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CARRAMERICA REALTY CORP

Form 10-Q

May 15, 2001

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

FOR QUARTER ENDED March 31, 2001

COMMISSION FILE NO. 1-11706

CARRAMERICA REALTY CORPORATION

(Exact name of registrant as specified in its charter)

Maryland

52-1796339

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification Number)

1850 K Street, N.W., Washington, D.C. 20006

(Address or principal executive office) (Zip code)

Registrant's telephone number, including area code (202) 729-1000

N/A

(Former name, former address and former fiscal year, if changed since last
report)

Number of shares outstanding of each of the registrant's
classes of common stock, as of May 2, 2001:

Common Stock, par value \$.01 per share: 62,078,976 shares

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 twelve (12) months (or such shorter period that the Registrant was required to file such report) and (2) has been subject to such filing requirements for the past ninety (90) days.

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YES X NO
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Part I

Item 1. Financial Information

The information furnished in our accompanying consolidated balance sheets, consolidated statements of operations and consolidated statements of cash flows reflect all adjustments which are, in our opinion, necessary for a fair presentation of the aforementioned financial statements for the interim periods.

The financial statements should be read in conjunction with the notes to the financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations.

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CARRAMERICA REALTY CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets As Of March 31, 2001 and December 31, 2000

(In thousands, except per share and share amounts)

March
2001

(unaudited)

Assets

Rental property:

Land	\$ 628,277
Buildings	1,778,131
Tenant improvements	331,571
Furniture, fixtures and equipment	3,061

	2,741,040
Less: Accumulated depreciation	(397,043)

Total rental property	2,343,997
-----------------------	-----------

Land held for development or sale	77,617
Construction in progress	33,542
Cash and cash equivalents	47,799
Restricted deposits	30,474
Accounts and notes receivable	38,549
Investments in unconsolidated entities	275,610
Accrued straight-line rents	57,064
Tenant leasing costs, net	53,618
Deferred financing costs, net	10,570
Prepaid expenses and other assets, net	19,507

	\$2,988,347
	=====

Liabilities, Minority Interest, and Stockholders' Equity

Liabilities:

Mortgages and notes payable	\$1,253,095
Accounts payable and accrued expenses	69,687
Rents received in advance and security deposits	29,880

Total liabilities	1,352,662

Minority interest	88,042
-------------------	--------

Stockholders' equity:

Preferred stock, \$.01 par value, authorized 35,000,000 shares:	
Series A Cumulative Convertible Redeemable Preferred Stock, 480,000 shares issued and outstanding at March 31, 2001 and December 31, 2000 with an aggregate liquidation preference of \$12.0 million	5
Series B, C, and D Cumulative Redeemable Preferred Stock, 8,800,000 shares issued and outstanding with an aggregate liquidation preference of \$400.0 million	88
Common Stock, \$.01 par value, authorized 180,000,000 shares issued and outstanding 62,079,973 shares at March 31, 2001	

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and 65,017,623 shares at December 31, 2000	621
Additional paid-in capital	1,665,373
Cumulative dividends in excess of net income	(118,444)

Total stockholders' equity	1,547,643

Commitments and contingencies	\$2,988,347
	=====

See accompanying notes to consolidated financial statements.

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CARRAMERICA REALTY CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations
For the Three Months Ended March 31, 2001 and 2000

(Unaudited and in thousands, except per share amounts)

	2001

Operating revenues:	
Rental revenue:	
Minimum base rent	\$106,210
Recoveries from tenants	14,041
Parking and other tenant charges	3,538

Total rental revenue	123,789
Real estate service revenue	10,137

Total operating revenues	133,926

Operating expenses:	
Property expenses:	
Operating expenses	32,041
Real estate taxes	9,567
Interest expense	20,860
General and administrative	14,401
Depreciation and amortization	30,825

Total operating expenses	107,694

Real estate operating income	26,232

Other income:	
Interest income	1,104
Equity in earnings of unconsolidated entities	3,354

Total other income	4,458

Income from continuing operations before income taxes, minority interest, and gain on sale of assets and other provisions, net	30,690
Income taxes	(47)
Minority interest	(1,453)

