GOVERNMENT PROPERTIES TRUST INC
Form 10-K
March 15, 2006

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For The Fiscal Year Ended December 31, 2005

or

o **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 001-31962

Government Properties Trust, Inc.
(Exact name of registrant as specified in its charter)

Maryland	**20-0611663**
(State or other jurisdiction of incorporation of organization)	*(IRS Employer Identification No.)*
13625 California Street, Suite 310	**68154**
(Address of principal executive offices)	*(Zip Code)*

Registrant s telephone number, including area code:
(402) 391-0010

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.01 par value per share	New York Stock Exchange

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

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934. Yes o No þ

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 þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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. þ

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. (Check one):
Large accelerated filer o Accelerated filer þ Non-accelerated filer o

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

The aggregate market value of the Common Stock held by non-affiliates of the registrant as of June 30, 2005 (the last business day of the registrants most recently completed second quarter) was $201.4 million based upon the reported closing sale price per Common Share of the New York Stock Exchange of $9.72. On March 8, 2006, approximately 20.7 million shares of common stock of the registrant were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s proxy statement for the annual meeting of stockholders to be held on June 1, 2006 are incorporated into Part III.

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FORWARD LOOKING STATEMENTS

This report contains forward-looking statements. These forward-looking statements include estimates regarding:

- our estimated general and administrative expense;
- our risk mitigation strategy;
- our policy to reserve for operating expenses and capital costs:
- our distribution policy;
- our operating expenses;
- our adequacy of our available capital for future capital requirements;
- our capital expenditures; and
- the impact of changes in interest rates.

Forward-looking statements can be identified by the use of words such as may, will, should, expects, plans, anticipates, believes, estimates, predicts, intends, continue, or the negative of such terms, or other comparable terminology. Forward-looking statements also include the assumptions underlying or relating to any of the foregoing statements. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including the risks discussed in Risk Factors and elsewhere in this report.

All forward-looking statements included in this report are based on information available to us on the date hereof. We assume no obligation to update any forward-looking statements.

PART I.

Item 1. *Business*

Our Company

We are a Maryland corporation organized on September 25, 2003. We primarily invest in single tenant properties under long-term leases to the U.S. government, state governments, local governments, and government-sponsored enterprises. We are a self-managed, self-administered company that has elected to be taxed as a real estate investment trust, or REIT. We believe that we are the only public company focused solely on investing in government-leased properties.

Our business consists of buying, owning and managing recently built or renovated office properties primarily leased, under long-term leases, to the federal government, acting through the General Services Administration (GSA), the federal government s property management arm. Our portfolio consisted of nineteen properties totaling approximately 1.5 million rentable square feet as of December 31, 2005. These properties are 96% occupied and have a weighted-average remaining lease term of approximately 10 years based on the square footage of the properties as of December 31, 2005. Our largest tenants, as a percentage of total leased square feet, as of December 31, 2005 were:

Agency Tenant	Percentage of Square Feet
Bureau of Public Debt	13%
U.S. Army Corps of Engineers	12%
Social Security Administration	11%
Internal Revenue Service	7%
Food and Drug Administration	7%

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We own each of our properties through separate wholly-owned entities. We intend to expand our portfolio by acquiring additional government-leased properties.

The credit worthiness of our governmental tenants enables us to use debt to finance a high percentage of the acquisition cost of the properties we buy. Our total debt represented 62% of the historical cost of our assets at the end of 2005. We intend to continue financing future acquisitions with a combination of cash, common stock, long-term fixed-rate debt and short-term credit lines.

Recent Developments

Revolving Line of Credit

In November 2005, we replaced our then existing line of credit facility with a new $50 million revolving line of credit. The term of the new line of credit is for three years and may be extended for one additional year. We intend to use this credit line to finance future acquisitions and deposits on a short-term basis. Our objective is to finance each property with long-term, fixed-rate debt whose maturity matches or exceeds, to the extent possible, the remaining term of the lease. This strategy minimizes interest rate risk and should result in consistent and reliable cash flow.

2005 Property Acquisitions

The following table lists the properties we acquired in 2005:

Property	Location	Acquisition Cost	Month Acquired
1201 Lloyd Boulevard (Portland Property)	Portland, OR	$ 50,652,915	March
Niagara Center (Buffalo Niagara Center Property)	Buffalo, NY	71,672,611	May
Buffalo Social Security Administration (Buffalo SSA Property)	Buffalo, NY	5,434,681	May
Drug Enforcement Administration (Sterling DEA Property)	Sterling, VA	21,070,541	June
Internal Revenue Service (Martinsburg IRS Property)	Kearneysville, WV	30,642,912	July
Dallas Social Security Administration (Dallas SSA Property)	Dallas, TX	9,583,396	September
Army Corps of Engineers (Vicksburg COE Property)	Vicksburg, MS	26,850,250	November
		$ 215,907,306	

In February 2006, we acquired the Riverside County office complex in Riverside, California for a contract purchase price of $18.2 million.

Our Strategy and Objectives

Operational Objectives

Our primary operational objective is to generate funds from operations to make cash distributions to our stockholders. We focus on the following activities to achieve this objective:

Acquiring properties that meet our acquisition criteria;

Financing those properties with fixed-rate, matched term debt at a lower cost of capital than the capitalization rate of the acquired property;

Increasing our access to capital to finance property acquisitions;

Effectively managing our properties by maximizing revenues and controlling expenses, property oversight and property expansions where feasible; and

Opportunistic property sales and redeployment of assets, when advisable.

We intend to continue acquiring properties leased to a variety of governmental entities on a nationwide basis. We expect most of our properties will be leased to the U.S. government under long-term leases. We solicit owners and developers of government-leased properties. We intend to continue to expand our existing relationships with GSA real estate developers, the GSA and various other governmental tenants, owners and developers around the country. We plan to continue to enter into pre-completion purchase agreements with developers to acquire newly developed properties upon completion and occupancy by governmental tenants.

Our acquisition criteria include analyzing not only the in-place leases, but also analyzing the real estate characteristics of the property including location, parking, floor plans and construction quality. We focus on newer properties that have remaining lease terms of ten years or more and located in secondary or tertiary markets. The average age of our properties owned at the end of 2005 was approximately 4.3 years. We also consider, on a case-by-case basis, properties that have been constructed or significantly renovated within five years of our planned acquisition or that are more special use in nature due to specific government requirements or that have remaining lease terms of less than ten years. Special use, build-to-suit properties, however, generally must have remaining lease terms of fifteen years or more before we will consider them for acquisition. We believe our focus on newer properties reduces the risk of tenants failing to renew their leases at maturity and increases our ability to re-lease the property if the tenant does not renew. Certain of our fixed-rate mortgages require that fully-funded sinking fund reserves be established and maintained for future capital expenditures related to capital repairs marketing, tenant improvements or leasing commissions. We periodically evaluate requirements for future capital expenditures on our properties not covered by mortgage reserve fund provisions. Our intention is and has been to have a funded reserve for such situations available at the time the capital expenditure is expected to be incurred.

Investment Objectives

Our principal investment objectives are to deliver attractive risk-adjusted returns to our stockholders by:

Paying regular dividends to our stockholders. We intend to distribute to our stockholders all or substantially all of our taxable REIT income each year to comply with the distribution requirements of the federal tax laws and to avoid federal income and excise tax. The actual amount and timing of distributions, however, will be at the discretion of our board of directors and will depend upon our actual results of operations and numerous other factors discussed in the section Management s Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this report. To the extent possible, we will seek to avoid the fluctuations in dividends that might result if dividends were based on actual cash received during the dividend period. To implement this policy, we may use cash received during prior periods, or cash received subsequent to the dividend period and prior to the payment date for such dividend to pay dividends consistent with the dividend level established from time to time by our board of directors. Our ability to maintain this policy will depend upon our cash flow and applicable REIT rules. We cannot assure you that there will be cash available to pay dividends or that dividend amounts will not fluctuate. Subject to applicable REIT rules, we will seek to reinvest proceeds from the sale, refinancing or other disposition of our properties by purchasing additional properties that are intended to produce additional distributable income.

Increasing the value of our properties. With intensive asset and property management, we believe our properties will be well maintained and improved during the term of our ownership, which should allow for long term appreciation in the value of our properties. In addition, we plan to routinely monitor our portfolio and selectively dispose of properties in an opportunistic manner. There is, of course, no assurance that the value of our properties will increase.

Preserving capital. We will attempt to preserve capital by continuing to invest in a diversified portfolio of quality real estate leased under long-term leases to governmental entities. We will also attempt to diversify our portfolio geographically and consider local factors such as taxing jurisdictions, risk of weather damage and local economy, among others, which may affect the underlying value of our acquired properties in the future.

We cannot assure you that we will achieve any or all of the foregoing objectives because each, to a large extent, is dependent upon factors and conditions beyond our control. Our realization of distributable cash flow and appreciation in value from our properties will depend on a variety of factors, including short-term and long-term

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economic trends, federal tax laws, governmental regulations, local real estate and financial market conditions and property operating expenses.

Investment Policies

Our primary investment policies are to:

- Purchase properties that are primarily leased to the U.S. government, state governments, local governments, and government-sponsored enterprises;

- Purchase newer, well-located properties that are not special use in nature and have remaining lease terms of ten years or more. We also consider, on a case-by-case basis, newer, well-located properties that are more special use in nature due to specific government requirements if the lease possesses a reasonable probability of renewal

- Purchase properties at prices that are at or below appraised values; and

- Use debt to finance the acquisition cost of the properties that we buy employing up to 75% leverage.

Our board of directors may change our existing investment objectives and policies without stockholder approval.

Acquisition Criteria

In analyzing proposed acquisitions, we evaluate various factors including:

- The characteristics of the existing lease including the tenant and the intended use, term, type of lease (e.g., net, modified gross, gross), rental rates, base rent escalation if any, adjustment in rents for increases in operating expenses and taxes, and termination and assignment provisions, the essentiality of the function of the tenant, and the probability of lease renewal;

- The type, size, and design of improvements, their age and condition, the quality of the construction methods and materials, the price per square foot of leased space, and the suitability of the property for alternative uses;

- The nature of the general location (primary, secondary or tertiary markets), the viability of the sub-market including local demographics and the occupancy of and demand for similar properties in the sub-market area, specifically population and rental trends, and the functionality of the specific site;

- The base rent, operating expenses, property tax, and state and local taxes, net operating income, price, the capitalization rate, prospective financing terms (amount, rate, term, amortization, loan-to-value ratio, debt service coverage ratio) and the prospective over-all rate of return, leveraged periodic return on equity and the all-in rate of return including the liquidation of the projected residual value;

- How the prospective acquisition will fit with the existing portfolio to assure sufficient diversity in material investment characteristics;

- Comparing the terms of the purchase and the existing lease to current market conditions and comparable transactions;

- The suitability of property for and ability to efficiently lease or sublease any vacant space;

The ability of the property to achieve long-term capital appreciation;

The prospects for long-range liquidity of the investment in the property;

The rated security level of the property in the context of its use;

The appraised value of the property, the property s condition, special engineering reports to evaluate unique characteristics of a property, and phase I environmental reports; and

Our ability to potentially improve the efficiency of the management of the property.

In connection with our review of prospective acquisitions, we may engage third parties, such as environmental consultants, appraisers, engineers, accountants and lawyers, to help us perform our due diligence.

Assessing Prospects for Long-term Property Appreciation and Liquidity

In reviewing a property for acquisition, we consider the property s prospects for long-term appreciation and the prospects for long-range liquidity of the investment. In particular, we will seek to negotiate lease clauses providing for periodic inflation adjustments to the expense portion of base rent, and to minimize deferred maintenance by prompt attention to repair and replacement needs at the properties.

Property Operating Costs Risk Mitigation Strategy

Leases for governmental tenants vary widely and include net leases, gross leases and modified gross leases. Net leases require the tenant to pay all operating expenses, gross leases require the landlord to pay all operating expenses, and modified gross leases require the landlord and the tenant each to pay a portion of the operating expenses. We intend to acquire properties with all three types of leases, as well as variations of these leases, because we believe that gross leases and modified gross leases may provide higher returns for us than net leases. In our experience, GSA leases are generally modified gross leases. We attempt to mitigate the higher risk of gross leases and modified gross leases through strict underwriting, due diligence, and intensive property management.

Financing Strategy

We generally use fixed-rate, long-term mortgage financing to meet our 75% targeted leverage ratio. We choose a particular financing method based upon the most advantageous combination of attractive interest rates, leverage, assignability, repayment terms, and maturity dates available in the marketplace at the time, and customize our financing strategy for each type of transaction to maximize our return on investment. Our objective is to finance each property with long-term, fixed-rate debt whose maturity matches or exceeds, to the extent possible, the remaining term of the lease.

We consider a number of factors when evaluating our level of indebtedness and making financing decisions, including:

- the interest rate and maturity date of the proposed financing;
- the extent to which the financing impacts the flexibility with which we manage our properties;
- prepayment penalties and restrictions on refinancing;
- the purchase price of properties to be acquired with debt financing;
- our long-term objectives with respect to the property;
- our target investment return;
- the terms of any existing leases;
- assignability;

the remaining loan balance at the end of the lease term compared to the prospective value of the asset at such time;

the estimated market value of our properties upon refinancing of the indebtedness; and

the ability of particular properties and our company as a whole, to generate cash flow to cover expected debt service.

We also consider the impact of individual financings on our corporate financial structure. Among the factors we consider are:

our overall level of consolidated indebtedness;

provisions that require recourse and cross-collateralization;

- corporate credit ratios, including debt service coverage, and debt to total market capitalization; and
- our overall mix of fixed-and variable-rate debt.

