows (excluding interest charges) expected to result from the real estate investment's use and eventual disposition. We consider factors such as future operating income, trends and prospects, as well as the effects of leasing demand, competition and other factors. If our evaluation indicates that we may be unable to recover the carrying value of a real estate investment, an impairment loss is recorded to the extent that the carrying value exceeds the estimated fair value of the property. These losses have a direct impact on our net income because recording an impairment loss results in an immediate negative adjustment to net income. The evaluation of anticipated cash flows is highly subjective and is based in part on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results in future periods. Since cash flows on properties considered to be long-lived assets to be held and used are considered on an undiscounted basis to determine whether an asset has been impaired, our strategy of holding properties over the long-term directly decreases the likelihood of recording an impairment loss. If our strategy changes or market conditions otherwise dictate an earlier sale date, an impairment loss may be recognized and such loss could be material. If we determine that impairment has occurred, the affected assets must be reduced to their fair value. No such impairment losses have been recognized to date.

We estimate the fair value of rental properties utilizing a discounted cash flow analysis that includes projections of future revenues, expenses and capital improvement costs, similar to the income approach that is commonly utilized by appraisers.

Capitalization of costs.

We capitalize pre-acquisition costs related to probable property acquisitions. We also capitalize direct and indirect costs related to construction and development, including property and ad valorem taxes, insurance and

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financing costs relating to space under development. Costs previously capitalized related to any property acquisitions no longer considered probable are written off, which may have a material effect on our net income. The selection of costs to capitalize and which acquisitions are probable is subjective and depends on many assumptions including the timing of potential acquisitions and the probability that future acquisitions occur. If we made different assumptions in this respect we would have a different amount of capitalized costs in the periods presented leading to different net income.

Revenue Recognition

Rental income is recognized using the straight-line method over the terms of the tenant leases. Deferred rents included in our balance sheets represent the aggregate excess of rental revenue recognized on a straight-line basis over the contractual rental payments that would be recognized under the remaining terms of the leases. Our leases generally contain provisions under which the tenants reimburse us for a portion of property operating expenses and real estate taxes incurred by us. Such reimbursements are recognized in the period that the expenses are incurred. Lease termination fees are recognized over the remaining term of the lease, effective as of the date the lease modification is finalized, assuming collection is not considered doubtful. As discussed above, we recognize amortization of the value of acquired above or below market tenant leases as a reduction of rental income in the case of above market leases or an increase to rental revenue in the case of below market leases.

We must make subjective estimates as to when our revenue is earned and the collectibility of our accounts receivable related to minimum rent, deferred rent, expense reimbursements, lease termination fees and other income. We specifically analyze accounts receivable and historical bad debts, tenant concentrations, tenant creditworthiness and current economic trends when evaluating the adequacy of the allowance for bad debts. These estimates have a direct impact on our net income because a higher bad debt allowance would result in lower net income, and recognizing rental revenue as earned in one period versus another would result in higher or lower net income for a particular period.

Share-based awards

We recognize compensation expense related to share-based awards. We generally amortize this compensation expense over the vesting period of the award. The calculation of the fair value of share-based awards is subjective and requires several assumptions over such items as expected stock volatility, dividend payments and future company results. These assumptions have a direct impact on our net income because a higher share-based awards amount would result in lower net income for a particular period.

Results of Operations

The discussion below relates to our financial condition and results of operations for the years ended December 31, 2006, 2005 and 2004. We have combined the results of operations for the period from November 3, 2004 through December 31, 2004 and the period from January 1, 2004 through November 2, 2004 to provide a meaningful comparison to the results of operations for the other years. A summary of our results for the years ended December 31, 2006, 2005 and 2004 was as follows (in thousands).

Year ended December 31,	2006	2005	2004
Statement of Operations Data:			
Total operating revenues	\$ 281,903	\$ 201,431	\$ 99,873
Total operating expenses	(204,349)	(138,616)	(80,944)
Operating income	77,554	62,815	18,929
Other Income (expenses)	(50,999)	(37,471)	(23,284)
Income from continuing operations before minority interests	\$ 26,555	\$ 25,344	\$ (4,355)

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Our property portfolio has experienced consistent and significant growth since the first property acquisition in January 2002. As a result of such growth, a period-to-period comparison of our financial performance focuses on the impact on our revenues and expenses resulting both from the new property additions to our portfolio, as well as on a same store property basis (same store properties are properties that were owned and operated for the entire current year and the entire immediate preceding year). The following table identifies each of the properties in our portfolio acquired from January 1, 2004 through December 31, 2006.

Acquired Properties	Acquisition Date	Redevelopment Space as of December 31, 2006⁽¹⁾	Net Rentable Square Feet Excluding Redevelopment Space	Square Feet including Redevelopment Space	Occupancy Rate as of December 31, 2006⁽²⁾
<i>As of December 31, 2003 (12 properties)</i>		272,326	2,171,369	2,443,695	95.2 %
Year Ended December 31, 2004					
100 Technology Center Drive	Feb-04		197,000	197,000	100.0
4849 Alpha Road	Apr-04		125,538	125,538	100.0
600 West Seventh Street	May-04	45,721	444,001	489,722	97.8
2045 & 2055 LaFayette Street	May-04		300,000	300,000	100.0
100 & 200 Quannapowitt Parkway	Jun-04		386,956	386,956	100.0
11830 Webb Chapel Road	Aug-04		365,647	365,647	95.0
150 South First Street	Sep-04		179,761	179,761	100.0
3065 Gold Camp Drive	Oct-04		62,957	62,957	100.0
200 Paul Avenue 1-4	Nov-04	25,919	501,761	527,680	97.2
1100 Space Park Drive	Nov-04		165,297	165,297	97.6
3015 Winona Avenue	Dec-04		82,911	82,911	100.0
Subtotal		71,640	2,811,829	2,883,469	98.3
Year Ended December 31, 2005					
833 Chestnut Street	Mar-05	119,660	535,098	654,758	78.6
1125 Energy Park Drive	Mar-05		112,827	112,827	100.0
350 East Cermak Road	May-05	240,896	892,843	1,133,739	94.2
8534 Concord Center Drive	Jun-05		82,229	82,229	100.0
2401 Walsh Street	Jun-05		167,932	167,932	100.0
200 North Nash Street	Jun-05		113,606	113,606	100.0
2403 Walsh Street	Jun-05		103,940	103,940	100.0
4700 Old Ironsides Drive	Jun-05		90,139	90,139	100.0
4650 Old Ironsides Drive	Jun-05		84,383	84,383	100.0
731 East Trade Street	Aug-05		40,879	40,879	100.0
113 North Myers	Aug-05	9,132	20,086	29,218	100.0
125 North Myers	Aug-05	13,242	12,160	25,402	100.0
Paul van Vlissingenstraat 16	Aug-05	35,000	77,472	112,472	58.8
600-780 S. Federal	Sep-05		161,547	161,547	83.6
115 Second Avenue	Oct-05	56,236	10,494	66,730	
Chemin de l'Epinglier 2	Nov-05		59,190	59,190	100.0
251 Exchange Place	Nov-05		70,982	70,982	100.0
7500 Metro Center Drive	Dec-05	74,962		74,962	
7620 Metro Center Drive	Dec-05		45,000	45,000	100.0
3 Corporate Place	Dec-05	283,124		283,124	
Subtotal		832,252	2,680,807	3,513,059	91.2
Year Ended December 31, 2006					
4025 Midway Road	Jan-06	63,734	36,856	100,590	100.0
Clonshaugh Industrial Estate	Feb-06		20,000	20,000	100.0
6800 Millcreek Drive	Apr-06		83,758	83,758	100.0
101 Aquila Way	Apr-06		313,581	313,581	100.0
12001 North Freeway	Apr-06	19,279	281,426	300,705	98.1
14901 FAA Boulevard	Jun-06		263,700	263,700	100.0
120 E. Van Buren Street	Jul-06	81,155	206,359	287,514	96.8
Gyrocoopweg 2E-2F	Jul-06		55,585	55,585	100.0
600 Winter Street	Sep-06		30,400	30,400	100.0