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Gain on sale of assets and other provisions, net	1,076

Income from continuing operations	30,266
Discontinued operations - Loss from executive suites operations (net of applicable income tax benefit of \$218)	--

Net income	\$ 30,266
	=====
Basic net income per common share:	
Income from continuing operations	\$ 0.34
Discontinued operations	--

Net income	\$ 0.34
	=====
Diluted net income per common share:	
Income from continuing operaitons	\$ 0.32
Discontinued operations	--

Net income	\$ 0.32
	=====

See accompanying notes to consolidated financial statements.

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CARRAMERICA REALTY CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Three Months Ended March 31, 2001 and 2000

(Unaudited and in thousands)

Cash flows from operating activities:
Net income
Adjustments to reconcile net income to net cash provided by operating activities:
Depreciation and amortization
Minority interest
Equity in earnings of unconsolidated entities
Gain on sale of assets and other provisions, net
Stock and units issued in connection with compensation plans
Other
Change in assets and liabilities:
Decrease in accounts and notes receivable
Increase in accrued straight-line rents
Additions to tenant leasing costs
Increase in prepaid expenses and other assets
Decrease in accounts payable and accrued expenses
Increase in rent received in advance and security deposits
Total adjustments

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Net cash provided by operating activities

Cash flows from investing activities:

Acquisition and development of rental property
Additions to land held for development or sale
Additions to construction in progress
Acquisition and development of executive suites assets
Distributions from unconsolidated entities
Investments in unconsolidated entities
Acquisition of minority interest
Decrease (increase) in restricted deposits
Proceeds from sales of properties

Net cash provided by (used by) investing activities

Cash flows from financing activities:

Repurchase of common stock
Exercises of stock options
Net borrowings on unsecured credit facility
Net repayments of mortgages payable
Dividends and distributions to minority interests
Contributions from minority interests

Net cash used by financing activities

Increase (decrease) in unrestricted cash and cash equivalents

Unrestricted cash and cash equivalents, beginning of the period

Unrestricted cash and cash equivalents, end of the period

Supplemental disclosure of cash flow information:

Cash paid for interest (net of capitalized interest of \$1,792
and \$3,218 for the three months ended March 31, 2001 and 2000,
respectively)

See accompanying notes to consolidated financial statements.

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CARRAMERICA REALTY CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

(1) Description of Business and Summary of Significant Accounting Policies

(a) Business

We are a fully integrated, self-administered and self-managed publicly traded real estate investment trust ("REIT"), organized under the laws of Maryland. We focus on the acquisition, development, ownership and operation of office properties, located primarily in selected suburban markets across the United States.

(b) Basis of Presentation

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Our accounts and those of our majority-owned/controlled subsidiaries and affiliates are consolidated in the financial statements. We use the equity or cost methods, as appropriate in the circumstances, to account for our investments in and our share of the earnings or losses of unconsolidated entities. These entities are not majority owned or controlled by us.

Management has made estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses in the financial statements, and the disclosure of contingent assets and liabilities. Estimates are required in order for us to prepare our financial statements in conformity with accounting principles generally accepted in the United States of America. Significant estimates are required in a number of areas, including the evaluation of impairment of long-lived assets, determination of useful lives of assets subject to depreciation or amortization and evaluation of the collectibility of accounts and notes receivable. Actual results could differ from these estimates.

(c) Interim Financial Statements

The financial statements reflect all adjustments, which are, in our opinion, necessary to reflect a fair presentation of the results for the interim periods, and all adjustments are of a normal, recurring nature.

(d) New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 133 requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. We adopted this statement as of January 1, 2001 and adoption had no effect on the financial statements. We had no derivative instruments as of March 31, 2001.