We may obtain financing from banks, institutional investors or other lenders financing through lines of credit, bridge loans and other arrangements, any of which may be unsecured or may be secured by mortgages or other interests in our properties. In addition, we may incur debt in the form of publicly or privately placed debt instruments. When possible, we seek to replace short-term sources of capital with fixed-rate, long-term financing in which we match or exceed, to the extent possible, the maturity of the debt to the lease term on the property securing the debt.

Our indebtedness may be recourse or non-recourse. If the indebtedness is recourse, our general assets may be included in the collateral. If the indebtedness is non-recourse, the collateral will be limited to the particular property to which the indebtedness relates. To the extent possible, we acquire properties using only non-recourse financing. In addition, we may invest in properties subject to existing loans secured by mortgages or similar liens on the properties, or may refinance properties acquired on a leveraged basis. We may use the proceeds from any borrowings to refinance existing indebtedness, to finance acquisitions, or the redevelopment of existing properties, for general working capital, or to purchase additional interests in partnerships or joint ventures. If necessary, we may also borrow funds to satisfy the requirement that we distribute to stockholders at least 90% of our annual taxable REIT income, or otherwise to ensure that we maintain our REIT status for federal income tax purposes.

We may also enter into joint venture arrangements whereby we share the acquisition costs, expenses and returns from a property. We may also raise additional equity capital through additional public or private offerings of our securities.

Sale of Properties

The determination of whether a particular property should be sold or otherwise disposed of will be made after consideration of the performance of the property, existing market conditions and also the benefits of continued ownership and alternative uses of the capital. In deciding whether to sell properties, we will consider factors such as potential capital appreciation, cash flow and federal income tax consequences. We may exchange properties for other properties.

Net proceeds from the sale of any property may, at the discretion of our board of directors, be distributed to stockholders or reinvested in other properties. When reinvesting in other properties, tax-deferral will be a significant consideration. Any properties in which net proceeds from a sale are reinvested will be subject to the same acquisition criteria as other properties we acquire. See Business Investment Policies and Acquisition Criteria.

In connection with the sale of a property, purchase money obligations secured by mortgages may be taken as partial payment. The terms of payment to us will be affected mainly by prevailing economic conditions. To the extent we receive notes and property other than cash on sales, such proceeds will not be included in net proceeds of sale until and to the extent the notes or other property are actually collected, sold, refinanced or otherwise liquidated. We may receive payments (cash and other property) in the year of sale in an amount less than the full sales price and subsequent payments may be spread over several years. Therefore, dividends to stockholders of the proceeds of a sale may be delayed until the notes or other property are collected at maturity, sold, refinanced, or otherwise converted to cash. The entire balance of the principal may be a balloon payment due at maturity. For federal income tax purposes, unless we elect otherwise, we will report the gain on such sale ratably as principal payments are received under the installment method of accounting.

Reserve for Operating Expenses and Capital Costs

Certain of our fixed-rate mortgages require that fully-funded sinking fund reserves be established and maintained for future capital expenditures related to capital repairs marketing, tenant improvements or leasing commissions. We periodically evaluate requirements for future capital expenditures on our properties not covered by mortgage reserve fund provisions. Our intention is and has been to have a funded reserve for such situations available at the time the capital expenditure is expected to be incurred.

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Lending Policies

We may not make loans to our executive officers, key employees or directors except in accordance with our Code of Business Conduct and Ethics and applicable law.

We may consider offering purchase money financing in connection with the sale of properties where the provisions of that financing will increase the value to be received by us for the property sold. We may make loans to joint ventures in which we may participate in the future. However, we do not intend to engage in significant lending activities.

Equity Capital Policies

Our board of directors has the authority, without further stockholder approval, to raise additional capital, in any manner and on the terms and for the consideration it deems appropriate, including in exchange for property. Existing stockholders have no preemptive right to additional shares issued in any offering, and any offering may cause a dilution of investment. We may in the future issue shares in connection with acquisitions.

Conflicts of Interest Policy

We have adopted a Code of Business Conduct and Ethics that prohibits conflicts of interest between our officers, employees and directors on the one hand, and our company on the other hand, except in compliance with the policy. Waivers of our Code of Business Conduct and Ethics must be disclosed in accordance with New York Stock Exchange (NYSE) and Securities and Exchange Commission (SEC) requirements. As of December 31, 2005, no waivers have been granted or sought.

Other Policies

We do not plan to invest in real estate mortgages except in connection with sale-leaseback acquisitions. We do not plan to invest in securities of persons primarily engaged in real estate activities except in connection with the acquisition of operating properties and the temporary investment of our cash. We do not plan to invest in secondary investments such as mortgage-backed securities, except in connection with the temporary investment of our cash. We do not plan to invest in other securities except in connection with the temporary investment of our cash and do not anticipate investing in other issuers of securities for the purpose of exercising control or acquiring any investments primarily for sale in ordinary course of business or holding any investments with a view to making short-term profits from the sale. We do not intend to engage in trading, underwriting, agency distribution or sales of securities of other issuers.

Real Estate Management

We perform asset and property management, and accounting and finance services relating to our properties.

Asset and Property Management

We focus on maximizing the value of our portfolio, monitoring property performance and related operating costs, managing our investment opportunities and pursuing the acquisition of additional properties and, when appropriate, the disposition of selected properties. Our asset management staff directly oversees our portfolio with its primary emphasis being to protect and enhance long-term asset value. Our property management functions include the coordination and oversight of tenant improvements and building services. We only provide to tenants those services that are customarily provided to tenants of other similar properties.

Accounting and Finance

We perform accounting and finance services that relate to the management of our real estate and the business of our Company. Our accounting and finance personnel perform management of accounts payable, collection of receivables and budgeting of our operating expenses through consultation with our property management group.

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Capital Improvements Costs

We primarily acquire properties after they have been leased so we do not directly negotiate or pay for tenant improvements. However, if the space must be re-leased, we may pay for improvement or restoration of a tenant s leased space. At the request of the tenant, we may elect to pay for certain requested tenant improvements and collect additional rent to compensate us for having done so. Furthermore, our GSA leases generally hold us as the owner responsible for any repair or replacement of structural components of a building, the roof, any parking facility and the electrical, plumbing, and HVAC equipment in the building.

Insurance

We carry comprehensive liability, casualty, flood and rental loss insurance covering all of the properties in our portfolio. We believe that the policy specifications and insured limits are appropriate given the relative risk of loss, the cost of the coverage and industry practice. We have also obtained terrorism insurance, as defined by the Terrorism Risk Insurance Act of 2002, on all of our properties, which is subject to exclusions for loss or damage caused by nuclear, biological and chemical weapons. It is our policy to obtain similar terrorism insurance on properties that we acquire in the future to the extent it is available. In addition, in certain areas, we pay additional premiums to obtain flood, wind, or earthquake insurance. We do not carry insurance for commonly uninsured losses such as loss from riots.

Real Estate Industry Regulation

Environmental

Under various federal, state and local environmental laws and regulations, a current or previous owner, operator or tenant of real estate may be required to investigate and remove hazardous or toxic substances or petroleum product releases or threats of releases at such property, and may be held liable for property damage and for investigation, clean-up and monitoring costs incurred in connection with the actual or threatened contamination. Such laws typically impose clean-up responsibility and liability without regard to fault, or whether the owner, or tenant knew of or caused the presence of the contamination. The liability under such laws may be joint and several for the full amount of the investigation, clean-up and monitoring costs incurred or to be incurred or actions to be undertaken, although a party held jointly and severally liable may obtain contributions from the other identified, solvent, responsible parties of their fair share toward these costs. These costs may be substantial, and can exceed the value of the property. The presence of contamination, or the failure to properly remediate contamination, on a property may adversely affect the ability of the owner, operator or tenant to sell or rent that property or to borrow using such property as collateral, and may adversely impact our investment on that property.

Federal regulations require building owners and those exercising control over a building s management to identify and warn, via signs and labels, of potential hazards posed by workplace exposure to installed asbestos- containing materials and potentially asbestos-containing materials in their building. The regulations also set forth employee training, record-keeping and due diligence requirements pertaining to asbestos-containing materials and potentially asbestos-containing materials. Significant fines can be assessed for violation of these regulations. Building owners and those exercising control over a building s management may be subject to the increased regulations. Building owners and those exercising control over a building s management may be subject to an increased risk of personal injury lawsuits by workers and others exposed to asbestos-containing materials and potentially asbestos-containing materials as a result of these regulations. The regulations may affect the value of a building containing asbestos-containing materials and potentially asbestos-containing materials in which we have invested. Federal, state and local laws and regulations also govern the removal, encapsulation, disturbance, handling and/or disposal of asbestos-containing materials and potentially asbestos-containing materials when such materials are in poor condition or in the event of construction, remodeling, renovation or demolition of a building. Such laws may impose liability for improper handling or a release to the environment of asbestos-containing materials and potentially asbestos-containing materials and may provide for fines to, and for third parties to seek recovery from, owners or operators of real properties for personal injury or improper work exposure associated with asbestos-containing materials and potentially asbestos-containing materials.

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Prior to closing any property acquisition, we obtain environmental assessments in a manner we believe prudent to attempt to identify potential environment concerns at such properties. These assessments are carried out in accordance with an appropriate level of due diligence and generally include a physical site inspection, a review of relevant federal, state and local environmental and health agency database records, one or more interviews with appropriate site-related personnel, review of the property s chain of title and review of historic aerial photographs and other information on past uses of the property. We may also conduct limited subsurface investigations and test for substances of concern where the results of the first phase of the environmental assessments or other information indicates possible contamination or where our consultants recommend such procedures. We also believe that acquiring newer properties, that have been subject to these environmental regulations, helps mitigate our exposure to environmental risks.

While we may purchase our properties on an as is basis, all of our purchase contracts contain an environmental contingency clause, which permits us to reject a property because of any environmental hazard at such property. We receive Phase I reports on all prospective properties.

We believe that our portfolio complies in all material respects with all federal and state regulations regarding hazardous or toxic substances and other environmental matters.

Americans With Disabilities Act

Our properties must comply with Title III of the Americans with Disabilities Act (the 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 public areas of our properties where such removal is readily achievable. We believe that our existing 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.

Fire, Safety and Other Regulation

We must operate our properties in compliance with fire and safety regulations, building codes and other land use regulations, as they may be adopted by governmental agencies and bodies and become applicable to our properties. We may be required to make substantial capital expenditures to comply with those requirements.

Competition

We compete in acquiring properties with financial institutions, institutional pension funds, real estate developers, other REITs, other public and private real estate companies and private real estate investors, both domestic and foreign.

Among the positive factors relating to our ability to compete in acquiring properties are:

- we have experience in buying GSA-leased properties;
- we are a well funded public company with the ability to obtain financing;
- our management is knowledgeable in real estate matters;
- we have a positive reputation in the real estate industry; and

we have a history of closing property acquisitions that we contract to purchase.

Among the negative factors relating to our ability to compete are the following:

we may have less knowledge than our competitors of certain markets in which we seek to purchase properties;

we have strict underwriting standards;

many of our competitors have greater financial and operational resources than we have;

our competitors or other entities may pursue a strategy similar to ours; and

some competitors may be willing to accept a lower return on their investment than we will accept.

We also face competition in leasing available properties to prospective tenants. The actual competition for tenants varies depending on the characteristics of each local market.

Employees

We employed 19 employees as of March 1, 2006. None of our employees is represented by a labor union. We consider our employee relations to be good.

Available Information

Our website is located at www.gptrust.com. We make our SEC filings available through our website as soon as reasonably practicable after we file these reports with the SEC. Copies of our Governance Guidelines, Code of Business Conduct and Ethics and charters of our Audit, Compensation, Finance, Real Estate Investment and Nominating & Governance Committees are also available, free of charge, on our website and in print to any stockholder who requests it from our investor relations representative c/o Government Properties Trust, Inc., Investor Relations Representative, 13625 California Street, Suite 310, Omaha, Nebraska 68154. None of the information on our website or any other website identified herein is part of this report.

Item 1A. ***Risk Factors***

Risks Related to Our Business and Properties

The pace of our property acquisitions to date has resulted in cash flow that is insufficient to cover dividends at their current level.

We acquired seven properties for $215.9 million in 2005 and eight properties for $123.2 million in 2004. Cash from operations for the properties we own has been significantly less than the dividends we have paid to date. To continue to pay dividends at their current level, the Company will be required to use some of the equity capital it raised in its initial public offering. We may not be able to generate sufficient cash to pay dividends in the future.

The closings of our property acquisitions are subject to conditions that may prevent us from acquiring such properties.

Our ability to complete acquisitions depends upon many factors, such as the negotiation of definitive purchase agreements, the satisfactory results from the due diligence work, completion of construction, and satisfaction of customary closing conditions. We have abandoned several prospective purchases due to the failure of one or more of these circumstances. The inability to complete future acquisitions within our anticipated time frames may harm our financial results and undercut our ability to pay dividends at their current level.

Higher asking prices for potential property acquisitions may limit our ability to complete our business plan.

During this period of increased prices for properties and increased interest rates, we may not be able to acquire additional properties accretively and may elect not to do so. To the extent that we do not acquire properties accretively, we will not be able to grow as contemplated in our business plan.

Our use of debt financing could decrease our cash flow and expose us to risk of default under our debt documents.

Our policy is to use debt to finance, on average, approximately 75% of the acquisition cost of the properties that we buy. As of December 31, 2005, we had approximately $242.5 million of outstanding indebtedness representing 62% of the acquisition cost of properties we owned as of that date.