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2300 NW 89th Place	Sep-06		64,174	64,174	100.0
1807 Michael Faraday Court	Oct-06		19,237	19,237	100.0
8100 Boone Boulevard	Oct-06		17,015	17,015	100.0
111 Eighth Avenue	Oct-06		83,137	83,137	100.0
2055 E. Technology Circle	Oct-06	76,350		76,350	
114 Rue Amboise Croizat	Dec-06	229,519	122,627	352,146	56.0
Unit 9, Blanchardstown Corporate Park	Dec-06		120,000	120,000	85.9
Subtotal		470,037	1,717,855	2,187,892	95.2
Total		1,646,255	9,381,860	11,028,115	95.0%

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- (1) Redevelopment space requires significant capital investment in order to develop datacenter facilities that are ready for use. Most often this is shell space. However, in certain circumstances this may include partially built datacenter space that was not completed by previous ownership and requires a large capital investment in order to build out the space.
- (2) Occupancy rates exclude redevelopment space.

Comparison of the Year Ended December 31, 2006 to the Year Ended December 31, 2005 and comparison of the Year Ended December 31, 2005 to the Year Ended December 31, 2004

Portfolio

As of December 31, 2006, our portfolio consisted of 59 properties, excluding one property held as an investment in an unconsolidated joint venture, with an aggregate of 9.4 million net rentable square feet excluding 1.6 million square feet held for redevelopment compared to a portfolio consisting of 44 properties with an aggregate of 8.1 million net rentable square feet excluding space held for redevelopment as of December 31, 2005 compared to a portfolio consisting of 24 properties with an aggregate of 5.4 million net rentable square feet excluding space held for redevelopment as of December 31, 2004. The increase in our portfolio reflects the acquisition of 11 properties in 2004, 20 properties in 2005 and 16 properties in 2006, net of one property sold during 2006.

Revenues

Total operating revenues from continuing operations were as follows (in thousands):

	Year Ended December 31,			Change		Percentage Change	
	2006	2005	2004	2006 v 2005	2005 v 2004	2006 v 2005	2005 v 2004
Rental	\$ 229,742	\$ 158,428	\$ 83,869	\$ 71,314	\$ 74,559	45.0%	88.9%
Tenant reimbursements	51,796	37,174	16,004	14,622	21,170	39.3%	132.3%
Other	365	5,829		(5,464)	5,829	(93.7%)	0.0%
Total operating revenues	\$ 281,903	\$ 201,431	\$ 99,873	\$ 80,472	\$ 101,558	40.0%	101.7%

As shown by the same store and new properties table shown below, the increases in rental revenues and tenant reimbursement revenues in the year ended December 31, 2006 compared to 2005 were primarily due to our acquisitions of properties leading to a larger portfolio size. These factors also caused the increases in rental revenues and tenant reimbursements in the year ended December 31, 2005 compared to 2004. Other revenues changes in the years presented were primarily due to varying tenant termination revenues. We acquired 16, 20 and 11 properties during the years ended December 31, 2006, 2005 and 2004, respectively. Included in the 2006 rental revenues is \$0.8 million of straight-line rent adjustment attributable to prior years. This \$0.8 million out-of-period adjustment is considered by management to be immaterial to each of the years in which it accumulated.

The following table shows total operating revenues from continuing operations for same store properties and new properties (in thousands).

	Same Store			New Properties		
	Year Ended December 31,			Year Ended December 31,		
	2006	2005	Change	2006	2005	Change
Rental	\$ 135,031	\$ 123,860	\$ 11,171	\$ 94,711	\$ 34,568	\$ 60,143
Tenant reimbursements	33,317	27,981	5,336	18,479	9,193	9,286
Other	197	4,434	(4,237)	168	1,395	(1,227)
Total operating revenues	\$ 168,545	\$ 156,275	\$ 12,270	\$ 113,358	\$ 45,156	\$ 68,202

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Same store rental revenues increased for the year ended December 31, 2006 compared to the same period in 2005 primarily as a result of new leases at our properties during 2006, the largest of which was for space in 200 Paul Avenue 1-4, 300 Boulevard East and 1100 Space Park Drive. Same store tenant reimbursement revenues increased for the year ended December 31, 2006 compared to the same period in 2005 primarily as a result of higher utility and operating expenses being billed to our tenants, the largest occurrences of which were at 200 Paul Avenue 1-4, 2323 Bryan Street and 1100 Space Park Drive. The decrease in same store other revenues was due to termination fee revenues recognized for the year ended December 31, 2005, primarily for a tenant located at 600 West Seventh Street, while the decrease in new properties other revenues was due to termination fee revenues recognized for the year ended December 31, 2005, primarily for a tenant located at 833 Chestnut Street.

New property increases were caused by properties acquired during the period from January 1, 2005 to December 31, 2006. For the year ended December 31, 2006, 350 East Cermak Road, Savvis portfolio (comprising five properties acquired in June 2005), 12001 North Freeway and 120 E. Van Buren Street contributed \$36.7 million, or approximately 54% of the total new properties increase in total operating revenues compared to the same period in 2005.

	Same Store			New Properties		
	Year Ended December 31, 2005	2004	Change	Year Ended December 31, 2005	2004	Change
Rental	\$ 56,216	\$ 56,690	\$ (474)	\$ 102,212	\$ 27,179	\$ 75,033
Tenant reimbursements	11,735	10,288	1,447	25,439	5,716	19,723
Other	366		366	5,461		5,461
Total operating revenues	\$ 68,317	\$ 66,978	\$ 1,339	\$ 133,112	\$ 32,895	\$ 100,217

Same store tenant reimbursement revenues increased in the year ended December 31, 2005 compared to 2004 primarily as a result of increased operating expenses leading to higher tenant reimbursement income and favorable outcomes of tenant reimbursement billings in 2005.

Expenses

Total expenses from continuing operations were as follows (in thousands):

	Year Ended December 31,			Change		Percentage Change	
	2006	2005	2004	2006 v 2005	2005 v 2004	2006 v 2005	2005 v 2004
Rental property operating and maintenance	\$ 61,052	\$ 41,030	\$ 17,081	\$ 20,022	\$ 23,949	48.8%	140.2%
Property taxes	28,052	20,992	8,601	7,060	12,391	33.6%	144.1%
Insurance	3,757	2,728	1,751	1,029	977	37.7%	55.8%
Depreciation and amortization	89,936	59,616	28,789	30,320	30,827	50.9%	107.1%
General and administrative	20,441	12,615	20,989	7,826	(8,374)	62.0%	(39.9%)
Asset management fees to related party			2,655		(2,655)	0.0%	(100.0%)
Other	1,111	1,635	1,078	(524)	557	(32.0%)	51.7%
Total operating expenses	204,349	138,616	80,944	65,733	57,672	47.4%	71.2%
Interest expense	51,924	37,724	23,102	14,200	14,622	37.6%	63.3%
Loss from early extinguishment of debt	527	1,021	283	(494)	738	(48.4%)	260.8%
Total expenses	\$ 256,800	\$ 177,361	\$ 104,329	\$ 79,439	\$ 73,032	44.8%	70.0%

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As shown in the same store expense and new properties table below, total expenses in the year ended December 31, 2006 increased compared to 2005 primarily as a result of higher operating expenses following acquisition of properties. The following table shows expenses from continuing operations for same store properties and new properties (in thousands).