(e) Earnings Per Share and Dividends

The following table sets forth information relating to the computations of our basic and diluted earnings per share for income from continuing operations:

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CARRAMERICA REALTY CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

	Three Months Ended March 31, 2001			
(In thousands, except per share amounts)	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)

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Basic EPS	\$21,617	63,186	\$0.34	\$24,375
			=====	
Effect of Dilutive Securities				
Stock options	--	1,419	--	--
Stock units	1,344	6,073	--	--
	-----	-----	-----	-----
Diluted EPS	\$22,961	70,678	\$0.32	\$24,375
	=====	=====	=====	=====

Income from continuing operations has been reduced by preferred stock dividends of \$8,649 and \$8,777 for the three months ended March 31, 2001 and 2000, respectively.

The effects of convertible units in CarrAmerica Realty, L.P. and Carr Realty, L.P. and Series A Convertible Preferred Stock are not included in the computation of diluted earnings per share for the period in which their effect is antidilutive.

(f) Reclassifications

Certain reclassifications of prior period amounts have been made to conform to the current period's presentation.

(3) Discontinued Operations

On January 20, 2000, we, along with HQ Global Workplaces, Inc. (HQ Global), VANTAS Incorporated (VANTAS) and FrontLine Capital Group, entered into several agreements that contemplated several transactions including (i) the merger of VANTAS with and into HQ Global, (ii) the acquisition by FrontLine Capital Group of shares of HQ Global common stock from us and other stockholders of HQ Global, and (iii) the acquisition by VANTAS of our debt and equity interest in OmniOffices (UK) Limited and OmniOffices LUX 1929 Holding Company S.A. On June 1, 2000, we consummated the transactions.

As part of the HQ Global/VANTAS transactions, we received put rights with respect to our continuing interest in HQ Global. These rights can be exercised at specified times at our option if HQ Global has not completed an initial public offering. A portion of the put is exercisable in late 2001, with the balance exercisable in June 2002. Payment for our HQ Global stock will be based on the fair market value of our investment and can be made either in cash, a short-term note (in case of the 2001 put right) or delivery of common stock of FrontLine Capital Group, a NASDAQ-listed company and the majority shareholder of HQ Global.

(4) Gain on Sale of Assets and Other Provisions, Net

We dispose of assets that are inconsistent with our long-term strategic or return objectives or where market conditions for sale are favorable. During the three months ended March 31, 2001, we disposed of seven operating properties, one property under development and one parcel of land that was being held for development. We recognized a net gain of \$2.0 million on these transactions, net of taxes of \$2.0 million. We also recognized an impairment loss of \$0.9 million on a parcel of land held for development during the three months ended March 31, 2001. During the three months ended March 31, 2000, we disposed of four operating properties. We recognized a net gain of \$5.4 million, net of taxes of \$0.3 million.

(5) Segment Information

Our reportable operating segments are real estate property operations and

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development operations. Other business activities and operating segments that are not reportable are included in other operations. The real estate property operations segment includes the operation and management of rental properties. The development operations segment includes the development of new rental properties for us and for unaffiliated companies. Our reportable

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CARAMERICA REALTY CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

segments offer different products and services and are managed separately because each requires different business strategies and management expertise.

Operating results of our reportable segments and our other operations for the three months ended March 31, 2001 and 2000 are summarized and reconciled to net income for the applicable period as follows:

	For the three months ended March 31,		
(In millions)	Real Estate Property Operations	Development Operations	O Ope
Operating revenue	\$123.8	6.2	
Segment expense	41.7	1.5	
	-----	---	
Net segment revenue (expense)	82.1	4.7	
Interest expense	11.1	-	
Other income (expense), net	7.0	0.2	
	-----	---	
Funds from operations	\$ 78.0	4.9	
	=====	===	
Adjustments:			
Depreciation and amortization			
Income from continuing operations before minority interest and gain on sale of assets and other provisions, net			
Minority interest and gain on sale of assets and other provisions, net			
Net income			

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For the three months ended March 31, 2001

(In millions)	Real Estate Property Operations	Development Operations	Other Operations
Operating revenue	\$136.6	1.9	3.1
Segment expense	44.2	1.0	8.8
Net segment revenue (expense)	92.4	0.9	(5.7)
Interest expense	12.8	-	14.1
Other income (expense), net	1.2	-	0.1
Funds from operations	\$ 80.8	0.9	(19.7)
Adjustments:			
Depreciation and amortization			
Income from continuing operations before minority interest and gain on sale of assets and other provisions, net			
Minority interest and gain on sale of assets and other provisions, net			
Discontinued operations, net of income tax			
Net income			