Since we anticipate that our cash flow from operations will be insufficient to repay all of our indebtedness prior to maturity, we expect that we will have to extinguish remaining debt through refinancing, sale of properties or sale of additional equity. If we are unable to refinance our indebtedness on acceptable terms, or at all, we might be forced to dispose of one or more of our properties on unfavorable terms, which might result in losses to us and which might adversely affect our cash available for distribution to our stockholders. If prevailing interest rates or other factors at the time of a refinancing result in higher interest rates on such refinancing, our interest expense would increase, which could seriously harm our operating results and financial condition and our ability to pay dividends. Our debt and any increase in our debt may be detrimental to our business and financial results by:

- requiring us to use a substantial portion of our cash flow from operations to pay interest, which reduces the amount available for the operation of our properties or the payment of dividends;
- imposing restrictive covenants in our loan documents, which would entitle the lenders to accelerate our debt obligations and foreclose on our properties, if materially violated;
- placing us at a competitive disadvantage compared to our competitors who may have less debt;
- making us more vulnerable to economic and industry downturns and reducing our flexibility in responding to changing business and economic conditions;
- requiring us to sell one or more properties, possibly on unfavorable terms; and
- limiting our ability in the future to borrow funds for operations and to finance property acquisitions and to refinance our indebtedness at maturity on acceptable terms.

Our ability to obtain debt financing could be impaired or delayed due to underwriting restrictions applicable to the type of properties we acquire.

Our policy is to obtain debt financing related to properties we buy. Because of the single tenant nature of the properties we acquire, mortgage underwriters take certain additional precautions intended to assure that the remaining mortgage balance is paid at the end of the loan term. Also, for mortgages that have an amortization schedule longer than the lease term, due to the high initial per square foot cost of the property being acquired, mortgage lenders consider the high per square foot remaining principal balance at the end of the mortgage term as a negative with regard to the potential approval of the loan. These and other similar negative factors associated with our properties may make it more difficult and more expensive for us to finance or refinance our properties compared to other types of commercial real estate.

Because our principal tenant is the U.S. government, our properties may have a higher risk of terrorist attack than similar properties leased to non-governmental tenants.

Because our principal tenant is the U.S. government, our properties may have a higher risk of terrorist attack than similar properties that are leased to non-governmental tenants. Some of our properties could be considered high profile targets because of the particular government tenant (e.g., the FBI). Certain losses resulting from terrorist attacks may be uninsurable. Additional terrorism insurance may not be available at a reasonable price or at all.

We depend on the U.S. government for most of our revenues. Any failure by the U.S. government to perform its obligations or renew its leases upon expiration may harm our cash flow and ability to pay dividends.

Rent from the U.S. government represented 96% of our revenues for 2005 and 100% for 2004. In addition, the U.S. government leased 95% of our total leased square feet of property at December 31, 2005. Any default by the U.S. government, or its failure to renew its leases with us upon their expiration, could cause interruptions in the receipt of lease revenue or result in vacancies, or both, which would reduce our revenue until the affected property is leased, and could decrease the ultimate value of the affected property upon sale. Further, failure on the part of a tenant to comply with the terms of a lease may cause us to find another tenant. We cannot assure you that we would be able to find another tenant without incurring substantial costs, or that if another tenant were found we would be able to enter into a new lease on favorable terms.

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An increase in the operating costs of our government-leased properties would harm our cash flow and ability to pay dividends.

Leased properties in which the tenant is wholly responsible for any increases in operating costs that apply to the property are not typical of the leases entered into through the GSA, the principal leasing agency of the federal government. Under present practice, most GSA leases only cover increases in real estate taxes above a base amount and these GSA leases also increase that portion of the rent applicable to other operating expenses by an agreed upon percentage based upon the Consumer Price Index. Typically, operating expenses in these leases do not include insurance cost. To the extent operating costs other than real estate taxes and insurance increase at a rate greater than the specified percentage, our cash flow would be harmed and our ability to pay dividends may be harmed.

If we are unable to lease properties that are partially or completely vacant, we may be required to recognize an impairment loss with respect to the carrying values of these properties, which may seriously harm our operating results and financial condition.

Any of our properties could become partially or completely vacant in the future. If we are unable to re-lease these properties and generate sufficient cash flow to replace or exceed that amount lost due to the vacancy, we will be required to recognize a financial loss as to that property, which could reduce our operating results and our ability to pay dividends.

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

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

Increasing competition for the acquisition of government-leased properties may impede our ability to make future acquisitions or may increase the cost of these acquisitions.

We compete with many other entities for the acquisition of government-leased properties. Our competitors include financial institutions, institutional pension funds, other REITs, other public and private real estate companies and private real estate investors both foreign and domestic. These competitors may prevent us from acquiring desirable properties or increase the price we must pay for properties. Our competitors, both foreign and domestic, may have greater resources than we do and may be willing to pay more for similar property. In addition, the number of entities and the amount of capital competing for government-leased properties may increase in the future, resulting in increased demand and increased prices paid for these properties. If we are forced to pay higher prices for properties, our profitability may decrease and our stockholders may experience a lower return on their investment.

We may have limited time to perform due diligence on many potential property acquisitions, which could result in the loss of acquisition opportunities.

When we enter into an agreement to acquire a property we often have limited time to complete our due diligence prior to purchase. Pursuant to Company policy, if we cannot complete our full due diligence review process within the time allotted, we will not proceed with an acquisition. Accordingly, we may lose property acquisitions due to lack of sufficient time to complete our due diligence and therefore limit our future growth.

Our cash flow is not assured. We may not pay dividends in the future.

Our ability to pay dividends may be adversely affected by the risks described herein. We cannot assure you that we will be able to pay dividends in the future. We also cannot assure you that the level of our dividends will increase over time or the receipt of income from additional property acquisitions will necessarily increase our cash available for distribution to stockholders. Any failure to make expected cash dividend distributions will likely result in a decrease in the market price of our stock.

Our board of directors may alter our investment policies at any time without stockholder approval.

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

We have incurred historical losses and may incur future losses.

We have had historical losses of $2.4 million and $2.7 million for the years ended December 31, 2005 and 2004, respectively. As of December 31, 2005, we had an accumulated deficit of $30.9 million, of which $5.5 million was due to accumulated losses and $25.4 million was due to the payment of cash dividends. We cannot assure you that we will not have similar losses in the future.

Risks Related to Our Organization and Structure

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

Our future success depends, to a significant extent, upon the continued services of Thomas D. Peschio, our president and chief executive officer, and of the other members of our management team. In particular, the relationships that Mr. Peschio and the other members of our management team have developed with owners and developers of government-leased properties are critically important to the success of our business. Although we have an employment agreement with Mr. Peschio, we cannot assure you that he and the other key acquisition personnel will remain employed with us. We do not maintain key person life insurance on any of our officers. The loss of our management team could adversely impact our operations.

A majority of the voting power over our shares is currently concentrated in a relatively small number of unrelated investment managers

Our stockholder records show that less than 10 investment managers, who have been granted the right by their respective clients to vote our shares, control a majority of our stock. Accordingly, this relatively small number of unrelated investment managers could, if acting in concert based on a common interest or concern, vote a majority of the Company s shares to achieve a common objective. This result could be harmful to us and our stockholders.

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

In connection with future equity offerings, as well as stock grants pursuant to the Company s 2003 Equity Incentive Plan, the board of directors may authorize the issuance of additional shares of common stock. The issuance of additional shares could dilute our existing stockholders.

Our board of directors may authorize the issuance of shares with differing dividend rights that could harm our stockholders right to receive dividends.

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

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

Maryland law provides that a director has no liability in that capacity if he or she performs his or her duties in good faith, in a manner he or she reasonably believes to be in our best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. Our governing documents obligate us to indemnify our directors and permit us to indemnify our officers for actions taken by them in those capacities to the extent permitted by Maryland law which applies broadly. Additionally, we may be obligated to fund the defense costs incurred by our directors and officers. Finally, our governing documents limit the liability of our directors and officers for money damages, except for liability resulting from:

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

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

As a result, we and our stockholders have more limited rights against our directors and officers than might otherwise exist without these conditions.

Our ownership limitations may restrict business combination opportunities.

To preserve our REIT status, our charter generally prohibits direct or indirect ownership through affiliates by any person of more than 9.8% of the number or value of outstanding shares of any class of our securities, including our common stock. Any transfer of our common stock that would disqualify our REIT status will be null and void, and the intended transferee will acquire no rights in such stock. These ownership limitations could have the effect of delaying, deterring or preventing a change in control or other transaction in which holders of common stock might receive a premium for their common stock over the then current market price or which such holders might believe to be otherwise in their best interest. Further, shares that are transferred in excess of the 9.8% ownership limit will be designated as excess shares subject to redemption. The ownership limitation provisions also may make our common stock an unsuitable investment vehicle for any person seeking to obtain, either alone or with others as a group, ownership of more than 9.8% of the number or value of outstanding shares of any class of our securities.

Maryland law grants broad authority to our board to reject any outside proposal involving a change in control.

Maryland law provides broad discretion to our board of directors with respect to its duties in considering a change in control of our company, including that a board is subject to no greater level of scrutiny in considering a change in control transaction than with respect to any other action within its authority that it considers. Accordingly, we may not pursue a change in control which might otherwise be in our stockholders best interests.

Our chief executive officer and chief financial officer have employment agreements that provide them with benefits in the event their employment is terminated, which could prevent or deter a potential acquirer from pursuing a change of control of our company.

We have entered into employment agreements with Thomas D. Peschio, our president and chief executive officer, and Nancy D. Olson, our treasurer and chief financial officer, which provide them with severance benefits if their employment ends due to a termination by us without cause. In the case of such termination, we would have to pay severance and the vesting of their restricted stock will accelerate. Mr. Peschio also has the right to terminate his employment agreement upon a change of control of our Company and receive severance benefits. These agreements could prevent or deter a change of control of our Company that might involve a premium price for our common stock or otherwise be in the best interests of our stockholders.

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Risks Related to the Real Estate Industry

Mortgage debt obligations expose us to increased risk of property losses, which could harm our financial condition, cash flow and ability to satisfy our other debt obligations and pay dividends.

Incurring mortgage debt increases our risk of property losses because defaults on indebtedness secured by properties may result in our loss of the property securing any loan for which we are in default. For tax purposes, a foreclosure is treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. The outstanding balance of the debt secured by the mortgage could exceed our tax basis in the property, which would cause us to recognize taxable income on foreclosure, without receiving corresponding cash proceeds. As a result, we may be required to utilize other sources of cash to pay our taxes, which may result in a decrease in cash available for distribution to our stockholders. In addition, our default under any one of our mortgage debt obligations may increase the risk of our default on our other indebtedness. If this occurs, our financial condition, cash flow and ability to satisfy our other debt obligations or ability to pay dividends may be harmed.

Illiquidity of real estate investments could significantly impede our ability to respond to adverse changes in the performance of our properties and harm our financial condition.

Because real estate investments are relatively illiquid, our ability to promptly sell one or more properties in our portfolio in response to changing economic, financial and investment conditions is limited. The real estate market is affected by many factors that are beyond our control, including:

- adverse changes in national and local economic and market conditions;
- changes in interest rates and in the availability, cost and terms of debt financing;
- changes in governmental laws and regulations, fiscal policies and zoning ordinances and costs of compliance with laws and regulations, fiscal policies and ordinances;
- the ongoing need for capital improvements, particularly in older structures;
- changes in operating expenses; and
- civil unrest, acts of war and natural disasters, including earthquakes and floods, which may result in uninsured and underinsured losses.

We cannot predict whether we will be able to sell any property for the price or on the terms set by us, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a property. These factors and any others that would impede our ability to respond to adverse changes in the performance of our properties could harm our operating results and financial condition, as well as our ability to pay dividends to stockholders.

Compliance with environmental laws could materially increase our operating expenses.

There may be environmental problems associated with our properties of which we are unaware. If environmental contamination exists on our properties, we could become subject to strict liability for the contamination. The presence of hazardous substances on a property may adversely affect our ability to sell the property and we may incur substantial remediation costs. In addition, although we may require in our leases that tenants operate in compliance with all applicable laws and to indemnify us against any environmental liabilities arising from a tenant s activities on the property, we could nonetheless be subject to strict liability by virtue of our ownership interest, and we cannot be sure that our tenants would satisfy their indemnification obligations. Such environmental liability exposure associated with our properties could harm our results of operations and financial condition and our ability to pay dividends to stockholders.

Our properties may contain or develop harmful mold, which could lead to liability for adverse health effects and costs of remediating the problem.

The presence of significant mold at any of our properties could require us to undertake a costly remediation program to contain or remove the mold from the affected property. In addition, the presence of significant mold could expose us to liability from our tenants, employees of our tenants and others if property damage for health concerns arise.

Compliance with the ADA and fire, safety and other regulations may require us to make unexpected expenditures that adversely impact our ability to pay dividends.

Our properties may be required to comply with the Americans with Disabilities Act, or the ADA. Compliance with the ADA requirements could necessitate removal of access barriers and non-compliance could result in imposition of fines by the U.S. government or an award of damages to private litigants, or both. We could be required to expend our funds to comply with the provisions of the ADA, which could adversely affect our results of operations and financial condition and our ability to make distributions to stockholders. In addition, we are required to operate our properties in compliance with fire and safety regulations, building codes and other land use regulations, as they may be adopted and become applicable to our properties. We may be required to make substantial capital expenditures to comply with those requirements and which could harm our ability to pay dividends.

An uninsured loss or a loss that exceeds the insurance policy limits on our properties could subject us to lost capital or revenue on those properties.

Our comprehensive loss insurance policies may involve substantial deductibles and certain exclusions and may not be fully in place to cover all conditions when a property is acquired. In certain areas, we may have to obtain earthquake insurance on specific properties as required by our lenders or by law. We have also obtained terrorism insurance on all of our GSA-leased properties, but this insurance is subject to exclusions for loss or damage caused by nuclear substances, pollutants, contaminants and biological and chemical weapons. Should a loss occur that is uninsured or in an amount exceeding the combined aggregate limits for the policies noted above, or in the event of a loss that is subject to a substantial deductible under an insurance policy, we could lose all or part of our capital invested in, and anticipated revenue from, one or more of our properties, which could harm our operations results and financial condition as well as our ability to pay dividends.