	Same Store			New Properties		
	Year Ended December 31,			Year Ended December 31,		
	2006	2005	Change	2006	2005	Change
Rental property operating and maintenance	\$ 38,383	\$ 30,388	\$ 7,995	\$ 22,669	\$ 10,642	\$ 12,027
Property taxes	13,046	13,479	(433)	15,006	7,513	7,493
Insurance	2,271	2,123	148	1,486	605	881
Depreciation and amortization	48,628	44,391	4,237	41,308	15,225	26,083
General and administrative ⁽¹⁾	20,441	12,615	7,826			
Other	774	1,615	(841)	337	20	317
Total operating expenses	123,543	104,611	18,932	80,806	34,005	46,801
Interest expense	28,999	28,207	792	22,925	9,517	13,408
Loss from early extinguishment of debt	527	1,021	(494)			
Total expenses	\$ 153,069	\$ 133,839	\$ 19,230	\$ 103,731	\$ 43,522	\$ 60,209

(1) General and administrative expenses are included in same store as they are not allocable to specific properties.

New property increases were caused by properties acquired during the period from January 1, 2005 to December 31, 2006. For the year ended December 31, 2006, 350 East Cermak Road, 600-780 S. Federal Street, 12001 North Freeway and 120 E. Van Buren Street contributed \$29.0 million, or approximately 47% in total expenses compared to the same period in 2005.

Same store rental property operating and maintenance expenses increased for the year ended December 31, 2006 compared to the same period in 2005 primarily as a result of higher utility rates in several of our properties leading to higher utility expense in 2006. Rental property operating and maintenance expenses included amounts paid to related parties, CB Richard Ellis and The Linc Group, for property management and other fees of \$2.6 million and \$1.9 million in the year ended December 31, 2006 and 2005, respectively. CB Richard Ellis and The Linc Group are related parties of GI Partners. We capitalized amounts relating to compensation expense of employees directly engaged in construction and successful leasing activities of \$2.4 million and \$0.4 million in the years ended December 31, 2006 and 2005, respectively.

Same store depreciation and amortization expense increased in the year ended December 31, 2006 compared to 2005, principally because of the acceleration of depreciation on assets associated with leases by VarTec, a former tenant, which was in bankruptcy.

General and administrative expenses for the year ended December 31, 2006 increased compared to the same period in 2005 primarily due to the growth of our company, which resulted in more employees, incentive compensation, and higher insurance, legal and consulting costs. Included in the 2006 general and administrative expenses is a writeoff of approximately \$0.5 million of pre-acquisition costs related to a previously targeted acquisition in Germany.

Other expenses are primarily comprised of write-offs of the carrying amounts for deferred tenant improvements, acquired in place lease value and acquired above market lease values as a result of the early termination of tenant leases. Other expenses decreased for the year ended December 31, 2006 compared to the same period in 2005 primarily due to the write off of assets following the termination of a tenant in 2005.

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Same store interest expense increased for the year ended December 31, 2006 as compared to the same period in 2005 primarily as a result of higher average outstanding debt balances during 2006 compared to 2005 related to refinancings on 200 Paul Avenue 1-4, 600 West Seventh Street, 34551 Ardenwood Boulevard 1-4 and 2334 Lundy Place partially offset by lower average outstanding balances during 2006 compared to 2005 for 47700 Kato Road and 1055 Page Avenue. Interest incurred on our unsecured credit facility and senior exchangeable debentures is allocated entirely to new properties in the table above. Interest capitalized during the years ended December 31, 2006 and 2005 was \$3.9 million and \$0.3 million.

	Same Store			New Properties		
	Year Ended December 31,			Year Ended December 31,		
	2005	2004	Change	2005	2004	Change
Rental property operating and maintenance	\$ 12,124	\$ 10,385	\$ 1,739	\$ 28,906	\$ 6,696	\$ 22,210
Property taxes	5,747	6,473	(726)	15,245	2,128	13,117
Insurance	659	923	(264)	2,069	828	1,241
Depreciation and amortization	19,388	19,267	121	40,228	9,522	30,706
General and administrative ⁽¹⁾	12,615	20,989	(8,374)			
Asset management fees to related party ⁽¹⁾		2,655	(2,655)			
Other	315	963	(648)	1,320	115	1,205
Total operating expenses	50,848	61,655	(10,807)	87,768	19,289	68,479
Interest expense	17,342	15,108	2,234	20,382	7,994	12,388
Loss from early extinguishment of debt	150	135	15	871	148	723
Total expenses	\$ 68,340	\$ 76,898	\$ (8,558)	\$ 109,021	\$ 27,431	\$ 81,590

(1) General and administrative expenses and asset management fees to related party are included in same store as they are not allocable to specific properties.

Same store rental property and maintenance expenses increased in 2005 compared to 2004 primarily as a result of utility rate increases in the Dallas region.

Property taxes increases in the years presented were primarily a result of new properties acquired in later years leading to a larger expense. Same store property taxes decreased in the year ended December 31, 2005 compared to 2004 primarily due to a favorable outcome of appealing a property tax amount at 4055 Valley View Lane.

Insurance expense increases in the years presented was primarily a result of new properties acquired in later years leading to a larger expense. Same store insurance decreased in the year ended December 31, 2005 compared to 2004 primarily as a result of more favorable insurance rates on our properties following a more established insurance history and claim pattern of properties under our ownership.

Depreciation and amortization expense increases were primarily due to our acquisitions of properties leading to a higher portfolio size in later years.

The changes in general and administrative expenses for the years presented was caused by higher expenses in 2005 offset by \$17.9 million of compensation expense recorded upon completion of our IPO related to fully vested long-term incentive units granted in connection with the IPO in 2004. As a public company, we are incurring significant legal, accounting and other costs related to corporate governance, Securities and Exchange Commission reporting and other public company overhead. We incurred higher general and administrative expenses as we internalized our accounting functions in 2005, partially related to increased staff necessary to manage the growth of operations. In addition we incurred expenses related to compliance with the requirements of the Sarbanes Oxley Act. Prior to the completion of our IPO, general and administrative expenses were incurred by our Predecessor's related party asset manager and our Predecessor incurred an asset management fee, which is included separately in the combined statement of operations.

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For the year ended December 31, 2004, the monthly asset management fee to a related party was based on a fixed percentage of capital commitments by the investors in GI Partners, a portion of which was allocated to the Company Predecessor. Effective as of the completion of our IPO, no such fees are allocated to us.

Other expenses are primarily comprised of write-offs of the carrying amounts for deferred tenant improvements, acquired in place lease value and acquired above market lease values as a result of the early termination of tenant leases. Other expenses during the years presented varied as a result of the level of terminations and the carrying values of the assets associated with the leases that terminated early. Same store other expenses decreased in the year ended December 31, 2005 compared to 2004 primarily as a result of reduced write off or assets following tenant terminations.

Interest expense increases were associated with new mortgage and other secured debt incurred primarily in connection with the properties added to our portfolio. The increase in interest related to property acquisitions in all years presented was partially offset by a reduction in interest related to loans repaid or refinanced. Same store interest expense increased in 2005 compared to 2004 primarily because the interest rates obtained on interest rate swaps upon completion of our IPO in November 2004 were higher than interest rates prevailing throughout 2004. This effect was partially offset by the repayment of \$22.0 million of a mezzanine loan in November 2005.

Net loss from early extinguishment of debt related to prepayment costs and the write offs of unamortized deferred financing costs when we prepaid loans. The net loss from early extinguishment of debt increased in the year ended December 31, 2005 compared to 2004 as a result of higher loan prepayments.

Discontinued operations

Discontinued operations relate to 7979 East Tufts Avenue, a property acquired in October 2003 which we classified as held for sale in June 2006 and sold on July 12, 2006. Results of discontinued operations were as follows (in thousands):

	Year Ended December 31,		
	2006	2005	2004
Total revenues	\$ 3,458	\$ 6,104	\$ 7,147
Total expenses	3,806	7,091	8,473
Loss from discontinued operations before minority interests	\$ (348)	\$ (987)	\$ (1,326)

Liquidity and Capital Resources*Analysis of Liquidity and Capital Resources*

As of December 31, 2006, we had \$22.3 million of cash and cash equivalents, excluding \$28.1 million of restricted cash. Restricted cash primarily consists of interest bearing cash deposits required by the terms of several of our mortgage loans for a variety of purposes, including real estate taxes, insurance, anticipated or contractually obligated tenant improvements and leasing deposits.