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Independent Accountants' Review Report

The Board of Directors and Stockholders
CarrAmerica Realty Corporation:

We have reviewed the condensed consolidated balance sheet of CarrAmerica Realty Corporation and subsidiaries as of March 31, 2001, and the related consolidated statements of operations and cash flows for the three-month periods ended March 31, 2001 and 2000. These consolidated financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

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We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of CarrAmerica Realty Corporation and subsidiaries as of December 31, 2000, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated February 2, 2001, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2000, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/KPMG LLP

Washington, D.C.
May 1, 2001

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Management's Discussion and Analysis

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The discussion that follows is based primarily on our consolidated financial statements as of March 31, 2001 and December 31, 2000 and for the three months ended March 31, 2001 and 2000 and should be read along with the consolidated financial statements and related notes. The ability to compare one period to another may be significantly affected by acquisitions completed, development properties placed in service and dispositions made during those periods.

The discussion and analysis of operating results focuses on our segments as management believes that segment analysis provides the most effective means of understanding the business. Our reportable operating segments are real estate property operations and development operations. Other business activities and operations, which are not reported separately, are included in other operations. Executive office suites operations are presented as discontinued operations in our financial statements.

Our operating segments' performance is measured using funds from operations. Funds from operations is defined by the National Association of Real Estate Investment Trusts (NAREIT) as follows:

- . Net income (loss) - computed in accordance with generally accepted accounting principles (GAAP);
- . Less gains (or plus losses) from sales of depreciable operating properties and items that are classified as extraordinary items under GAAP;
- . Plus depreciation and amortization of assets uniquely significant to the real estate industry;
- . Plus or minus adjustments for unconsolidated partnerships and joint ventures (to reflect funds from operations on the same basis).

Funds from operations does not represent net income or cash flow generated from operating activities in accordance with GAAP. As such, it should not be

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considered an alternative to net income as an indication of our performance or to cash flows as a measure of our liquidity or our ability to make distributions.

RESULTS OF OPERATIONS

Real Estate Property Operations

Operating results of real estate property operations are summarized as follows:

Real Estate Operations (in millions)	For the three months ended March 31,		Variance 2001 vs. 2000
	2001	2000	
Operating revenue	\$123.8	\$136.6	\$(12.8)
Segment expense	41.7	44.2	(2.5)
Interest expense	11.1	12.8	(1.7)
Other income, net	7.0	1.2	5.8

Real estate operating revenues decreased \$12.8 million (9.4%) in 2001 as compared to 2000. This decrease resulted from the dispositions of interests in properties, including the properties contributed to Carr Office Park, L.L.C. In August 2000, we contributed properties to Carr Office Park, L.L.C., a joint venture in which we have a 35% interest. The decrease in revenues was partially offset by development properties being placed in service and "same store" rental growth. Same store rental revenues grew by approximately 4.6% (approximately \$4.6 million). This increase was due primarily to an increase in average rental rates in properties in the San Francisco Bay area and San Diego, California.

Real estate operating expenses decreased \$2.5 million (5.7%) in 2001 as compared to 2000. This was due to the disposition of properties, including the properties contributed to Carr Office Park, L.L.C., partially offset by an increase in same store operating expenses of approximately \$2.9 million (10.1%).

Real estate interest expense decreased \$1.7 million (13.3%) in 2001 as compared to 2000. This decrease was principally the result of the retirement of certain mortgages following certain property dispositions.

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Management's Discussion and Analysis

Real estate other income increased \$5.8 million (483.3%) in 2001 as compared to 2000. This increase was primarily the result of equity in earnings of unconsolidated entities (excluding depreciation), primarily from the investment in Carr Office Park, L.L.C.