Tax Risks of Our Business and Structure

An investment in our common stock has various tax risks that could affect the value of our stockholders investment.

Special tax risks associated with owning stock in our Company include those associated with the treatment of distributions in excess of current and accumulated earnings and profits to the extent that they exceed the adjusted basis of an investor s common stock, as long-term capital gain (or short-term capital gain if the shares have been held for less than one year); the treatment of any dividend declared by us in October, November or December of any year payable to a stockholder of record on a specific date in any such month as being paid by us and received by the stockholder on December 31 of such year; the treatment of any gain or loss realized upon a taxable disposition of shares by a stockholder who is not a dealer in securities as a long-term capital gain or loss if the shares have been held for more than one year, otherwise as short-term capital gain or loss; the treatment of distributions that we designate as capital gain dividends taxable to stockholders as gains (to the extent that they do not exceed our actual net capital gain for the taxable year) from the sale or disposition of a capital asset held for greater than one year; and distributions we make and gains arising from the sale or exchange by a stockholder of shares of our stock not qualifying to be offset by passive losses.

Distribution requirements imposed by law limit our flexibility in executing our business plan.

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

We may incur additional indebtedness to meet our distribution requirements. While we have not borrowed for the specific purpose of paying distributions, our prior borrowings allowed us to pay distributions from our cash flow from operations.

It is possible that the differences between the time we actually receive revenue or pay expenses and the period we report those items for distribution purposes could result in our having to borrow funds on a short-term basis to meet the 90% distribution requirement to qualify for REIT tax status. While we have not borrowed for the specific purpose of paying distributions, our prior borrowings allowed us to pay distributions from our operations.

Our disposal of properties may have negative implications, including unfavorable tax consequences.

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

If we fail to remain qualified as a REIT, our dividends will not be deductible by us, and our income will be subject to taxation.

If we fail to remain qualified as a REIT, our dividends will not be deductible by us for federal income tax purposes and we will be subject to a corporate level tax on our taxable income. This would substantially reduce our cash available to pay dividends and the yield on your investment. Incurring corporate income tax liability might cause us to borrow funds, liquidate some of our investments or take other steps which could negatively affect our operating results. If our REIT status is terminated because of our failure to meet a REIT qualification requirement or if we voluntarily revoke our election, we would be disqualified from electing treatment as a REIT for the four taxable years following the year in which REIT status is lost. We cannot assure you that we will be able to maintain REIT status, or that it will be in our best interests to continue to do so.

We may be subject to federal income tax, state income, franchise and other local taxes that would harm our financial condition.

Even if we maintain our status as a REIT, we may become subject to federal income taxes. For example, if we have net income from a sale of dealer property or inventory, that income will be subject to a 100% penalty tax. In addition, we may not be able to pay sufficient distributions to avoid corporate income tax and the 4% excise tax on undistributed income.

We may also be subject to state and local taxes on our income or property, either directly or at the level of our operating entities through which we indirectly own our properties that would aversely affect our operating results.

We may be subject to adverse legislative or regulatory tax changes that could reduce the market price of our common stock.

The federal tax laws governing REITs and the administrative interpretations of those laws may be amended at any time. Any of those new laws or interpretations may take effect retroactively. For example, on May 28, 2003, President Bush signed into law legislation that could cause shares in non-REIT corporations to be a more attractive investment to individual investors than they had been, because of lower tax rates on their dividends as compared to the tax rate paid by stockholders receiving REIT distributions. This and other tax legislation in the future could harm the market price of our common stock.

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Item 1B. ***Unresolved Staff Comments***

None

Item 2. ***Properties***

Our portfolio consisted of nineteen properties totaling approximately 1.5 million square feet as of December 31, 2005. These properties are 96% occupied and had a weighted-average remaining lease term of approximately 10 years.

Our portfolio as of December 31, 2005 consisted of the following:

Location	Tenant/Occupant	Year Built/ Renovated	Rentable Sq. Ft.	Rent/ Sq. Foot	Gross Estimated Annualized Rent	Lease Maturity/ Early Termination	Lease Type
Bakersfield, California	U.S. Drug Enforcement Administration	2000	9,800	$ 32.11	$ 316,821	Nov. 2010/ Nov. 2008	Modified Gross Lease
Kingsport, Tennessee	U.S. Social Security Administration	1999	22,848	$ 17.45	$ 398,912	Oct. 2014/ Oct. 2009	Modified Gross Lease
Charleston, West Virginia	U.S. Social Security Administration	1959/ 1999	90,050	$ 22.42	$ 2,020,692	Dec. 2019/ None	Modified Gross Lease
Clarksburg, West Virginia	U.S. Department of Justice, Drug Enforcement Administration, Federal Bureau of Investigation, Social Security Administration	1998	55,443	$ 23.40	$ 1,297,506	Jan. 2019/ Jan. 2016	Modified Gross Lease
Mineral Wells, West Virginia	U.S. Bureau of Public Debt	2003	38,324	$ 12.79	$ 500,888	Sep. 2017/ Sep. 2012	Modified Gross Lease
Pittsburgh, Pennsylvania	U.S. Federal Bureau of Investigation	2001	87,178	$ 37.13	$ 3,296,055	Oct. 2016/ None	Modified Gross Lease
Lenexa, Kansas	U.S. Food and Drug Administration	1991	53,500	$ 22.13	$ 1,185,237	Jun. 2012/ None	Modified Gross Lease
Baton Rouge, Louisiana	U.S. Veterans Administration	2004	30,000	$ 24.26	$ 727,674	Jun. 2019/ None	Modified Gross Lease

Charleston, South Carolina	United States Federal Courthouse	1795/1999	44,250	$	37.93	$	1,678,608	Jul. 2019/ None	Modified Net Lease
College Park, Maryland	U.S. Food and Drug Administration	2004	79,090	$	36.17	$	2,378,316	Aug. 2014/ None	Modified Gross Lease

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Location	Tenant/Occupant	Year Built/ Renovated	Rentable Sq. Ft.	Rent/ Sq. Foot	Gross Estimated Annualized Rent	Lease Maturity/ Early Termination	Lease Type
Portland, Oregon	U.S. Various Agencies, Integra Telecom	2002	226,110	$ 21.75	$ 4,734,841	Apr. 2015/ None	Modified Gross Leases
Pittsburgh, Pennsylvania	U.S. Citizenship and Immigration Services	2004	36,153	$ 33.36	$ 1,217,238	Feb. 2014/ None	Modified Gross Lease
Parkersburg, West Virginia	U.S. Bureau of Public Debt	2004	80,657	$ 26.11	$ 2,111,011	Aug. 2019/ None	Modified Gross Lease
Buffalo, New York (Niagara Center)	U.S. Various Agencies	2004	270,082	$ 22.07	$ 5,335,604	Jun. 2015/ Jun. 2010	Modified Gross Lease
Buffalo, New York	U.S. Social Security Administration	2003/2005	34,592	$ 23.84	$ 824,568	May 2015/ May 2010	Modified Gross Lease
Sterling, Virginia	U.S. Drug Enforcement Agency	2002	49,692	$ 44.81	$ 2,226,867	Mar. 2020/ None	Modified Gross Lease
Martinsburg, West Virginia	U.S. Internal Revenue Service	1996	122,475	$ 24.81	$ 3,038,157	July 2015/ None	Modified Net Lease
Dallas, Texas	U.S. Social Security Administration	2005	27,200	$ 40.14	$ 1,084,497	August 2020/ August 2015	Modified Gross Lease
Vicksburg, Mississippi	U.S. Army Corps of Engineers	1996	199,404	$ 16.80	$ 3,309,288	July 2016/ None	Modified Gross Lease
			1,556,848	$ 24.20	$ 37,682,780		

As used in the table above and throughout this report, Gross Annualized Rent is determined by multiplying December 2005 rents by 12 and Rent Per Square Foot is determined by dividing the Gross Annualized Rent by the leased square footage of the property.

Bakersfield, California. The Bakersfield DEA property is 100% leased to the federal government and is occupied by the U.S. Drug Enforcement Administration (DEA). This property houses the DEA s regional headquarters and consists of an approximately 2.10 acre parcel with a two story office building containing 9,800 leased square feet of office and related space. The building was completed in 2000.

The Bakersfield DEA property is leased pursuant to a modified gross lease, which will expire on November 27, 2010, unless terminated under an early termination clause on November 27, 2008. The government has the right to assign the lease to any party and be relieved from all obligations under the lease, other than unpaid rent and other liabilities outstanding on the date of the assignment, subject to our prior written consent, which consent may not be unreasonably withheld. A negotiated amount for the building s operating costs and base year real estate taxes is included in the rent. The government pays any increase over the base year real estate taxes through a direct dollar-for-dollar reimbursement payment to us. The lease also provides for an annual inflation adjustment in the portion of rent attributable to operating costs, which is measured by the U.S. Department of Labor revised consumer price index (the CPI).

We acquired the Bakersfield DEA property in January 2003 for $2.4 million, or approximately $243 per leased square foot. In February 2005, we obtained financing for the property of approximately $1.4 million from CW Capital, which matures on March 1, 2020. The unpaid principal balance of the note bears interest at a rate of 5.867% per annum. Monthly payments are amortized on a 30-year schedule, with a balloon payment due March 1, 2020.

Charleston, West Virginia. The Charleston SSA property is 100% leased by the federal government and is occupied by the U.S. Department of Labor, the U.S. Social Security Administration (SSA) and related state agencies. This property houses the SSA s regional administrative office. The property is an approximately 1.68 acre parcel with a five story building containing 90,050 leased square feet of office and related space. The building was completed in 1959 and completely renovated to core and shell in 1999.

The Charleston SSA property is leased pursuant to a modified gross lease, which will expire on December 9, 2019. The government has the right to assign the lease to any party and be relieved from all obligations under the lease, other than unpaid rent and other liabilities outstanding on the date of the assignment, subject to our prior written consent, which consent may not be unreasonably withheld. A negotiated amount for the building s operating costs and base year real estate taxes is included in the rent. The government pays any increase over the base year real estate taxes through a direct dollar-for-dollar reimbursement payment to us. The lease also provides for an annual CPI-measured inflation adjustment in the portion of rent attributable to operating costs.

We acquired the Charleston SSA property in April 2003 for $18.4 million, or approximately $205 per leased square foot. The property is subject to a $14.0 million loan from LaSalle Bank, which matures on May 1, 2013. The unpaid principal balance of the note bears interest at a rate of 5.74% per annum. Monthly payments are amortized on a 30-year schedule, with a balloon payment due May 1, 2013.

Clarksburg, West Virginia. The Clarksburg GSA property is 100% leased by the federal government and is occupied by the SSA, the DEA, the Federal Bureau of Investigation (FBI) and the U.S. Department of Justice. The property is an approximately 1.02 acre parcel with a three story building containing 55,443 leased square feet of office and related space. The building was completed in 1998.

The Clarksburg GSA property is leased pursuant to a modified gross lease, which will expire on January 19, 2019, unless terminated pursuant to an early termination clause on January 19, 2016. The government has the right to assign the lease to any party and be relieved from all obligations under the lease, other than unpaid rent and other liabilities outstanding on the date of the assignment, subject to our prior written consent, which consent may not be unreasonably withheld. A negotiated amount for the building s operating costs and base year real estate taxes is included in the rent. The government pays any increase over the base year real estate taxes through a direct dollar-for-dollar reimbursement payment to us. The lease also provides for an annual CPI-measured inflation adjustment in the portion of rent attributable to operating costs.

We acquired the Clarksburg GSA property in April 2003 for $11.0 million, or approximately $199 per leased square foot. We financed the acquisition through a $8.3 million loan from LaSalle Bank, which matures on May 1, 2013. The unpaid principal balance of the note bears interest at a rate of 5.74% per annum. Monthly payments are amortized on a 30-year schedule, with a balloon payment due May 1, 2013.

Kingsport, Tennessee. The Kingsport SSA property is 100% leased by the federal government and is occupied by the SSA. This property houses the SSA s regional administrative office. The property is an approximately 2.334 acre parcel with a single story building containing 22,848 leased square feet of office and related space. The building was completed in 1999.

The Kingsport SSA property is leased pursuant to a modified gross lease, which will expire on October 31, 2014, unless terminated pursuant to an early termination clause on October 31, 2009. The government has the right to assign the lease to any party and be relieved from all obligations under the lease, other than unpaid rent and other liabilities outstanding on the date of the assignment, subject to our prior written consent, which consent may not be unreasonably withheld. A negotiated amount for the building s operating costs and base year real estate taxes is included in the rent. The government pays any increase over the base year real estate taxes through a direct dollar-for-dollar reimbursement payment to us. The lease also provides for an annual CPI-measured inflation adjustment in the portion of rent attributable to operating costs.

We acquired the Kingsport SSA property in April 2003 for $3.0 million, or approximately $131 per leased square foot. The property is subject to a first mortgage loan in the amount of $2.3 million from Bank of America, which matures on April 1, 2010. The unpaid principal balance of the first mortgage loan bears interest at a rate of 8.23% per annum, with monthly payments being amortized on a 25-year schedule, and has a balloon payment due April 1, 2010.

Mineral Wells, West Virginia. The Mineral Wells BPD property is 100% leased by the federal government and is occupied by the U.S. Bureau of Public Debt (BPD). The property is an approximately 7.51 acre parcel with a single story building containing 38,324 leased square feet of office and related space. The building was completed in 2003.