Our short term liquidity requirements primarily consist of operating expenses and other expenditures associated with our properties, dividend payments on our preferred stock, dividend payments to our stockholders and distributions to our unitholders in the Operating Partnership required to maintain our REIT status, capital expenditures, debt service on our loans and, potentially, acquisitions. We expect to meet our short-term liquidity requirements through net cash provided by operations, restricted cash accounts established for certain future payments and by drawing upon our unsecured credit facility.

As of December 31, 2006, our Operating Partnership had a \$500 million unsecured credit facility. Borrowings under this credit facility currently bear interest at a rate based on LIBOR and EURIBOR plus a

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margin ranging from 1.250% to 1.625%, depending on our Operating Partnership's overall leverage, which margin was 1.50% as of December 31, 2006. The unsecured credit facility matures in October 2008, subject to a one-year extension option that we may exercise if certain conditions are met. The unsecured credit facility has a \$150.0 million sub-facility for foreign exchange advances in Euros and British Sterling. We intend to use available borrowings under the unsecured credit facility to, among other things, finance the acquisition of additional properties, to fund tenant improvements and capital expenditures, fund redevelopment activities and to provide for working capital and other corporate purposes. As of December 31, 2006, we had outstanding \$145.5 million under the credit facility and the amount available for use was \$148.0 million.

Financing transactions in 2006

On December 20, 2006, we closed on the acquisition of Unit 9, Blanchardstown Corporate Park in Dublin, Ireland for approximately 36.5 million (\$47.9 million based on the rate of exchange on December 20, 2006). Simultaneously, we closed on a 28.2 million (\$37.1 million based on the rate of exchange on December 20, 2006) loan with 1.5% amortization per annum at a swapped fixed interest rate of 5.350% which matures on January 18, 2012.

On December 5, 2006, we closed on the acquisition of 114 Rue Ambroise Croizat in Paris, France for approximately 40.4 million (\$53.8 million based on the rate of exchange on December 5, 2006). Simultaneously, we closed on a 32.8 million (\$43.7 million based on the rate of exchange on December 5, 2006) loan with 1.5% amortization per annum at a swapped fixed interest rate of 5.126% which matures on January 18, 2012.

On October 24, 2006, we completed the financing of 1100 Space Park Drive in Santa Clara, California. The new \$55.0 million loan has an interest rate of 5.886%, no principal amortization for three years, and the maturity date is December 11, 2016. The proceeds from the financing were used to reduce the balance of our unsecured credit facility.

On October 4, 2006 we issued 9.2 million common shares for net proceeds of \$267.7 million after offering costs. We used proceeds from this issuance to pay \$133.8 million for the redemption of 4.6 million common Operating Partnership units tendered by GI Partners, with the remainder used to temporarily reduce the balance of our unsecured credit facility.

On September 8, 2006, we re-financed the mortgage related to the Global Marsh properties (34551 Ardenwood Boulevard 1-4, 2334 Lundy Place, and 2440 Marsh Lane) and put in place two separate mortgages. 34551 Ardenwood Boulevard 1-4 was refinanced with a \$55.0 million loan at an interest rate of 5.950% and a maturity date of November 11, 2016. 2334 Lundy Place was refinanced with a \$40.0 million loan at an interest rate of 5.955% and a maturity date of November 11, 2016. 2440 Marsh Lane has been placed in our redevelopment asset pool. The excess proceeds from the re-financings were used to reduce the balance on our unsecured credit facility.

On August 15, 2006, our Operating Partnership issued \$172.5 million of its 4.125% Exchangeable Senior Debentures due August 15, 2026. The Debentures are general unsecured senior obligations of the Operating Partnership and rank equally in right of payment with all other senior unsecured indebtedness of the Operating Partnership. Interest is payable on August 15 and February 15 of each year beginning February 15, 2007 until the maturity date of August 15, 2026. The Debentures bear interest at 4.125% per annum and contain an exchange settlement feature, which provides that the Debentures may, under certain circumstances, be exchangeable for cash (up to the principal amount of the Debentures) and, with respect to any excess exchange value, into cash, shares of our common stock or a combination of cash and shares of our common stock at an initial exchange rate of approximately 30.68 shares per \$1,000 principal amount of Debentures. The \$166.3 million in net proceeds from the sale of the Debentures were used to reduce the balance on our unsecured credit facility.

On July 27, 2006, we closed on the acquisition of Gyroscoopweg 2E-2F in Amsterdam, Netherlands for approximately 8.9 million (\$11.3 million based on the rate of exchange on July 27, 2006). Simultaneously, we

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closed a 7.1 million (\$9.0 million based on the rate of exchange on July 27, 2006) with 1.5% amortization per annum at a swapped fixed rate of 5.49% which matures on October 18, 2013.

On June 23, 2006, we completed the financing of Chemin de l'Épingle 2 in Geneva, Switzerland. The 8.1 million (\$10.1 million based on the rate of exchange on June 23, 2006) loan with 1.5% amortization per annum has a swapped fixed interest rate of 5.57% and matures on July 18, 2013. Proceeds from the financing were used to reduce the balance on our unsecured credit facility.

On May 17, 2006, we completed the financing of Paul van Vlissingenstraat 16 in Amsterdam, Netherlands. The 11.2 million (\$14.3 million based on the rate of exchange on May 17, 2006) loan with 1.5% amortization per annum has a swapped fixed interest rate of 5.58% and matures on July 18, 2013. Proceeds from the financing were used to reduce the balance on our unsecured credit facility.

On May 30, 2006, we issued 4.0 million shares of common stock at a price of \$24.40, which resulted in net proceeds of approximately \$94.5 million after offering costs which were used to temporarily reduce the balance on our unsecured credit facility.

On April 20, 2006, we re-financed the mortgage related to 6 Braham Street in London, England, which resulted in a new loan for £13.2 million (\$23.0 million based on the rate of exchange on April 20, 2006) at a variable interest rate of UK LIBOR plus 0.90% which matures in April 2011. In April 2006, we also entered into an interest rate swap agreement to hedge variability in cash flows related to this loan. The swapped fixed interest rate of 5.84% is effective from July 10, 2006 through April 10, 2011.

On March 3, 2006, we re-financed the mortgage related to 600 West Seventh Street in Los Angeles, California. The new \$60.0 million loan has an interest rate of 5.80% and a maturity date of March 15, 2016. Excess proceeds from the re-financing were used to reduce the balance on our unsecured credit facility.

On February 28, 2006, we prepaid the outstanding balance of \$17.5 million on our 47700 Kato Road & 1055 Page Avenue property mortgage. No prepayment fees were incurred as a result of this prepayment.

During the year ended December 31, 2006 we acquired the following properties:

Property	Metropolitan Area	Date Acquired	Purchase Price (in millions) ⁽²⁾
4025 Midway Road	Dallas	January 6, 2006	\$ 16.2
Clonshaugh Industrial Estate	Dublin, Ireland	February 6, 2006	6.3
6800 Millcreek Drive	Toronto, Canada	April 13, 2006	16.0
101 Aquila Way	Atlanta	April 20, 2006	25.3
12001 North Freeway	Houston	April 26, 2006	30.5
14901 FAA Boulevard	Dallas	June 30, 2006	50.6
120 E. Van Buren Street	Phoenix	July 25, 2006	175.0
Gyroscoopweg 2E-2F	Amsterdam, Netherlands	July 27, 2006	11.2
600 Winter Street	Boston	September 13, 2006	8.7
2300 NW 89th Place	Miami	September 26, 2006	5.6
AboveNet Properties ⁽¹⁾	Various	October 1, 2006	40.1
2055 E. Technology Circle	Phoenix	October 17, 2006	9.7
114 Rue Ambroise Croizat	Paris, France	December 5, 2006	53.8
Unit 9, Blanchardstown Corporate Park	Dublin, Ireland	December 20, 2006	47.9
			\$ 496.9

(1) The purchase includes a fee-simple ownership of 1807 Michael Faraday Court in Reston, Virginia and two leasehold interests at 111 Eight Avenue in New York City and 8100 Boone Boulevard in Vienna, Virginia.