Development Operations

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Operating results of development operations are summarized as follows:

Development Operations	For the three months ended March 31,		Variance
(in millions)	2001	2000	2001 vs. 2000
Operating revenue	\$ 6.2	\$ 1.9	\$ 4.3
Segment expense	1.5	1.0	0.5
Interest expense	-	-	-
Other income, net	0.2	-	0.2

Revenue from our development operations increased \$4.3 million (226.3%) in 2001 compared to 2000. This increase resulted primarily from our expanded operations in this area, including services provided to Carr Office Park, L.L.C. and other unconsolidated joint ventures in connection with their development of new properties.

The expenses for our development operations increased \$0.5 (50%) million in 2001 compared to 2000. The increase in expenses was principally related to more development projects for affiliates and third parties.

Other Operations

Operating results of other operations are summarized as follows:

Other Operations	For the three months ended March 31,		Variance
(in millions)	2001	2000	2001 vs. 2000
Operating revenue	\$ 3.9	\$ 3.1	\$ 0.8
Segment expense	12.9	8.8	4.1
Interest expense	9.8	14.1	(4.3)
Other (expense) income, net	(1.0)	0.1	(1.1)

Revenues from our other operations increased \$0.8 million (25.8%) in 2001 as compared to 2000. The increase in 2001 resulted primarily from expansion of our operations in the area of managing rental properties for affiliates and others. In particular, in August 2000, we began providing leasing and management services to Carr Office Park, L.L.C.

Expenses of our other operations increased \$4.1 million (46.6%) in 2001

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compared to 2000. The increase was due primarily to our expanded property management operations discussed above and professional fees associated with internal process improvement efforts and other initiatives.

Interest expense decreased \$4.3 million (30.5%) in 2001 compared to 2000 and was primarily due to lower debt levels partially offset by a decrease in capitalized interest due to a lower level of development activity.

Depreciation and Amortization

Depreciation and amortization decreased \$1.3 million (4.1%) in 2001 compared to 2000. This decrease was due primarily to dispositions of interests in properties, including the properties contributed to Carr Office Park, L.L.C., partially offset by development properties being placed in service.

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Management's Discussion and Analysis

Gain on Sale of Assets and Other Provisions, Net

We dispose of assets that are inconsistent with our long-term strategic or return objectives or where market conditions for sale are favorable. The proceeds from the sales are redeployed into other properties or used to fund development operations or to support other corporate needs. During the three months ended March 31, 2001, we disposed of seven operating properties, one property under development and one parcel of land that was being held for development. We recognized a net gain of \$2.0 million on these transactions, net of taxes of \$2.0 million. We also recognized an impairment loss of \$0.9 million on a parcel of land held for development during the three months ended March 31, 2001. During the three months ended March 31, 2000, we disposed of four operating properties. We recognized a net gain of \$5.4 million, net of taxes of \$0.3 million.

Consolidated Cash Flows

Consolidated cash flow information is summarized as follows:

(in millions)	For the three months ended March 31,		Variance ----- 2001 ----- 2000 -----
	2001	2000	
Cash provided by operating activities	\$ 57.6	\$ 53.8	\$ 3.8
Cash provided by (used in) investing activities	55.3	(25.4)	80.7
Cash used by financing activities	(89.8)	(35.9)	(53.9)

Operations generated \$57.6 million of net cash in 2001 compared to \$53.8 million in 2000. The changes in cash flow from operating activities were primarily the result of factors discussed above in the analysis of operating results. The level of net cash provided by operating activities is also affected by the timing of receipt of revenues and payment of expenses.

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Our investing activities provided net cash of \$55.3 million in 2001 and used net cash of \$25.4 million in 2000. The increase in net cash provided by investing activities in 2001 is primarily due to proceeds from sales of properties being \$65.6 million more than in 2000 and restricted deposits decreasing \$9.0 million due to the release of escrow funds related to the purchase of land.

Financing activities used net cash of \$89.8 million in 2001 compared to \$35.9 million in 2000. In 2001, we purchased over three million shares of our common stock at a cost of \$104.5 million. The stock purchases were partially funded by draws on our credit line which were \$53.0 million in 2001 compared to \$10.0 million in 2000. Stock option exercises provided \$13.3 million of cash in 2001.