The Mineral Wells BPD property is leased pursuant to a modified gross lease, which will expire on September 30, 2017, unless terminated pursuant to an early termination clause on September 30, 2012. The government has the right to assign the lease to any party and be relieved from all obligations under the lease, other than unpaid rent and other liabilities outstanding on the date of the assignment, subject to our prior written consent, which consent may not be unreasonably withheld. A negotiated amount for the building s operating costs and base year real estate taxes is included in the rent. The government pays any increase over the base year real estate taxes through a direct dollar-for-dollar reimbursement payment to us. The lease also provides for an annual CPI-measured inflation adjustment in the portion of rent attributable to operating costs.

We acquired the Mineral Wells BPD property in March 2004 for $5.1 million in cash, or approximately $133 per leased square foot.

Pittsburgh, Pennsylvania. The Pittsburgh FBI property is 100% leased by the federal government and is occupied by the FBI. The property consists of an approximately 4.573 acre parcel with a four story building containing 87,178 leased square feet of office and related space. The building was completed in 2001.

The Pittsburgh FBI property is leased pursuant to a modified gross lease, which will expire on October 5, 2016. The government has the right to assign the lease to any party and be relieved from all obligations under the lease, other than unpaid rent and other liabilities outstanding on the date of the assignment, subject to our prior written consent, which consent may not be unreasonably withheld. A negotiated amount for the building s operating costs and base year real estate taxes is included in the rent. The government pays any increase over the base year real estate taxes through a direct dollar-for-dollar reimbursement payment to us. The lease also provides for an annual CPI-measured inflation adjustment in the portion of rent attributable to operating costs.

We acquired the Pittsburgh FBI property in May 2004 for $28.7 million, or approximately $329 per leased square foot. We financed the acquisition through a $21.0 million loan from PNC Bank, which matures on August 1, 2009. The unpaid principal balance of the note bears interest at a rate of 5.5% per annum. Monthly payments are amortized on a 26-year schedule, with a balloon payment due on August 1, 2009.

Lenexa, Kansas. The Lenexa FDA property is 100% leased by the federal government and is occupied by the U.S. Food and Drug Administration (FDA). The property consists of an approximately 5.05 acre parcel with two single story buildings containing a total of 53,500 leased square feet of office and laboratory space. The buildings were completed in 1991.

The Lenexa FDA property is leased pursuant to a modified gross lease, which will expire on June 21, 2012. The government has the right to assign the lease to any party and be relieved from all obligations under the lease, other than unpaid rent and other liabilities outstanding on the date of the assignment, subject to our prior written consent, which consent may not be unreasonably withheld. A negotiated amount for the building s operating costs and base year real estate taxes is included in the rent. The government pays any increase over the base year real estate taxes through a direct dollar-for-dollar reimbursement payment to us. The lease also provides for an annual CPI-measured inflation adjustment in the portion of rent attributable to operating costs.

We acquired the Lenexa FDA property in June 2004 for $10.5 million, or approximately $197 per leased square foot. We financed the acquisition in July 2004 through an $8.0 million loan from Wachovia, which matures on August 11, 2009. The unpaid principal balance of the note bears interest at a rate of 5.44% per annum. Monthly payments are amortized on a 27-year schedule, with a balloon payment due August 11, 2009.

Baton Rouge, Louisiana. The Baton Rouge VA property is 100% leased by the federal government and is occupied by a Veterans Administration outpatient clinic. The property consists of an approximately 4.77 acre parcel with a single story building containing 30,000 leased square feet of office and related space. The building was completed in 2004.

The Baton Rouge VA property is leased pursuant to a modified gross lease, which will expire on June 3, 2019. The government has the right to assign the lease to any party and be relieved from all obligations under the lease, other than unpaid rent and other liabilities outstanding on the date of the assignment, subject to our prior written consent, which consent may not be unreasonably withheld. A negotiated amount for the building s operating costs and base year real estate taxes is included in the rent. The government pays any increase over the base year real estate taxes through a direct dollar-for-dollar reimbursement payment to us. The lease also provides for an annual CPI-measured inflation adjustment in the portion of rent attributable to operating costs.

We acquired the Baton Rouge VA property in September 2004 for $6.0 million, or approximately $202 per leased square foot. In February 2005 we obtained financing for approximately $4.8 million from CW Capital, which matures on March 1, 2020. The unpaid principal balance of the note bears interest at a rate of 5.867% per annum. Monthly payments are amortized on a 30-year schedule, with a balloon payment due March 1, 2020.

Charleston, South Carolina. The Charleston Federal Courthouse property is 100% leased by the federal government and is occupied by the Federal District Court. The property consists of an approximately 0.305 acre parcel with a four story building containing 44,250 leased square feet of office and related space. The building was completed in 1999.

The Charleston Federal Courthouse property is leased pursuant to a modified net lease, which will expire on July 31, 2019. The government has the right to assign the lease to any party and be relieved from all obligations under the lease, other than unpaid rent and other liabilities outstanding on the date of the assignment, subject to our prior written consent, which consent may not be unreasonably withheld. We are responsible for the building s roof and structural repair, property insurance, and base year real estate taxes. The government pays all operating expenses and any increase over the base year real estate taxes through a direct dollar-for-dollar reimbursement payment to us.

We acquired the Charleston Federal Courthouse property in September 2004 for $19.3 million, or approximately $436 per leased square foot. In February 2005 we obtained financing for approximately $14.6 million from CW Capital, which matures on March 1, 2020. The unpaid principal balance of the note bears interest at a rate of 5.867% per annum. Monthly payments are amortized on a 30-year schedule, with a balloon payment due March 1, 2020.

College Park, Maryland. The College Park FDA property consists of an approximately 4.3811 acre parcel with a three story building containing 79,000 square feet of office and laboratory space of which 65,760 is leased by the federal government and is occupied by the FDA. The remaining 13,240 square feet is currently vacant. The building was completed in 2004.

The College Park FDA property is leased pursuant to a modified gross lease, which will expire on August 31, 2014. The government has the right to assign the lease to any party and be relieved from all obligations under the lease, other than unpaid rent and other liabilities outstanding on the date of the assignment, subject to our prior written consent, which consent may not be unreasonably withheld. A negotiated amount for the building s operating costs and base year real estate taxes is included in the rent. The government pays any increase over the base year real estate taxes through a direct dollar-for-dollar reimbursement payment to us. The lease also provides for an annual CPI-measured inflation adjustment in the portion of rent attributable to operating costs.

We acquired the College Park FDA property in October 2004 for $22.9 million, or approximately $290 per square foot. We financed the acquisition through the assumption of the seller s first mortgage loan in the amount of

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$16.7 million loan from Capital Realty, which matures on October 26, 2026. The unpaid principal balance of the first mortgage loan bears interest at a rate of 6.75% per annum, with monthly payments being amortized on a 22-year schedule.

Pittsburgh, Pennsylvania. The Pittsburgh USCIS property is 100% leased by the federal government and is occupied by the U.S. Citizenship and Immigration Services. The property consists of an approximately 2.465 acre parcel with a three story building containing 36,153 leased square feet of office and related space. The building was completed in 2004.

The Pittsburgh USCIS property is leased pursuant to a modified gross lease, which will expire on February 26, 2014. The government has the right to assign the lease to any party and be relieved from all obligations under the lease, other than unpaid rent and other liabilities outstanding on the date of the assignment, subject to our prior written consent, which consent may not be unreasonably withheld. A negotiated amount for the building s operating costs and base year real estate taxes is included in the rent. The government pays any increase over the base year real estate taxes through a direct dollar-for-dollar reimbursement payment to us. The lease also provides for an annual CPI-measured inflation adjustment in the portion of rent attributable to operating costs.

We acquired the Pittsburgh USCIS property in October 2004 for $10.6 million, or approximately $294 per leased square foot. We financed the acquisition through an $8.0 million loan from Nomura Credit, which matures on December 11, 2011. The unpaid principal balance of the note bears interest at a rate of 5.13% per annum. Monthly payments are amortized on a 25-year schedule, with a balloon payment due December 11, 2011.

Parkersburg, West Virginia. The Parkersburg BPD property is 100% leased by the federal government and is occupied by the BPD. The property consists of an approximately 6.12 acre parcel with a five story building containing 80,657 leased square feet of office and related space. The building was completed in 2004. The federal government has exercised a consolidation option whereby the Company will expand the Parkersburg Property by an additional 102,000 square feet bringing the total complex to approximately 183,000 leased square feet. The cost of the expansion to this property will be approximately $22.5 million and will be paid over the term of the expansion scheduled for completion in first half of 2006.

The Parkersburg BPD property is leased pursuant to a modified gross lease, which will expire on August 31, 2019. Upon the completion of the expansion described above, the lease term for the entire building will be extended to 15 years from the date of acceptance of the expansion. The government has the right to assign the lease to any party and be relieved from all obligations under the lease, other than unpaid rent and other liabilities outstanding on the date of the assignment, subject to our prior written consent, which consent may not be unreasonably withheld. A negotiated amount for the building s operating costs and base year real estate taxes is included in the rent. The government pays any increase over the base year real estate taxes through a direct dollar-for-dollar reimbursement payment to us. The lease also provides for an annual CPI-measured inflation adjustment in the portion of rent attributable to operating costs.

We acquired the Parkersburg BPD property in November 2004 for $20.2 million in cash, or approximately $251 per leased square foot. In March 2005, we obtained financing for the property through a combined $31.8 million loan from the Bank of New York, which matures on March 15, 2021. The loan is comprised of two notes totaling $26.8 million and $5.0 million. The unpaid principal balance of $26.8 million bears interest at a rate of 5.40% per annum. Monthly payments are interest only through the date of completion of the property expansion. Thereafter monthly payments are amortized on a 25-year schedule, with a balloon payment due March 15, 2021. The $5.0 million note bears interest at 5.75% with interest only payments due monthly and principal due also on March 15, 2021.

Portland, Oregon. The Portland property, located at 1201 Lloyd Street, consists of a 1.7 acre parcel with an eleven story building containing approximately 223,960 square feet of office space. The property also includes a separate parking garage with 471 parking stalls and 2,450 square feet of retail space. The Portland property was completed in 2002 and is currently 96% leased to various governmental and non-governmental tenants.

Major governmental tenants, with 10-year firm-term modified gross leases include the United States Department of Agriculture and the National Oceanic and Atmospheric Administration. Other governmental entities with five-year firm-term modified gross leases include the FBI, Bureau of Indian Affairs, Office of

Hearing and Appeals, Bureau of Reclamation, and the Bureau of Alcohol, Tobacco and Firearms. The government has the right to assign the lease to any party and be relieved from all obligations under the lease, other than unpaid rent and other liabilities outstanding on the date of the assignment, subject to our prior written consent, which consent may not be unreasonably withheld. A negotiated amount for the building s operating costs and base year real estate taxes is included in the rent. The government pays any increase over the base year real estate taxes through a direct dollar-for-dollar reimbursement payment to us. The lease also provides for an annual CPI-measured inflation adjustment in the portion of rent attributable to operating costs.

The largest non-governmental tenant in the building is Integra Telecom, with a seven-year firm-term triple-net lease. Other non-governmental tenants that have triple-net leases with firm-terms that range from one to 10 years include Lawyers Title Insurance Corporation, Washington Mutual Bank, Stewart Title of Oregon, Inc., Contractors Bonding and Insurance Company, and Quiznos. Non-governmental tenants represent 33 percent of the square footage in the building. The non-governmental tenants pay a pro rata share of the basic operating costs of the property which includes maintenance, repairs and management.

We acquired the Portland property in March 2005 for $50.7 million, or approximately $224 per square foot. We financed the acquisition in April 2005 through a $39.1 million loan from Wachovia Bank, which matures on December 11, 2011. The unpaid principal balance of the note bears interest at a rate of 5.49% per annum. Monthly payments are amortized on a 25-year schedule, with a balloon payment due December 11, 2011.

Buffalo, New York. The Buffalo Niagara Center property consists of a 3.5 acre parcel with an eight story building containing approximately 268,082 square feet of office space. The property also includes a five-story, 475-stall parking garage with 2,000 square feet of retail space. The Niagara Center property was completed in 2004 and is currently 86% leased to various governmental tenants.

Major tenants, with 5-year firm term leases include the United States Internal Revenue Service (IRS), Department of Veteran s Affairs, National Labor Relations Board, Small Business Administration, Treasury Inspector General Tax Administrator, and the GSA. The government has the right to assign the lease to any party and be relieved from all obligations under the lease, other than unpaid rent and other liabilities outstanding on the date of the assignment, subject to our prior written consent, which consent may not be unreasonably withheld. A negotiated amount for the building s operating costs and base year real estate taxes is included in the rent. The government pays any increase over the base year real estate taxes through a direct dollar-for-dollar reimbursement payment to us. The lease also provides for an annual CPI-measured inflation adjustment in the portion of rent attributable to operating costs.

We acquired the Buffalo Niagara Center property in May 2005 for $71.7 million, or approximately $265 per square foot.

Buffalo, New York. The Buffalo SSA property is 100% leased by the federal government and is occupied by the SSA, Environmental Protection Agency and the Railroad Retirement Board. The property consists of an approximately 2.3 acre parcel with a single story building containing 35,000 leased square feet of office and related space. The building was completed in 2005.

The Buffalo SSA property is leased pursuant to a modified gross lease, which will expire on May 31, 2015, unless terminated pursuant to an early termination clause after May 31, 2010. The government has the right to assign the lease to any party and be relieved from all obligations under the lease, other than unpaid rent and other liabilities outstanding on the date of the assignment, subject to our prior written consent, which consent may not be unreasonably withheld. A negotiated amount for the building s operating costs and base year real estate taxes is included in the rent. The government pays any increase over the base year real estate taxes through a direct dollar-for-dollar reimbursement payment to us. The lease also provides for an annual CPI-measured inflation adjustment in the portion of rent attributable to operating costs.

We acquired the Buffalo SSA property in May 2005 for $5.4 million, or approximately $157 per leased square foot.