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- (2) Excludes investment in property in Seattle, Washington, in which we acquired a 49% interest in November 2006 for approximately \$30.5 million.

We financed the purchase of these properties through the sale of common stock in May 2006 and October 2006, the issuance of \$172.5 million of senior exchangeable debentures in August 2006, borrowings under our line of credit facility as well as secured mortgage financings.

Future uses of cash

Our properties require periodic investments of capital for tenant-related capital expenditures and for general capital improvements. As of December 31, 2006, we had commitments under leases in effect for \$13.0 million of tenant improvement costs and leasing commissions all of which we expect to incur in the near future.

As of December 31, 2006, we have identified from our existing properties approximately 1.6 million square feet of redevelopment space and we also owned approximately 850,000 net rentable square feet of datacenter space with extensive installed tenant improvements that we may subdivide for multi-tenant turn-key datacenter use during the next two years rather than lease such space to large single tenants. Turn-Key Datacenter space is move-in-ready space for the placement of computer and network equipment required to provide a datacenter environment. Depending on demand for additional turn-key data space, we may incur significant tenant improvement costs to build out and redevelop these spaces for which we would need to raise significant additional capital.

Subsequent to December 31, 2006 we acquired the following properties:

Location	Purchase Price	Purchase Completed on:
	(\$ millions)	
21110 Ridgetop Circle, Sterling, Virginia	\$ 17.0	January 5, 2007
3011 LaFayette Street, Santa Clara, California	13.5	January 22, 2007
44470 Chillum Place, Ashburn, Virginia	42.5	February 27, 2007
	\$ 73.0	

We are also subject to the commitments discussed below under **Commitments and Contingencies** and **Off-Balance Sheet Arrangements, and Distributions** as described below.

We expect to meet our long-term liquidity requirements to pay for scheduled debt maturities and to fund property acquisitions and non-recurring capital improvements with net cash from operations, future long-term secured and unsecured indebtedness and the issuance of equity and debt securities. We also may fund future property acquisitions and non-recurring capital improvements using our unsecured credit facility pending permanent financing.

Distributions

We are required to distribute 90% of our REIT taxable income (excluding capital gains) on an annual basis in order to continue to qualify as a REIT for federal income tax purposes. Accordingly, we intend to make, but are not contractually bound to make, regular quarterly distributions to preferred stockholders, common stockholders and unit holders from cash flow from operating activities. All such distributions are at the discretion of our board of directors. We may be required to use borrowings under the credit facility, if necessary, to meet REIT distribution requirements and maintain our REIT status. We consider market factors and our performance in addition to REIT requirements in determining distribution levels. Amounts accumulated for distribution to stockholders are invested primarily in interest-bearing accounts and short-term interest-bearing securities, which are consistent with our intention to maintain our status as a REIT. The exchange rate on our \$172.5 million

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principal amount of exchangeable debentures is subject to adjustment for certain events, including, but not limited to, certain dividends on our common stock in excess of \$0.265 per share per quarter. Therefore, increases to our quarterly dividend may increase the dilutive impact of the exchangeable debentures on our common stockholders. See Part I, Item 1A, Risk Factors – Risks Related to Our Business and Operations. The exchange and repurchase rights of our exchangeable debentures may be detrimental to holders of common stock.

In 2006, 2005 and 2004, we have declared the following dividends:

Date dividend and distribution declared	Share class	Dividend and distribution amount per share	Period covered	Dividend and distribution payable date	Annual equivalent rate of dividend and distribution per share	Dividend and distribution amount (in thousands)
February 27, 2006	Series A Preferred Stock	\$ 0.53125	January 1, 2006 to March 31, 2006	March 31, 2006	\$ 2.125	\$ 2,199
				to shareholders of record on March 15, 2006.		
February 27, 2006	Series B Preferred Stock	\$ 0.49219	January 1, 2006 to March 31, 2006	March 31, 2006 to shareholders of record on March 15, 2006.	1.969	1,246
February 27, 2006	Common stock and operating partnership common units and long term incentive units.	\$ 0.26500	January 1, 2006 to March 31, 2006	March 31, 2006 to shareholders of record on March 15, 2006.	1.060	15,642
May 1, 2006	Series A Preferred Stock	\$ 0.53125	April 1, 2006 to June 30, 2006	June 30, 2006 to shareholders of record on June 15, 2006.	2.125	2,199
May 1, 2006	Series B Preferred Stock	\$ 0.49219	April 1, 2006 to June 30, 2006	June 30, 2006 to shareholders of record on June 15, 2006.	1.969	1,246
May 1, 2006	Common stock and operating partnership common units and long term incentive units.	\$ 0.26500	April 1, 2006 to June 30, 2006	June 30, 2006 to shareholders of record on June 15, 2006.	1.060	16,709
July 31, 2006	Series A Preferred Stock	\$ 0.53125	July 1, 2006 to September 30, 2006	October 2, 2006 to shareholders of record on September 15, 2006.	2.125	2,199
July 31, 2006	Series B Preferred Stock	\$ 0.49219	July 1, 2006 to September 30, 2006	October 2, 2006 to shareholders of record on September 15, 2006.	1.969	1,246
July 31, 2006	Common stock and operating partnership common units and long term incentive units.	\$ 0.26500	July 1, 2006 to September 30, 2006	October 2, 2006 to shareholders of record on September 15, 2006.	1.060	16,607
October 31, 2006	Series A Preferred Stock	\$ 0.53125	October 1, 2006 to December 31, 2006	December 29, 2006 to shareholders of record on December 15, 2006.	2.125	2,199
October 31, 2006	Series B Preferred Stock	\$ 0.49219	October 1, 2006 to December 31, 2006	December 29, 2006 to shareholders of record on December 15, 2006.	1.969	1,246
October 31, 2006	Common stock and operating partnership common units and long term incentive units.	\$ 0.28625	October 1, 2006 to December 31, 2006	January 16, 2007 to shareholders of record on December 29, 2006.	1.145	19,387

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Total dividends and distributions declared through December 31, 2006:

	Declared in 2004	Declared in 2005	Declared in 2006	Total
Series A Preferred Stock	\$	\$ 7,868	\$ 8,796	\$ 16,664
Series B Preferred Stock		2,146	4,984	7,130
Common stock and operating partnership common units and long term incentive units.	8,276	55,787	68,345	132,408
	\$ 8,276	\$ 65,801	\$ 82,125	\$ 156,202

The tax treatment of dividends on common stock paid in 2006 is estimated as follows: approximately 74% ordinary income and 26% return of capital. The tax treatment of dividends on common stock paid in 2005 is as follows: approximately 87% ordinary income and 13% return of capital. All dividends paid on our preferred stock in 2006 and 2005 were classified as ordinary income for income tax purposes.