LIQUIDITY AND CAPITAL RESOURCES

We seek to create and maintain a capital structure that will enable us to diversify our capital resources. This should allow us to obtain additional capital from a number of different sources. These sources could include additional equity offerings of common stock and/or preferred stock, public and private debt financings and possible asset dispositions. Our management believes that we will have access to the capital resources necessary to expand and develop our business, to fund our operating and administrative expenses, to continue to meet our debt service obligations, to pay dividends in accordance with REIT requirements, to acquire additional properties and land and to pay for construction in progress.

We have three investment grade ratings. As of March 31, 2001, Duff & Phelps Credit Rating Co. and Standard & Poors have each assigned their BBB rating to our prospective senior unsecured debt offerings and their BBB- rating to our prospective cumulative preferred stock offerings. Moody's Investor Service has assigned its Baa3 rating to our prospective senior unsecured debt offerings and its Ba2 rating to our prospective cumulative preferred stock offerings.

Our total debt at March 31, 2001 was approximately \$1.3 billion, of which \$229.0 million (18.3%) bore a LIBOR-based floating interest rate. The interest rate on borrowings on our unsecured credit facility at March 31, 2001 was 5.78%. The interest rate of the unsecured credit facility is 70 basis points over 30-day LIBOR. Our fixed rate mortgage payable debt bore an effective weighted average interest rate of 8.10% at March 31, 2001. The weighted average term of this debt is six years. At March 31, 2001, our debt represented 34.7% of our total market capitalization of \$3.6 billion.

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Management's Discussion and Analysis

We have a \$450.0 million unsecured credit facility. As of March 31, 2001, \$229.0 million was drawn on the credit facility, \$1.8 million in letters of credit were outstanding and we had \$219.2 million available for borrowing. This credit facility matures in August 2001 and we are in the process of negotiating the terms of renewal. Based on the progress of the negotiations, we expect that we will continue to have credit available to meet our needs on satisfactory terms.

Rental revenue and real estate service revenue have been our principal sources of cash to pay our operating expenses, debt service and capital expenditures, excluding non-recurring capital expenditures. We believe that our

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current sources of revenue will continue to provide the necessary funds for our operating expenses and debt service.

We and our affiliates also require capital to invest in our existing portfolio of operating assets for capital projects. These capital projects include such things as large-scale renovations, routine capital expenditures, deferred maintenance on properties we have recently acquired and tenant related matters, including tenant improvements, allowances and leasing commissions.

We will require a substantial amount of capital for development projects currently underway and in the future. As of March 31, 2001, we had approximately 0.5 million square feet of office space in four development projects in progress. Our total expected investment on these projects is \$80.1 million. Through March 31, 2001, we had invested \$33.5 million or 41.8% of the total expected investment for these projects. As of March 31, 2001, we also had 1.1 million square feet of office space under construction in seven projects in which we own minority interests. These projects are expected to cost \$227.4 million, of which our total investment is expected to be approximately \$70.7 million. Through March 31, 2001, approximately \$104.5 million or 46.0% of total project costs had been expended. We have financed our investment in projects under construction at March 31, 2001 primarily from the proceeds of asset dispositions and borrowings under our credit facility. We expect that these sources and project-specific financing of selected assets will provide additional funds required to complete the development and to finance the costs of additional projects.

Prior to the second quarter of 1998, we primarily met our capital requirements by accessing the public debt and equity markets. As a general matter, conditions in the public equity markets for most REITs have not been favorable since that time. In response to these unfavorable conditions, we have curtailed our acquisition program and satisfied our capital requirements through the disposition of selected assets, the refinancing of selected assets, prudent use of joint ventures to reduce our investment requirements and use of our credit facility.

In the future, if the debt and equity markets are not favorable, if we cannot raise the expected funds from the sale of properties and/or if we are unable to obtain capital from other sources, we believe that we would continue to have sufficient funds to pay our operating and debt service expenses and our regular quarterly dividends and to make necessary routine capital improvements with respect to our existing portfolio of operating assets. However, our ability to continue to fund all of our current development projects could be adversely affected. If we determine that it is in our best interest to continue to fund all of our current development projects, we may have to access either the public equity or debt markets at a time when those markets may not be the best source of capital for us.