Sterling, Virginia. The Sterling DEA property consists of an approximately 6.8 acre parcel with a one story building containing 49,692 square feet of office space and related space leased by the federal government and is occupied by the DEA. The building was completed in 2002.

The Sterling property is leased pursuant to a modified gross lease, which will expire on March 20, 2020. The government has the right to assign the lease to any party and be relieved from all obligations under the lease, other than unpaid rent and other liabilities outstanding on the date of the assignment, subject to our prior written consent, which consent may not be unreasonably withheld. A negotiated amount for the building s operating costs and base year real estate taxes is included in the rent. The government pays any increase over the base year real estate taxes through a direct dollar-for-dollar reimbursement payment to us. The lease also provides for an annual CPI-measured inflation adjustment in the portion of rent attributable to operating costs.

We acquired the Sterling DEA property in June 2005 for $21.1 million, or approximately $424 per square foot. We financed the acquisition through the assumption of the seller s first mortgage loan in the amount of $15.8 million loan from Northwestern Mutual. The mortgage loan bears interest at a fixed rate of 7.98% with principal and interest payments due monthly through March 1, 2020.

Martinsburg, West Virginia. The Martinsburg IRS property consists of an approximately 25 acre parcel with a two story building containing 122,475 leased square feet of office and related space leased by the federal government and is occupied by the IRS. The building was completed in 1996.

The Martinsburg IRS property is leased pursuant to a modified net lease, which will expire on July 11, 2015. The government has the right to assign the lease to any party and be relieved from all obligations under the lease, other than unpaid rent and other liabilities outstanding on the date of the assignment, subject to our prior written consent, which consent may not be unreasonably withheld. We are responsible for the building s roof and structural repair, property insurance, and base year real estate taxes. The government pays all operating expenses and any increase over the base year real estate taxes through a direct dollar-for-dollar reimbursement payment to us.

We acquired the Martinsburg IRS property in July 2005 for $30.6 million, or approximately $250 per leased square foot. We financed the acquisition through a $19.6 million loan from PNC Bank, which matures on August 1, 2015. The unpaid principal balance of the note bears interest at a rate of 5.24% per annum. Accrued interest only payments are due monthly through August 2006. Thereafter, monthly payments are amortized on a 30-year schedule, with a balloon payment due August 1, 2015.

Under terms of the existing lease, the federal government has an option to purchase the Martinsburg IRS Property for approximately $24.8 million. Real estate at cost, net of accumulated depreciation of the Martinsburg IRS Property was $30.2 million at December 31, 2005.

Dallas, Texas. The Dallas SSA property consists of an approximately 2.9 acre parcel with a one story building containing 27,200 leased square feet of office and related space leased by the federal government and is occupied by the SSA. The building was completed in 2005.

The Dallas SSA property is leased pursuant a modified gross lease, which will expire on August 14, 2020, unless terminated pursuant to an early termination clause after August 14, 2015. The government has the right to assign the lease to any party and be relieved from all obligations under the lease, other than unpaid rent and other liabilities outstanding on the date of the assignment, subject to our prior written consent, which consent may not be unreasonably withheld. A negotiated amount for the building s operating costs and base year real estate taxes is included in the rent. The government pays any increase over the base year real estate taxes through a direct dollar-for-dollar reimbursement payment to us. The lease also provides for an annual CPI-measured inflation adjustment in the portion of rent attributable to operating costs.

We acquired the Dallas SSA property in September 2005 for $9.6 million, or approximately $352 per leased square foot. We financed the acquisition through a $6.25 million loan from Key Bank, which matures on October 1, 2015. The unpaid principal balance of the note bears interest at a rate of 5.09% per annum. Monthly payments are amortized on a 30-year schedule, with a balloon payment due October 1, 2015.

Vicksburg, Mississippi. The Vicksburg COE property consists of an approximately 17.17 acre parcel with a two story building containing 199,404 leased square feet of office and related space leased by the federal government and is occupied by the United States Army Corps of Engineers. The building was completed in 1996.

The Vicksburg COE property is leased pursuant a modified gross lease, which will expire on July 31, 2016. The government has the right to assign the lease to any party and be relieved from all obligations under the lease, other than unpaid rent and other liabilities outstanding on the date of the assignment, subject to our prior written consent, which consent may not be unreasonably withheld. A negotiated amount for the building s operating costs and base year real estate taxes is included in the rent. The government pays any increase over the base year real estate taxes through a direct dollar-for-dollar reimbursement payment to us. The lease also provides for an annual CPI-measured inflation adjustment in the portion of rent attributable to operating costs.

We acquired the Vicksburg COE property in November 2005 for $26.9 million, or approximately $135 per leased square foot. We financed the acquisition through a $14.4 million loan from Merrill Lynch, which matures on August 1, 2016. The unpaid principal balance of the note bears interest at a rate of 5.62% per annum. Accrued interest only payments are due monthly.

Other Considerations

We believe that all of the properties described above are maintained in good condition and are adequately covered by insurance.

Item 3. *Legal Proceedings*

As of December 31, 2005, we were not named or threatened to be named in any lawsuits, claims or similar proceedings.

Item 4. *Submission of Matters to a Vote of Security Holders*

No matter was submitted to a vote of security holders in the fourth quarter of the fiscal year covered by this report.

PART II

Item 5. *Market for Registrant s Common Equity; Related Stockholder Matters and Issuer Purchases of Equity Securities*

Our common stock is traded on the NYSE under the symbol GPT . Our stock began trading on the NYSE on January 27, 2004. On March 8, 2006, the reported closing sale price on the NYSE was $8.40, and there were approximately 20.7 million common shares outstanding held by approximately 76 holders of record. The high and low sales prices and closing sales prices on the NYSE and distributions per share during 2005 and 2004 are set forth in the table below:

	High	Low	Close	Distribution
2005				
Fourth quarter	$ 10.14	$ 8.44	$ 9.33	$ 0.15
Third quarter	$ 10.50	$ 9.00	$ 9.80	$ 0.15
Second quarter	$ 10.20	$ 9.10	$ 9.72	$ 0.15

First quarter	$ 10.59	$ 9.22	$ 9.96	$ 0.15
2004				
Fourth quarter	$ 10.80	$ 9.35	$ 9.86	$ 0.15
Third quarter	$ 11.10	$ 8.84	$ 9.50	$ 0.15
Second quarter	$ 13.48	$ 8.70	$ 10.45	$ 0.15
First quarter(1)	$ 14.03	$ 11.48	$ 13.17	$ 0.15

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(1) Our stock first traded on January 27, 2004 following our initial public offering.

We intend to distribute to our stockholders all or substantially all of our taxable REIT income each year to comply with the distribution requirements of the federal tax laws and to avoid federal income tax and the nondeductible excise tax. To maintain our status as a REIT, we must distribute to our stockholders an amount at least equal to (i) 90% of our taxable REIT income (determined before the deduction for dividends paid and excluding any net capital gain) plus (ii) 90% of the excess of our net income from foreclosure property over the tax imposed on such income less (iii) any excess non-cash income (as determined under the federal tax laws). To the extent not inconsistent with maintaining REIT status, we may retain accumulated earnings of any taxable REIT subsidiaries in those subsidiaries. The Company has determined that the $0.60 dividend per common share paid during 2005 and 2004 represented a return of capital to its stockholders.

Distributions must be authorized by our board of directors and will be based upon a number of factors, including restrictions under applicable law. In addition, our board of directors will be prohibited from authorizing a dividend if, after giving effect to the dividend, we would not be able to pay our indebtedness as it becomes due in the usual course of business or our total assets would be less than our total liabilities.

Our board of directors has the power to issue preferred stock or other securities that have distribution rights senior to that of the common stock. Any superior dividend rights could prevent us from paying dividends to the holders of our common stock. The following table summarizes our equity compensation plans as of December 31, 2005:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in (a)) (c)
Equity compensation plans approved by security holders	133,739	$ 0.00	783,941
Equity compensation plans not approved by security holders	N/A	N/A	N/A
Total	133,739	$ 0.00	783,941

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Item 6. ***Selected Financial Data***

The following table sets forth our selected historical operating and financial data. The following selected consolidated financial information as of December 31, 2005, 2004, 2003, 2002 and 2001 and for the years then ended were derived from our audited financial statements contained elsewhere in this report.

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

	Year Ended December 31,				
	2005	**2004**	**2003**	**2002**	**2001**
Revenue					
Rental income	$ 26,876,727	$ 9,091,592	$ 2,812,476	$	$
Tenant reimbursements	1,323,617	366,727			
Total net revenue	28,200,344	9,458,319	2,812,476		
Expenses					
Property operations	4,883,451	1,849,838	623,178		
Real estate taxes	2,712,050	964,934	238,170		
Depreciation and amortization	9,887,580	2,649,747	764,089		
General and administrative	4,959,908	4,020,414	440,668	8,836	
Total expenses	22,442,989	9,484,933	2,066,105	8,836	
Operating income (loss)	5,757,355	(26,614)	746,371	(8,836)	
Other income (expense):					
Interest income	1,521,348	1,719,925	21,635	3,183	1,340
Interest expense	(9,344,890)	(2,481,219)	(1,188,050)	(822)	
Expense from issuance and exercise of warrant		(2,097,900)			
Amortization of deferred financing fees	(355,926)	(271,595)	(9,230)		
(Loss) income before income taxes	(2,422,113)	(3,157,403)	(429,274)	(6,475)	1,340
Income tax benefit (expense)				725	(725)
(Loss) income from continuing operations	(2,422,113)	(3,157,403)	(429,274)	(5,750)	615
Discontinued operations:					
Gain from disposal of property		313,857			
Income from operations of disposed property		100,015	47,158	665	

Income from discontinued operations		413,872	47,158	665	
Net (loss) income	$ (2,422,113)	$ (2,743,531)	$ (382,116)	$ (5,085)	$ 615
Earnings per share (basic and diluted):					
(Loss) income from continuing operations	$ (0.12)	$ (0.16)	$ (0.51)	$ (0.27)	$ 0.06
Income from discontinued operations		0.02	0.05	0.03	
Net (loss) income	$ (0.12)	$ (0.14)	$ (0.46)	$ (0.24)	$ 0.06

	December 31, 2005	2004	2003	2002	2001
Balance Sheet Information(1):					
Investment in real estate, net	$ 377,803,889	$ 155,370,667	$ 34,074,023	$	$
Cash and cash equivalents(2)	21,744,579	95,918,151	1,029,744	2,314,319	956
Property held for sale			4,266,438	4,384,090	
Total assets	413,077,150	256,320,587	42,674,586	6,879,595	181,101
Lines of credit borrowings	17,500,000		3,047,655	337,867	
Mortgage notes payable	225,032,958	77,584,897	24,647,478		
Liabilities related to property held for sale			3,195,359	3,202,333	
Total liabilities	254,063,036	83,915,892	34,896,221	3,917,057	80,486
Total liabilities and stockholders equity	413,077,150	256,320,587	42,674,586	6,879,595	181,101

	2005	2004	2003	2002	2001
Other Information:					
Cash flow:					
Provided by (used in) operating activity	$ 3,207,449	$ 1,401,427	$ (271,508)	$ 153,208	$ 5,989
Used in investing activity	$ (224,060,549)	$ (106,274,646)	$ (35,314,649)	$ (4,523,548)	$
Provided by (used in) financing activity	$ 131,895,668	$ 197,927,173	$ 34,032,697	$ 6,683,703	$ (5,033)
Property rentable square footage(1)	1,556,848	627,293	248,848		
EBITDA historical(3)	$ 17,166,283	$ 2,659,030	$ 1,579,253	$ (4,988)	$ 1,340

(1) We acquired our first operating property in December 2002.

(2) Includes restricted cash of $16,887,198, $2,103,338 and $268,885 at December 31, 2005, 2004 and 2003, respectively.

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

	2005	2004	2003	2002	2001

GAAP Reconciliation					
Net (loss) income(a)	$ (2,422,113)	$ (2,743,531)	$ (382,116)	$ (5,085)	$ 615
Add back (deduct):					
Depreciation and amortization	9,887,580	2,649,747	764,089		
Interest expense(b)	9,700,816	2,752,814	1,197,280	822	
Income taxes				(725)	725
EBITDA	$ 17,166,283	$ 2,659,030	$ 1,579,253	$ (4,988)	$ 1,340

(a) Includes expense from issuance of warrant of $2,097,900 for the year ended December 31, 2004.

(b) Includes amortization of deferred financing fees of $355,926, $271,595 and $9,230 for the year ended December 31, 2005, 2004 and 2003, respectively.

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The following table sets forth our selected consolidated quarterly summary of operations for 2005 and 2004.

	2005				2004			
	Fourth Quarter	**Third Quarter**	**Second Quarter**	**First Quarter**	**Fourth Quarter**	**Third Quarter**	**Second Quarter**	**Q**
ne	$ 8,589,810	$ 7,821,816	$ 6,140,991	$ 4,324,110	$ 4,031,516	$ 2,338,335	$ 1,677,748	$
oursements	569,569	442,275	132,119	179,654	160,876	41,656	164,195	
venue	9,159,379	8,264,091	6,273,110	4,503,764	4,192,392	2,379,991	1,841,943	
erations	1,561,824	1,343,177	1,123,448	855,002	723,268	543,020	335,772	
axes	790,191	896,790	568,865	456,204	386,506	257,403	172,928	
n and .	3,276,542	2,946,201	2,342,620	1,322,217	1,212,756	673,396	483,486	
ve	1,315,309	1,303,690	1,200,637	1,140,272	994,204	1,037,025	958,641	
ses	6,943,866	6,489,858	5,235,570	3,773,695	3,316,734	2,510,844	1,950,827	
come (loss)	2,215,513	1,774,233	1,037,540	730,069	875,658	(130,853)	(108,884)	
e (expense):								
me	173,111	249,303	440,741	658,193	481,508	607,884	387,264	
ense	(3,118,898)	(2,755,315)	(2,132,950)	(1,337,727)	(1,054,698)	(660,373)	(367,319)	
m issuance of warrant n of deferred es	(121,004)	(66,809)	(57,687)	(110,426)	(101,510)	(91,571)	(74,900)	
ne from perations	(851,278)	(798,588)	(712,356)	(59,891)	200,958	(274,913)	(163,839)	
d operations:								
isposal of					313,857			
n operations property					11,491	42,156	42,497	
n l operations					325,348	42,156	42,497	
come	$ (851,278)	$ (798,588)	$ (712,356)	$ (59,891)	$ 526,306	$ (232,757)	$ (121,342)	$
r share (basic								
ne from perations	$ (0.04)	$ (0.04)	$ (0.03)	$ (0.00)	$ 0.01	$ (0.01)	$ (0.01)	$

n l operations										0.02					
come	$	(0.04)	$	(0.04)	$	(0.03)	$	(0.00)	$	0.03	$	(0.01)	$	(0.01)	$

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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 Selected Financial Data and our audited financial statements and the related notes thereto.