Contractual Commitments

The following table summarizes our contractual obligations as of December 31, 2006, including the maturities and scheduled principal on our secured debt and unsecured credit facility debt, and provides information about the commitments due in connection with our ground leases, tenant improvement and leasing commissions (in thousands):

Obligation	Total	2007	2008-2009	2010-2011	Thereafter
Long-term debt principal payments ⁽¹⁾	\$ 1,120,672	\$ 8,085	\$ 362,906	\$ 217,011	\$ 532,670
Interest payable ⁽²⁾	340,828	63,862	102,942	76,373	97,651
Ground leases ⁽³⁾	19,918	403	806	806	17,903
Operating lease	29,670	4,075	7,922	8,457	9,216
Tenant improvements and leasing commissions	13,042	13,042			
	\$ 1,524,130	\$ 89,467	\$ 474,576	\$ 302,647	\$ 657,440

- (1) Includes \$145.5 million of borrowings under our unsecured credit facility, which is due to mature in October 2008 and excludes \$2.0 million of loan premiums.
- (2) Interest payable is based on the interest rate in effect on December 31, 2006 including the effect of interest rate swaps. Interest payable excluding the effect of interest rate swaps is as follows (in thousands):

2007	\$ 65,056
2008-2009	103,880
2010-2011	76,185
Thereafter	97,561
	\$ 342,682

- (3) This is comprised of ground lease payments on 2010 East Centennial Circle, Chemin de l Epinglier 2, Clonshaugh Industrial Estate, Paul van Vlissingenstraat 16 and Gyroscopweg 2E-2F. After February 2036, rent for the remaining term of the 2010 East Centennial Circle ground lease will be determined based on a fair market value appraisal of the asset and, as a result, is excluded from the above information. The Chemin de l Epinglier 2 ground lease which expires in July 2074 contains potential inflation increases which are not reflected in the table above. The Paul van Vlissingenstraat, 16 Chemin de l Epinglier 2, Gyroscopweg 2E-2F and Clonshaugh Industrial Estate amounts

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are translated at the December 31, 2006 exchange rate of \$1.32 per 1.00.

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We have agreed with the seller of the 350 East Cermak Road to share a portion, not to exceed \$135,000 per month, of rental revenue, adjusted for our costs to lease the premises, from the lease of the 263,000 square feet of space held for redevelopment. This revenue sharing agreement will terminate in May 2013. We have no liability for this contingent liability on our balance sheet at December 31, 2006.

As of December 31, 2006, we were a party to interest rate swap agreements which hedge variability in cash flows related to LIBOR, GBP LIBOR and EURIBOR based mortgage loans. Under these swaps, we pay or receive cash net settlements from our swap counterparties based on the notional amounts of our swap agreements and the difference between the fixed swap rate and the underlying benchmark interest rate on our variable rate debt which effectively converts the hedged variable rate debt to a fixed rate over the term of the interest rate swap agreements. See Item 7A Quantitative and Qualitative Disclosures about Market Risk.

Outstanding Consolidated Indebtedness

The table below summarizes our debt, at December 31, 2006 (in millions):

Debt Summary:	
Fixed rate	\$ 687.5
Variable rate hedged by interest rate swaps	289.6
Total fixed rate	977.1
Variable rate unhedged	145.5
Total	\$ 1,122.6
Percent of Total Debt:	
Fixed rate (including swapped debt)	87.0%
Variable rate	13.0%
Total	100.0%
Effective Interest Rate as of December 31, 2006:	
Fixed rate (including swapped debt)	5.52%
Variable rate unhedged	6.82%
Effective interest rate	5.69%

As of December 31, 2006, we had approximately \$1.1 billion of outstanding consolidated long-term debt as set forth in the table above. Our ratio of debt to total market capitalization was approximately 31% (based on the closing price of our common stock on December 31, 2006 of \$34.23). The variable rate debt shown above bears interest at interest rates based on various LIBOR, GBP LIBOR and EURIBOR rates ranging from one to twelve months, depending on the respective agreement governing the debt. Assuming maturity of our exchangeable senior debentures at their first redemption date in August 2011, as of December 31, 2006, our debt had a weighted average term to initial maturity of approximately 5.8 years (approximately 6.1 years assuming exercise of extension options).

Unsecured Credit Facility. As of December 31, 2006, we had an unsecured credit facility (credit facility) under which we can borrow up to \$500.0 million. Borrowings under the credit facility currently bear interest at a rate of based on LIBOR and EURIBOR plus a margin ranging from 1.250% to 1.625%, depending on our Operating Partnership's overall leverage. This margin was 1.50% as of December 31, 2006, resulting in an interest rate at this date of 6.82% on U.S. borrowings and 5.13% on Euro borrowings. The credit facility matures in October 2008, subject to a one-year extension option, which we may exercise if certain conditions are met. The credit facility has a \$150.0 million sub-facility for foreign exchange advances in Euros and British Sterling. As of December 31, 2006 we had outstanding \$145.5 million under the credit facility and \$148.0 million was available for use.

Table of Contents**Off-Balance Sheet Arrangements**

As of December 31, 2006, we were a party to interest rate cap agreements in connection with debt and interest rate swap agreements related to \$289.6 million of outstanding principal on our variable rate debt. See Item 7A Quantitative and Qualitative Disclosures about Market Risk.

The exchangeable senior debentures provide for excess exchange value to be paid in shares of our common stock if our stock price exceeds a certain amount. See note 6 to our financial statements for a further description of our senior exchangeable debentures.

Cash Flows

The following summary discussion of our cash flows is based on the consolidated and combined statements of cash flows in Item 8 Financial Statements and Supplementary Data and is not meant to be an all-inclusive discussion of the changes in our cash flows for the periods presented below.

Comparison of Year Ended December 31, 2006 to Year Ended December 31, 2005 and Comparison of Year Ended December 31, 2005 to Year Ended December 31, 2004

The following table shows cash flows and ending cash and cash equivalent balances for the years ended December 31, 2006, 2005 and 2004, respectively. Cash flows include the cash flows of 7979 East Tufts Avenue, a property which we classified as held for sale in June 2006 and sold on July 12, 2006 (in thousands).

	Year ended December 31,			Increase / (Decrease)	
	2006	2005	2004	2006 v 2005	2005 v 2004
Net cash provided by operating activities (including discontinued operations)	\$ 103,001	\$ 82,848	\$ 44,638	\$ 20,153	\$ 38,210
Net cash used in investing activities	(601,788)	(480,815)	(371,277)	(120,973)	(109,538)
Net cash provided by financing activities	510,118	404,340	326,022	105,778	78,318
Net increase (decrease) in cash and cash equivalents	\$ 11,331	\$ 6,373	\$ (617)	\$ 4,958	\$ 6,990

The increases in net cash provided by operating activities was primarily due to revenues from the properties added to our portfolio which was partially offset by increased operating and interest expenses. We acquired 16, 20 and 11 properties during the years ended December 31, 2006, 2005 and 2004 respectively.

Net cash used in investing activities increased primarily as a result of new properties acquired during the year and higher capital improvements being added to our redevelopment projects.

Net cash flows from financing activities consisted of the following amounts (in thousands).

	Year ended December 31,			Increase / (Decrease)	
	2006	2005	2004	2006 v 2005	2005 v 2004
Net proceeds from borrowings	\$ 353,504	\$ 231,829	\$ 163,471	\$ 121,675	\$ 68,358
Net proceeds from issuance of stock	365,337	258,265	230,798	107,072	27,467
Dividend and distribution payments	(78,377)	(58,438)		(19,939)	(58,438)
Redemption of Operating Partnership units	(133,822)			(133,822)	
Other	3,476	(27,316)	(68,247)	30,792	40,931
Net cash provided by financing activities	\$ 510,118	\$ 404,340	\$ 326,022	\$ 105,778	\$ 78,318

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Proceeds from issuance of stock were primarily related to our common stock offering in October 2006, May 2006 and July 2005 along with our initial public offering in 2004 and preferred stock offerings in February 2005

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and July 2005. We obtained mortgage loans for approximately \$347.3 million, \$181.0 million and \$267.0 million for the years ended December 31, 2006, 2005 and 2004, respectively. We issued \$172.5 million of Senior Exchangeable Debentures on August 15, 2006.

Minority interest

Minority interests relate to the interests in the Operating Partnership that are not owned by us, which, as of December 31, 2006, amounted to 20.1% of the Operating Partnership common units. In conjunction with our formation, GI Partners received common units, in exchange for contributing ownership interests in properties to the Operating Partnership. Also in connection with acquiring real estate interests owned by third parties, the Operating Partnership issued common units to those sellers.