Our Board of Directors had authorized us to spend up to \$225 million to repurchase our common shares. Our Board authorized an additional \$50 million for the program on May 3, 2001, bringing the total to \$275 million. Since the start of this program in mid-2000, we have acquired approximately 6.7 million shares for \$194.7 million, representing an average price of \$29.05 per share.

We pay dividends quarterly. Funds which we accumulate for distribution are invested primarily in short-term investments collateralized by securities if the United States Government or one of its agencies.

Funds From Operations

We believe that funds from operations is helpful to investors as a measure of the performance of an equity REIT. Based on our experience, funds from operations, along with information about cash flows from operating activities,

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investing activities and financing activities, provides investors with an indication of our ability to incur and service debt, to make capital expenditures and to fund other cash needs. Funds from operations is defined by the National Association of Real Estate Investment Trusts (NAREIT) as follows:

- . Net income (loss) - computed in accordance with generally accepted accounting principles (GAAP);
- . Less gains (or plus losses) from sales of depreciable operating properties and items that are classified as extraordinary items under GAAP;

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Management's Discussion and Analysis

- . Plus depreciation and amortization of assets uniquely significant to the real estate industry;
- . Plus or minus adjustments for unconsolidated partnerships and joint ventures (to reflect funds from operations on the same basis).

Our funds from operations may not be comparable to funds from operations reported by other REITs. These other REITs may not define the term in accordance with the current NAREIT definition or may interpret the current NAREIT definition differently than us. Funds from operations does not represent net income or cash flow generated from operating activities in accordance with GAAP. As such, it should not be considered an alternative to net income as an indication of our performance or to cash flows as a measure of our liquidity or our ability to make distributions.

The following table provides the calculation of our funds from operations for the periods presented:

	T
(In thousands)	2001
Net income from continuing operations before minority interest	\$31,71
Adjustments to derive funds from operations:	
Add depreciation and amortization	32,70
Deduct:	
Minority interests' (non Unitholders) share of depreciation, amortization and net income	(28
Gain on sale of assets and other provisions, net	(1,07
Funds from operations before allocations to the minority Unitholders	63,06
Less: Funds from operations allocable to the minority Unitholders	(3,83
Funds from operations allocable to CarrAmerica Realty Corporation	59,23
Less: Preferred stock dividends	(8,64
Funds from operations attributable to common shareholders	\$50,58

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FORWARD-LOOKING STATEMENTS

Certain statements contained herein constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Reform Act"). Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our, and our affiliates, or the industry's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following:

- . National and local economic, business and real estate conditions that will, among other things, affect:
 - . Demand for office properties
 - . Availability and creditworthiness of tenants
 - . Level of lease rents
 - . Availability of financing for both tenants and us;
- . Adverse changes in the real estate markets, including, among other things:
 - . Competition with other companies
 - . Risks of real estate acquisition and development
 - . Failure of pending developments to be completed on time and on budget;
- . Actions, strategies and performance of affiliates that we may not control;
- . Governmental actions and initiatives; and
- . Environmental/safety requirements.

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Quantitative and Qualitative Disclosures About Market Risk

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Any significant changes in our market risk that have occurred since the filing of our Annual Report on Form 10-K for the year ended December 31, 2000 are summarized in the Liquidity and Capital Resources section of the Management's Discussion and Analysis of Financial Condition and Results of Operations.

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Part II

OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

15 Letter of consent of KPMG LLP, dated May 15, 2001.

(b) Reports on Form 8-K

Current Report on Form 8-K filed on February 2, 2001 regarding certain supplemental data included in the Company's press release

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dated February 2, 2001.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CARRAMERICA REALTY CORPORATION

/s/Richard F. Katchuk

Richard F. Katchuk, Chief Financial Officer

/s/Stephen E. Riffie

Stephen E. Riffie, Senior Vice President,
Controller and Treasurer
(Principal Accounting Officer)

Date: May 15, 2001

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