Overview

We primarily invest in single tenant properties under long-term leases to the U.S. government, state governments, local governments, and government-sponsored enterprises. We are a self-managed, self-administered company that has elected to be taxed as a real estate investment trust, or REIT. We believe that we are the only public company focused solely on investing in government-leased properties.

Our business consists of buying, owning and managing recently built or renovated office properties primarily leased, under long-term leases, to the federal government, acting through the General Services Administration (GSA), the federal government s property management arm. Our portfolio consisted of nineteen properties totaling approximately 1.5 million rentable square feet as of December 31, 2005. These properties are 96% occupied and have a weighted-average remaining lease term of approximately 10 years. Our largest tenants, as a percentage of total leased square feet, as of December 31, 2005 were:

Agency Tenant	**Percentage of Square Feet**
Bureau of Public Debt	13%
U.S. Army Corps of Engineers	12%
Social Security Administration	11%
Internal Revenue Service	7%
Food and Drug Administration	7%

We own each of our properties through separate wholly-owned entities. We intend to expand our portfolio by acquiring additional government-leased properties.

The credit worthiness of our governmental tenants enables us to use debt to finance a higher percentage of the acquisition cost of the properties we buy. Our total debt represented 62% of the historical cost of our assets at the end of 2005. We intend to continue financing future acquisitions with a combination of cash, common stock, long-term fixed-rate debt and short-term credit lines. We intend to use our credit lines to finance acquisitions and deposits on a short-term basis. Our objective is to finance each property with long-term fixed-rate debt whose maturity matches or exceeds, to the extent possible, the remaining term of the lease. This strategy minimizes interest rate risk and should result in more consistent and reliable cash flow.

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

Critical Accounting Policies

Revenue Recognition

We recognize rental revenue on the straight-line method over the terms of the related lease agreements for new leases and the remaining terms of existing leases for acquired properties. Differences between rental revenue earned and amounts due per the respective lease agreements are credited or charged, as applicable, to deferred rent receivables which is included in tenant receivables on the Consolidated Balance Sheets. Rental payments received prior to their recognition as income are classified as rent received in advance which is included in accounts payable and accrued expenses on the Consolidated Balance Sheets. Our leases are generally only subject to annual inflation increases over the term of the lease for a portion of the rent due. Our leases generally contain provisions under which the tenants reimburse us for real estate taxes incurred by us over a specified base amount. Such amounts are recognized as tenant reimbursements revenue in the period in which the real estate tax expenses over the specified base amount are incurred.

We evaluate the collectibility of our accounts receivable related to rent, expense reimbursements and other revenue. We specifically analyze accounts receivable and historical bad debts, tenant concentrations, tenant credit worthiness, geographic concentrations and current economic trends when evaluating the adequacy of the allowance for doubtful accounts receivable. These estimates have a direct impact on our net income because a higher bad debt allowance would result in lower net income.

Real Estate

We record real estate at depreciated cost. Expenditures for ordinary maintenance and repairs are expensed to operations as incurred. Significant renovations and improvements that improve or extend the useful life of an asset are capitalized and depreciated over their estimated useful life.

All development projects and related carrying costs are capitalized and reported on the Consolidated Balance Sheet as Real estate under development. As each project is completed and becomes available for lease, the total cost of the project is depreciated over the estimated useful life. Interest and personnel support cost directly related to the development are capitalized as part of the real estate under development to the extent that such charges do not cause the carrying value of the asset to exceed its net realizable value.

Depreciation is computed using the straight-line method over the estimated useful life of 39 years for buildings and improvements, five to seven years for equipment and fixtures and the shorter of the useful life or the remaining lease term for tenant improvements, tenant origination costs and intangible lease costs.

We must estimate 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 these investments over fewer years, resulting in more depreciation expense and lower net income on an annual basis.

When circumstances such as adverse market conditions indicate a possible impairment of the value of a property, we review the recoverability of the property s carrying value. Our review of recoverability is based on an estimate of the future undiscounted cash flows (excluding interest charges) expected to result from the real estate investment s use and eventual disposition. Our cash flow estimate considers factors such as expected future operating income, trends and prospects, as well as the effects of leasing demand, competition and other factors. If an impairment exists due to the inability 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 estimates have a direct impact on our net income because recording an impairment loss results in an immediate negative adjustment to net income.

Purchase Price Allocation

We allocate the purchase price of properties we acquire to net tangible and identified intangible assets acquired based on their fair values in accordance with the provisions of Statement of Financial Accounting Standards No. 141 Business Combinations. In making estimates of fair values for purposes of allocating purchase price, we utilize a number of sources, including independent appraisals that may be obtained in connection with the acquisition or financing of the respective property and other market data. We also consider information obtained about each property as a result of our due diligence, marketing and leasing activities in estimating the fair value of the tangible and intangible assets acquired.

We allocate a portion of the purchase price to above-market and below-market in-place lease values for acquired properties based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) our estimate of fair market lease rates for the corresponding in-place leases, measured over the remaining non-cancelable term of the lease. In the case of below market leases, we consider the remaining contractual lease period and renewal periods, taking into consideration the likelihood of the tenant exercising its renewal options. The capitalized above-market lease values (which would be presented as lease intangibles in the consolidated balance sheets) would be amortized as a reduction of rental income over the remaining non-cancelable terms of the respective leases. The capitalized below-market lease values (which would be presented as deferred income) would be amortized as an addition to rental income over the remaining contractual lease period and any renewal periods included in the valuation analysis. We currently have no above-market or below-market leases. We also assume that our at market rate tenants would not exercise any early terminations clauses in determining the value allocated to their lease or the amortization of the related lease costs. If a tenant terminates its lease, the unamortized portion of the lease intangibles would be charged to expense.

We allocate a portion of the purchase to the value of leases acquired based on the difference between (i) the property valued with existing in-place leases adjusted to market rental rates and (ii) the property valued as if vacant. We utilize independent appraisals or our estimates to determine the respective in-place lease values. Our estimates of value are made using methods similar to those used by independent appraisers. Factors we consider in our analysis include an estimate of carrying costs during the expected lease-up periods considering current market conditions, and costs to execute similar leases. In estimating carrying costs, we include real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods. We also estimate costs to execute similar leases including leasing commissions, legal and other related expenses.

We also consider an allocation of purchase price to in-place leases that have a related customer relationship intangible value. Characteristics we consider in allocating these values include the nature and extent of existing business relationships with the tenant, growth prospects for developing new business with the tenant, the tenant s credit quality and expectations of lease renewals, among other factors. We currently have the U.S. government as our major tenant, but have not yet developed a relationship that we would consider to have any current intangible value.

The value of in-place leases (presented as tenant origination costs in the consolidated balance sheets) is amortized to expense over the remaining initial term of the respective leases. The value of customer relationship intangibles is amortized to expense over the remaining initial term, including any renewal periods included in the valuation analysis for the respective leases considered in our valuation analysis, but in no event does the amortization period for intangible assets exceed the remaining depreciable life of the building. Should a tenant terminate its lease, the unamortized portion of the tenant origination costs and customer relationship intangibles would be charged to expense.

Amounts allocated to tangible land, building, tenant improvements, equipment and fixtures are based on independent appraisals or our own analysis of comparable properties in the existing portfolio.

Derivative Instruments

The Company measures derivative instruments at fair value and records them as an asset or liability, depending on the Company s rights or obligations under the applicable derivative contract. For derivatives designated and qualifying as fair value hedges, the changes in the fair value of both the derivative instrument and the hedged item are recorded in earnings. For derivatives designated as cash flow hedges, the effective portions of the derivative are reported in other comprehensive income (OCI) and are subsequently reclassified into earnings when the hedged item affects earnings. Changes in fair value of derivative instruments not designated as hedging and ineffective portions of hedges are recognized in earnings in the affected period.

Results of Operations

We commenced operations in December 2002 when we acquired our first property. Prior to December 2002, our operations were limited to pursuing property acquisitions. During 2003, we acquired four additional properties consisting of 178,000 rentable square feet. During 2004, we acquired eight additional properties consisting of 449,000 rentable square feet and sold one property consisting of 70,000 rentable square feet. During 2005, we acquired seven additional properties consisting of 930,000 rentable square feet.

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The following table presents a comparison of our operating results for the years ended December 31, 2005, 2004 and 2003.

	2005	2004	Increase (Decrease)	2003	Increase (Decrease)
Revenue					
Rental income	$ 26,876,727	$ 9,091,592	$ 17,785,135	$ 2,812,476	$ 6,279,116
Tenant reimbursements	1,323,617	366,727	956,890		366,727
Total net revenue	28,200,344	9,458,319	18,742,025	2,812,476	6,645,843
Expenses					
Property operations	4,883,451	1,849,838	3,033,613	623,178	1,226,660
Real estate taxes	2,712,050	964,934	1,747,116	238,170	726,764
Depreciation and amortization	9,887,580	2,649,747	7,237,833	764,089	1,885,658
General and administrative	4,959,908	4,020,414	939,494	440,668	3,579,746
Total expenses	22,442,989	9,484,933	12,958,056	2,066,105	7,418,828
Operating income (loss)	5,757,355	(26,614)	5,783,969	746,371	(772,985)
Other income (expense):					
Interest income	1,521,348	1,719,925	(198,577)	21,635	1,698,290
Interest expense	(9,344,890)	(2,481,219)	(6,863,671)	(1,188,050)	(1,293,169)
Expense from issuance and exercise of warrant		(2,097,900)	2,097,900		(2,097,900)
Amortization of deferred financing fees	(355,926)	(271,595)	(84,331)	(9,230)	(262,365)
Loss from continuing operations	(2,422,113)	(3,157,403)	735,290	(429,274)	(2,728,129)
Discontinued operations:					
Gain from disposal of property		313,857	(313,857)		313,857
Income from operations of disposed property		100,015	(100,015)	47,158	52,857
Income from discontinued operations		413,872	(413,872)	47,158	366,714
Net loss	$ (2,422,113)	$ (2,743,531)	$ 321,418	$ (382,116)	$ (2,361,415)

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

Rental revenue Rental revenue was $26,876,727 for the year ended December 31, 2005 and $9,091,592 for the year ended December 31, 2004. The increase was due to our acquisition of seven additional properties during 2005 and the impact of receiving a full year of rental income on the eight properties we acquired in 2004.

Tenant reimbursements and other Tenant reimbursements and other revenue was $1,323,617 for 2005 and $366,727 for 2004. This amount represents the tenant s reimbursement for the real estate tax expense in excess of the real estate tax base amount as defined in the respective lease agreement and other income, primarily parking revenue, earned on the properties. The increase was due to both our acquisition of additional properties during 2005 and 2004 and an increase in real estate taxes paid in 2005 as compared to 2004 for properties held more than one year.

Property operations expense Property operations expense was $4,883,451 for the year ended December 31, 2005 and $1,849,838 for the year ended December 31, 2004. The increase was due to the expansion of our operations from four properties owned at the beginning of 2004 to nineteen properties held at the end of 2005.

Real estate tax expense Real estate tax expense was $2,712,050 for the year ended December 31, 2005 and $964,934 for the year ended December 31, 2004. The increase was due to the expansion of our operations from four properties owned at the beginning of 2004 to nineteen properties held at the end of 2005. Additionally a portion of the increase was due to an increase in real estate taxes paid in 2005 as compared to 2004 for properties held more than one year.

Depreciation and amortization expense Depreciation and amortization was $9,887,580 for the year ended December 31, 2005 and $2,649,747 for the year ended December 31, 2004. The increase was due to the expansion of our operations from four properties owned at the beginning of 2004 to nineteen properties held at the end of 2005.

General and administrative expense General and administrative expense was $4,959,908 for the year ended December 31, 2005 and $4,020,414 for the year ended December 31, 2004. The increase was due in part to an expansion of our operations and acquisitions staff to enhance our self-management capabilities. The remaining increase is from professional fees incurred in connection with Sarbanes Oxley Section 404 activities.

Interest income Interest income was $1,521,348 for the year ended December 31, 2005 and $1,719,925 for the year ended December 31, 2004. The decrease was due to lower balances held during 2005 as compared to 2004 as proceeds raised from our initial public offering of common stock were used to acquire properties during 2005 and 2004.