Limited partners who acquired common units in the formation transactions have the right to require the Operating Partnership to redeem part or all of their common units for cash based upon the fair market value of an equivalent number of shares of our common stock at the time of the redemption. Alternatively, we may elect to acquire those common units in exchange for shares of our common stock on a one-for-one basis, subject to adjustment in the event of stock splits, stock dividends, issuance of stock rights, specified extraordinary distributions and similar events. Pursuant to registration rights agreements we entered into with GI Partners and the other third party contributors, we filed a shelf registration statement covering the issuance of the shares of our common stock issuable upon redemption of the common units, and the resale of those shares of common stock by the holders. GI Partners distributed approximately 4.0 million Operating Partnership common units to its owners and these units were redeemed for shares of our common stock and sold to third parties in an underwritten public offering, which closed on April 3, 2006. On October 4, 2006 we issued 9.2 million common shares for net proceeds of \$267.7 million after offering costs. We used approximately \$133.8 million of the proceeds to pay GI Partners for the redemption of 4.6 million common Operating Partnership units. On December 1, 2006, GI Partners redeemed 3.3 million Operating Partnership common units for shares of common stock, which were sold to third parties in an underwritten public offering.

During the year ended December 31, 2006, third parties redeemed 775,665 Operating Partnership units in exchange for shares of our common stock. These redemptions by GI Partners and the third parties were each recorded as a reduction to minority interest and an increase to common stock and additional paid in capital based on the book value per unit in the accompanying condensed consolidated balance sheet. We did not receive any cash proceeds upon redemption of any of these Operating Partnership units.

Inflation

Substantially all of our leases provide for separate real estate tax and operating expense escalations. In addition, many of the leases provide for fixed base rent increases. We believe that inflationary increases may be at least partially offset by the contractual rent increases and expense escalations described above.

New Accounting Pronouncements Issued But Not Yet Adopted

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 prescribes a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods, and income tax disclosures. This Interpretation is effective as of January 1, 2007 and the cumulative effects of applying this Interpretation will be recorded as an adjustment to retained earnings as of January 1, 2007. Additional guidance from the FASB on FIN 48 is pending. As a result, we are currently unable to finalize our estimate of the impact that adopting this Interpretation will have on our consolidated financial statements.

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In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in U.S. generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This statement does not require any new fair value measurements; however, the standard will impact how other fair value based GAAP is applied. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years with early adoption encouraged. We are currently assessing the impact this statement will have on our consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our future income, cash flows and fair values relevant to financial instruments depend upon prevalent market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. We do not use derivatives for trading or speculative purposes and only enter into contracts with major financial institutions based on their credit rating and other factors.

Analysis of debt between fixed and variable rate.

We use interest rate swap agreements and fixed rate debt to reduce our exposure to interest rate movements. As of December 31, 2006, our consolidated debt was as follows (in millions):

Fixed rate debt:	
Fair value of fixed rate mortgage loans and exchangeable senior debentures	\$ 879.5
Carrying value of fixed rate mortgage loans and exchangeable senior debentures	860.0
Excess of fair value over carrying value	\$ 19.5
Total outstanding debt:	
Principal on mortgage loans	802.6
Debt premium on two mortgage loans	2.0
Exchangeable senior debentures	172.5
Notes payable under line of credit	145.5
Total outstanding debt	\$ 1,122.6
Variable rate debt ignoring interest rate swaps	\$ 435.1
Variable rate debt after interest rate swaps	\$ 145.5
Variable rate debt after interest rate swaps as percentage of total outstanding debt	13.0%

Interest rate swaps included in this table and their fair values as of December 31, 2006 were as follows (in thousands):

Current Notional Amount	Strike Rate	Effective Date	Expiration Date	Fair Value
\$ 20,565	3.754	Nov. 26, 2004	Jan. 1, 2009	491
20,000	3.824	Nov. 26, 2004	Apr. 1, 2009	517
8,775	5.020	Dec. 1, 2006	Dec. 1, 2008	6
99,252	4.025	May 26, 2005	Jun. 15, 2008	1,490
25,831 ⁽¹⁾	4.944	Jul. 10, 2006	Apr. 10, 2011	404
14,661 ⁽²⁾	3.981	May 17, 2006	Jul. 18, 2013	21
10,605 ⁽²⁾	4.070	Jun. 23, 2006	Jul. 18, 2013	(37)
9,332 ⁽²⁾	3.989	Jul. 27, 2006	Oct. 18, 2013	11
43,260 ⁽²⁾	3.776	Dec. 5, 2006	Jan. 18, 2012	421
37,193 ⁽²⁾	4.000	Dec. 20, 2006	Jan. 18, 2012	(8)

\$ 289,474

\$ 3,316

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- (1) Translation to US amounts is based on exchange rate of \$1.96 to £1.00 as of December 31, 2006.
 (2) Translation to US amounts is based on exchange rate of \$1.32 to 1.00 as of December 31, 2006.

Sensitivity to changes in interest rates.

The following table shows the effect if assumed changes in interest rates occurred:

Assumed event	Interest rate change (basis points)	Change (\$ millions)
Increase in fair value of interest rate swaps following an assumed 10% increase in interest rates	49	\$ 4.0
Decrease in fair value of interest rate swaps following an assumed 10% decrease in interest rates	(49)	(4.1)
Increase in annual interest expense on our debt that is variable rate and not subject to swapped interest following a 10% increase in interest rates	49	0.7
Decrease in annual interest expense on our debt that is variable rate and not subject to swapped interest following a 10% increase in interest rates	49	(0.7)
Increase in fair value of fixed rate debt following a 10% decrease in interest rates	(49)	16.7
Decrease in fair value of fixed rate debt following a 10% increase in interest rates	49	(15.5)

Interest risk amounts were determined by considering the impact of hypothetical interest rates on our financial instruments. These analyses do not consider the effect of any change in overall economic activity that could occur in that environment. Further, in the event of a change of that magnitude, we may take actions to further mitigate our exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, these analyses assume no changes in our financial structure.

Foreign currency forward exchange risk

As of December 31, 2006, we have foreign operations in the United Kingdom, Switzerland, France, Ireland, Canada and The Netherlands and, as such, are subject to risk from the effects of exchange rate movements of foreign currencies, which may affect future costs and cash flows. Our foreign operations are conducted in the Euro, Swiss Francs and the British Pound, except for our Canadian property for which the functional currency is the U.S. dollar. For these currencies we are a net receiver of the foreign currency (we receive more cash than we pay out) and therefore our foreign investments benefit from a weaker U.S. dollar and are adversely affected by a stronger U.S. dollar relative to the foreign currency. For the year ended December 31, 2006, operating revenues from properties outside the United States contributed \$13.2 million which represented 4.7% of our operating revenues.

As of December 31, 2006, we have not entered into any foreign currency forward exchange contracts to hedge the effects of adverse fluctuations in foreign currency exchange rates, however, \$34.5 million of borrowings under our line of credit are foreign currency denominated borrowings. Prior to January 2006, we were party to a foreign currency forward sale contract with a notional value of approximately £7.9 million. We terminated this contract in January 2006 and received cash of approximately \$0.7 million.

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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
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Management's Report on Internal Control over Financial Reporting

The management of Digital Realty Trust, Inc. (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting, as such item is defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f). Our internal control system was designed to provide reasonable assurance to the company's management and board of directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial and Investment Officer, we assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2006. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework. Based on our assessment we believe that, as of December 31, 2006, the Company's internal control over financial reporting is effective based on those criteria.

Our independent registered public accounting firm has issued an audit report on our assessment of the Company's internal control over financial reporting. This report appears on page 58.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Digital Realty Trust, Inc.:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Digital Realty Trust, Inc. (the Company) maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Digital Realty Trust, Inc. maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in Internal Control - Integrated Framework issued by COSO. Also, in our opinion, Digital Realty Trust, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control - Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Digital Realty Trust, Inc. and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss) for each of the years in the two-year period ended December 31, 2006 and for the period from November 3, 2004 (commencement of operations) through December 31, 2004, the related combined statements of operations, owners' equity and comprehensive income of Digital Realty Trust, Inc. Predecessor, as defined in note 1 to the financial statements, for the period from January 1, 2004 through November 2, 2004, the related consolidated statement of cash flows of Digital Realty Trust, Inc. and subsidiaries for each of the years in the two-year period ended December 31, 2006 and the related consolidated and combined statement of cash flows of Digital Realty Trust, Inc. and subsidiaries and Digital Realty Trust, Inc. Predecessor for the year ended December 31, 2004, and the related financial statement schedule III, and our report dated February 28, 2007 expressed an unqualified opinion on those consolidated and combined financial statements, and the related financial statement schedule III.

/s/ KPMG LLP

San Francisco, California

February 28, 2007

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Digital Realty Trust, Inc.:

We have audited the accompanying consolidated balance sheets of Digital Realty Trust, Inc. and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss) for each of the years in the two-year period ended December 31, 2006 and for the period from November 3, 2004 (commencement of operations) through December 31, 2004, the related combined statements of operations, owners' equity and comprehensive income of Digital Realty Trust, Inc. Predecessor, as defined in note 1 to the financial statements, for the period from January 1, 2004 through November 2, 2004, the related consolidated statement of cash flows of Digital Realty Trust, Inc. and subsidiaries for each of the years in the two-year period ended December 31, 2006 and the related consolidated and combined statement of cash flows of Digital Realty Trust, Inc. and subsidiaries and Digital Realty Trust, Inc. Predecessor for the year ended December 31, 2004. In connection with our audits of the consolidated and combined financial statements, we also have audited financial statement schedule III, properties and accumulated depreciation. These consolidated and combined financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated and combined financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Digital Realty Trust, Inc. and subsidiaries as of December 31, 2006 and 2005, the consolidated results of operations for each of the years in the two-year period ended December 31, 2006 and for the period from November 3, 2004 (commencement of operations) through December 31, 2004, the combined results of operations of Digital Realty Trust, Inc. Predecessor for the period from January 1, 2004 through November 2, 2004, the consolidated cash flows of Digital Realty Trust, Inc. and subsidiaries for each of the years in the two-year period ended December 31, 2006, and the consolidated and combined cash flows of Digital Realty Trust, Inc. and subsidiaries and Digital Realty Trust, Inc. Predecessor for the year ended December 31, 2004 in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule III, properties and accumulated depreciation, when considered in relation to the basic consolidated and combined financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Digital Realty Trust, Inc.'s internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 28, 2007 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

/s/ KPMG LLP

San Francisco, California

February 28, 2007

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DIGITAL REALTY TRUST, INC.
CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	December 31, 2006	December 31, 2005
ASSETS		
Investments in real estate:		
Properties:		
Land	\$ 228,728	\$ 191,961
Acquired ground leases	3,028	1,477
Buildings and improvements	1,415,236	941,115
Tenant improvements	172,334	123,957
Total investments in properties	1,819,326	1,258,510
Accumulated depreciation and amortization	(112,479)	(64,404)
Net investments in properties	1,706,847	1,194,106
Investment in unconsolidated joint venture	29,955	
Net investments in real estate	1,736,802	1,194,106
Cash and cash equivalents	22,261	10,930
Accounts and other receivables, net of allowance for doubtful accounts of \$2,032 and \$763 as of December 31, 2006 and December 31, 2005, respectively	31,293	7,587
Deferred rent	40,225	25,094
Acquired above market leases, net of accumulated amortization of \$19,280 and \$5,659 as of December 31, 2006 and 2005, respectively	47,292	48,237
Acquired in place lease value and deferred leasing costs, net of accumulated amortization of \$86,953 and \$22,972 as of December 31, 2006 and 2005, respectively	248,751	201,141
Deferred financing costs, net of accumulated amortization of \$5,377 and \$6,555 as of December 31, 2006 and 2005, respectively	17,500	7,659
Restricted cash	28,144	22,123
Other assets	13,951	12,293
Total Assets	\$ 2,186,219	\$ 1,529,170
LIABILITIES AND STOCKHOLDERS' EQUITY		
Notes payable under line of credit	\$ 145,452	\$ 181,000
Mortgage loans	804,686	568,067
Exchangeable senior debentures	172,500	
Accounts payable and other accrued liabilities	88,698	36,869
Accrued dividends and distributions	19,386	15,639
Acquired below market leases, net of accumulated amortization of \$31,669 and \$9,528 as of December 31, 2006 and 2005, respectively	87,487	67,177
Security deposits and prepaid rents	19,822	11,476
Total liabilities	1,338,031	880,228
Commitments and contingencies		
Minority interests in consolidated joint venture		206
Minority interests in operating partnership	138,416	262,239
Stockholders' equity:		
Preferred Stock: \$0.01 par value, 20,000,000 authorized:		

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Series A Cumulative Redeemable Preferred Stock, 8.50%, \$103,500,000 liquidation preference (\$25.00 per share), 4,140,000 issued and outstanding	99,297	99,297
Series B Cumulative Redeemable Preferred Stock, 7.875%, \$63,250,000 liquidation preference (\$25.00 per share), 2,530,000 issued and outstanding	60,502	60,502
Common Stock; \$0.01 par value: 100,000,000 authorized, 54,257,691 and 27,363,408 shares issued and outstanding as of December 31, 2006 and December 31, 2005	542	274
Additional paid-in capital	597,334	252,562
Dividends in excess of earnings	(52,093)	(27,782)
Accumulated other comprehensive income, net	4,190	1,644
Total stockholders' equity	709,772	386,497
Total liabilities and stockholders' equity	\$ 2,186,219	\$ 1,529,170

See accompanying notes to the consolidated financial statements.

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DIGITAL REALTY TRUST, INC. AND
DIGITAL REALTY TRUST, INC. PREDECESSOR
CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS
(in thousands, except share data)

	Year Ended December 31, 2006	The Company Year Ended December 31, 2005	Period from November 3, 2004 through December 31, 2004	The Predecessor Period from January 1, 2004 through November 2, 2004
Operating Revenues:				
Rental	\$ 229,742	\$ 158,428	\$ 20,121	\$ 63,748
Tenant reimbursements	51,796	37,174	3,992	12,012
Other	365	5,829		
Total operating revenues	281,903	201,431	24,113	75,760
Operating Expenses:				
Rental property operating and maintenance	61,052	41,030	4,790	12,291
Property taxes	28,052	20,992	1,959	6,642
Insurance	3,757	2,728	455	1,296
Depreciation and amortization	89,936	59,616	6,983	21,806
General and administrative	20,441	12,615	20,766	223
Asset management fees to related party				2,655
Other	1,111	1,635	57	1,021
Total operating expenses	204,349	138,616	35,010	45,934
Operating income (loss)	77,554	62,815	(10,897)	29,826
Other Income (Expenses):				
Equity in earnings of unconsolidated joint venture	177			
Interest and other income	1,275	1,274	30	71
Interest expense	(51,924)	(37,724)	(5,316)	(17,786)
Loss from early extinguishment of debt	(527)	(1,021)	(283)	
Income (loss) from continuing operations before minority interests	26,555	25,344	(16,466)	12,111
Minority interests in consolidated joint ventures of continuing operations			(20)	14
Minority interests in continuing operations of operating partnership	(5,383)	(8,818)	10,274	
Income (loss) from continuing operations	21,172	16,526	(6,212)	12,125
Income (loss) from discontinued operations before gain on sale of assets and minority interests	(348)	(987)	96	(1,422)
Gain on sale of assets	18,096			
Minority interests attributable to discontinued operations	(7,528)	562	(53)	