Interest expense Interest expense was $9,344,890 for the year ended December 31, 2005 and $2,481,219 for the year ended December 31, 2004. We have increased our secured fixed rate mortgage debt from $24.7 million at the beginning of 2004 to $225.0 million at the end of 2005. This includes secured loan financings of (*i*) $29.0 million on the Pittsburgh FBI and Lenexa FDA properties in July 2004, (*ii*) $16.6 million assumed with the College Park FDA property acquisition in October 2004, (*iii*) $8.0 million on the Pittsburgh USCIS property in December 2004, (*iv*) $20.8 million on the Bakersfield DEA, Baton Rouge VA and Charleston Federal Courthouse properties in February 2005, (*v*) $31.8 million on the Parkersburg BPD property in March 2005, (*vi*) $39.1 million on the Portland property in April 2005, (*vii*) $15.7 million assumed with the Sterling DEA property acquisition in June 2005, (*viii)* $19.6 million on the Martinsburg IRS property in July 2005, *(ix)* $6.25 million on the Dallas SSA property in September 2005, and *(x)* $14.4 million on the Vicksburg COE property in November 2005. We also recognized approximately $130,000 in interest expense in 2005 related to advances on our lines of credit.

Expense from issuance and exercise of warrant In January 2004, we recognized $2,097,900 of expense related to the exercise of a warrant to purchase 210,000 shares of our common stock. The warrant was issued to an affiliate of one of the underwriters in our initial public offering which provided a line of credit to us.

Amortization of deferred financing fees Amortization of deferred financing fees was $355,926 for the year ended December 31, 2005 and $271,595 for the year ended December 31, 2004. The increase was primarily due to the amortization of financing fees from additional secured loan financings.

Gain from disposal of property In October 2004, we completed the sale of our only non-governmental property which resulted in a gain from disposal of property in the amount of $313,857.

Income from operation of disposed property Income from operation of disposed property was $100,015 for the year ended December 31, 2004. This represents the operating results for the property sold.

Comparison of Year Ended December 31, 2004 to Year Ended December 31, 2003

Rental revenue Rental revenue was $9,091,592 for the year ended December 31, 2004 and $2,812,476 for the year ended December 31, 2003. The increase was due to our acquisition of eight additional properties during 2004 and the impact of receiving a full year of rental on the properties we acquired in 2003.

Tenant reimbursements Tenant reimbursements revenue was $366,727 for 2004 and $0 for 2003. This amount represents the tenant s reimbursement for the real estate tax expense in excess of the real estate tax base amount as defined in the respective lease agreement. The amount of revenue recognized during 2004 represents the real estate tax expense in excess of the real estate base amount for all properties owned as of December 31, 2004.

Property operations expense Property operations expense was $1,849,838 for the year ended December 31, 2004 and $623,178 for the year ended December 31, 2003. The increase was due to the expansion of our operations and acquisition of properties.

Real estate tax expense Real estate tax expense was $964,934 for the year ended December 31, 2004 and $238,170 for the year ended December 31, 2003. The increase was due to the expansion of our operations and acquisition of properties.

Depreciation and amortization expense Depreciation and amortization was $2,649,747 for the year ended December 31, 2004 and $764,089 for the year ended December 31, 2003. The increase was due to the expansion of our operations and acquisition of properties.

General and administrative expense General and administrative expense was $4,020,414 for the year ended December 31, 2004 and $440,668 for the year ended December 31, 2003. The increase was due to the expansion of our operations to become self-managed and to increase our acquisition staff and related activity. The increased amounts were for additional salaries, compensation, directors and officers insurance, office rent, professional fees, and public company related expenses.

Interest income Interest income was $1,719,925 for the year ended December 31, 2004 and $21,635 for the year ended December 31, 2003. The increase was primarily due to interest income earned on short-term investments from our initial public offering proceeds.

Interest expense Interest expense was $2,481,219 for the year ended December 31, 2004 and $1,188,050 for the year ended December 31, 2003. The increase was due to additional payment on debt incurred by us in 2004 for property acquisition and for working capital purposes prior to our January 2004 Offering.

Expense from issuance and exercise of warrant In January 2004, we recognized $2,097,900 of expense related to the exercise of a warrant to purchase 210,000 shares of our common stock. The warrant was issued to an affiliate of one of the underwriters of our initial public offering which provided a line of credit to us.

Amortization of deferred financing fees Amortization of deferred financing fees was $271,595 for the year ended December 31, 2004 and $9,230 for the year ended December 31, 2003. The increase was primarily due to the amortization of financing fees of approximately $214,000 recognized related to the $50 million revolving credit facility obtained in April 2004. The remaining increase is due to the amortization of financing fees incurred by us in 2004 in connection with additional debt we obtained.

Gain from disposal of property In October 2004, we completed the sale of our only non-governmental property which resulted in a gain from disposal of property in the amount of $313,857.

Income from operation of disposed property Income from operation of disposed property was $100,015 for the year ended December 31, 2004 and $47,158 for the year ended December 31, 2003. This represents the operating results for the property sold. The increase is due to no depreciation or amortization expense recognized from the date the property was deemed held for sale in the first quarter of 2004.

Liquidity and Capital Resources

Our short-term liquidity requirements consist primarily of funds to acquire properties and to pay for operating expenses, dividends, and other expenditures directly associated with our properties, such as:

- acquisition costs, deposits on properties and purchases of properties;
- recurring maintenance, repairs and other operating expenses necessary to maintain our properties;
- property taxes, state and local tax assessments, and insurance expenses;
- interest expense and scheduled principal payments on outstanding indebtedness;

capital expenditures incurred to facilitate the leasing of space at our properties, including tenant improvements and leasing commissions;

general and administrative expenses; and

Historically, we have satisfied our short-term liquidity requirements through our existing working capital, cash provided from borrowings and cash provided by operations.

Our current mortgage debt obligations are set forth below:

Lender	Collateral		Balance as of December 31, 2005 (In millions)
CW Capital	Bakersfield DEA property	$	1.4
CW Capital	Baton Rouge VA property		4.8
LaSalle Bank/GEMSA	Charleston SSA property		13.6
LaSalle Bank/GEMSA	Clarksburg GSA property		8.1
CW Capital	Charleston Federal Courthouse property		14.4
Capital Realty	College Park FDA property		16.3
Key Bank	Dallas SSA property		6.2
Bank of America	Kingsport SSA property		2.2
Wachovia Bank	Lenexa FDA property		7.8
PNC Bank	Martinsburg IRS property		19.6
Bank of New York	Parkersburg BPD property		31.8
PNC Bank	Pittsburgh FBI property		20.6
Nomura Credit	Pittsburgh USCIS property		7.8
Wachovia Bank	Portland property		39.1
Northwestern Mutual	Sterling DEA property		15.5
Merrill Lynch	Vicksburg property		14.4
			223.6
Premium on mortgage debt (Sterling DEA property)			1.4
Total Mortgage Notes Payable		$	225.0

We financed the acquisition of our Bakersfield DEA property in February 2005 through a $1.4 million loan from CW Capital, which matures on March 1, 2020. The unpaid principal balance of the note bears interest at a rate of 5.867% per annum. Monthly payments are amortized on a 30-year schedule, with a balloon payment due March 1, 2020.

We financed the acquisition of our Baton Rouge VA property in February 2005 through a $4.8 million loan from CW Capital, which matures on March 1, 2020. The unpaid principal balance of the note bears interest at a rate of 5.867% per annum. Monthly payments are amortized on a 30-year schedule, with a balloon payment due March 1, 2020.

We financed the acquisition of our Charleston SSA property in April 2003 through a $14 million loan from LaSalle Bank, which matures on May 1, 2013. The unpaid principal balance of the note bears interest at a rate of 5.74% per annum. Monthly payments are amortized on a 30-year schedule, with a balloon payment due May 1, 2013.

We financed the acquisition of our Clarksburg GSA property in April 2003 through an approximately $8.3 million loan from LaSalle Bank, which matures on May 1, 2013. The unpaid principal balance of the note bears interest at a rate of 5.74% per annum. Monthly payments are amortized on a 30-year schedule, with a balloon payment due May 1, 2013.

We financed the acquisition of our Charleston Federal Courthouse property in February 2005 through a $14.6 million loan from CW Capital, which matures on March 1, 2020. The unpaid principal balance of the note bears interest at a rate of 5.867% per annum. Monthly payments are amortized on a 30-year schedule, with a balloon payment due March 1, 2020.

We financed the acquisition of our College Park FDA property in October 2004 through the assumption of the seller s loan of $16.7 million loan from Capital Realty, which matures on October 26, 2026. The unpaid principal balance of the note bears interest at a rate of 6.75% per annum. Payments are made monthly through October 26, 2026.

We financed the acquisition of our Dallas SSA property in September 2005 through an approximately $6.25 million loan from Key Bank, which matures on October 1, 2015. The unpaid principal balance of the note bears interest at a rate of 5.09% per annum. Monthly payments are amortized on a 30-year schedule, with a balloon payment due October 1, 2015.

We financed the acquisition of our Kingsport SSA property in April 2003 through the assumption of the seller s first mortgage loan in the amount of $2.3 million from Bank of America, which matures on April 1, 2010, and an unsecured loan issued by the seller in the amount of $0.2 million which we repaid in July 2004. The unpaid principal balance of the first mortgage loan bears interest at a rate of 8.23% per annum, with monthly payments being amortized on a 25-year schedule and has a balloon payment due April 1, 2010.

We obtained financing related to the acquisition of our Lenexa FDA property in July 2004 through an $8.0 million loan from Wachovia Bank, which matures on August 11, 2009. The unpaid principal balance of the note bears interest at a rate of 5.44% per annum. Monthly payments are amortized on a 27-year schedule, with a balloon payment due August 11, 2009.

We financed the acquisition of our Martinsburg IRS property in July 2005 through an approximately $19.6 million loan from PNC Bank, which matures on August 1, 2015. The unpaid principal balance of the note bears interest at a rate of 5.24% per annum. Accrued interest only payments are due monthly through August 2006. Thereafter, monthly payments are amortized on a 30-year schedule, with a balloon payment due August 1, 2015.

We obtained financing related to the acquisition of our Parkersburg BPD property in March 2005 through a combined $31.8 million loan from the Bank of New York, which matures on March 15, 2021. The loan is comprised of two notes totaling $26.8 million and $5.0 million, respectively. The unpaid principal balance of the $26.8 million note bears interest at a rate of 5.40% per annum. Monthly payments are interest only through the date of completion of the Parkersburg expansion which is scheduled for completion in the first quarter of 2006. Thereafter monthly payments are amortized on a 25-year schedule, with a balloon payment due March 15, 2021. The $5.0 million note bears interest at 5.75% with interest payments due monthly and principal due March 15, 2021.

We obtained financing related to the acquisition of our Pittsburgh FBI property in July 2004 through a $21.0 million loan from PNC Bank, which matures on August 1, 2009. The unpaid principal balance of the note bears interest at a rate of 5.5% per annum. Monthly payments are amortized on a 26-year schedule, with a balloon payment due August 1, 2009.

We obtained financing related to the acquisition of our Pittsburgh USCIS property in December 2004 through an $8.0 million loan from Nomura Credit, which matures on December 11, 2011. The unpaid principal balance of the note bears interest at a rate of 5.13% per annum. Monthly payments are amortized on a 25-year schedule, with a balloon payment due December 11, 2011.

We obtained financing related to the acquisition of our Portland property in April 2005 through a $39.1 million loan from Wachovia Bank, which matures on May 11, 2015. The unpaid principal balance of the note bears interest at a rate of 5.49% per annum. Accrued interest only payments are due monthly through November 11, 2006. From December 11, 2006 through November 11, 2013, monthly payments are amortized on a 30-year schedule. From December 11, 2013 through April 11, 2015, monthly payments are amortized on a 25-year schedule, with a balloon payment due May 11, 2015.

We financed the acquisition of our Sterling DEA property in June 2005 through the assumption of the seller s loan of $15.8 million loan from Northwestern Mutual, which matures on March 1, 2020. The unpaid principal balance of the note bears interest at a rate of 7.98% per annum. Payments are made monthly through March 1, 2020. We recorded a premium of $1,482,178 related to the above market interest rate on the assumed debt. Amortization of this premium will be included in interest expense on the consolidated statement of operations.

We financed the acquisition of our Vicksburg COE property in November 2005 through a $14.4 million loan from Merrill Lynch Mortgage Company, which matures on August 1, 2016. The unpaid principal balance of the note bears interest at a rate of 5.62% per annum. Accrued interest only payments are due monthly.

The mortgages on our properties contain customary restrictive covenants, including provisions that may limit the borrowing subsidiary s ability, without the prior consent of the lender, to incur additional indebtedness, further mortgage or transfer the applicable property, purchase or acquire additional property, discontinue insurance coverage, change the conduct of its business or make loans or advances to, enter into any transaction of merger or consolidation with, or acquire the business, assets or equity of, any third party.

In May 2005, the Company entered into two forward-starting interest rate swap contracts with an aggregate notional amount of $50 million to fix a portion of the interest rate associated with the anticipated issuance of future financings that are expected to occur in the second half of 2006. The period of time over which the Company expects to hedge its continued exposure to variability in future cash flows for the forecasted transactions is approximately ten months.

We entered into a $50 million revolving credit facility in November 2005 led by Wachovia Capital Markets, LLC. Wachovia Bank, N.A. serves as administrative agent. This credit facility replaced the Company s prior $50 million revolving credit agreement led by First National Bank of Omaha which also is participating in the new credit facility. The term of the credit facility is for three years and may be extended for one additional year. The amount available to be borrowed under the credit facility is based upon the combined value of certain collateral properties. The initial pool of collateral includes the Niagara Center, Buffalo SSA and Mineral Wells BPD properties. The credit facility will provide us funding for future acquisitions and facilitate additional capitalization.

Borrowings under the credit facility bear interest at a rate equal to either (a) a base rate determined by the higher of the Prime Rate or the Federal Funds Rate plus 1/2 of 1%, or (b) an applicable margin, based upon our total indebtedness to total asset value, plus LIBOR. The initial borrowings on the credit facility are priced at LIBOR plus 1.20%. Payments are interest only through the term of the credit facility and are payable at least quarterly.

The credit facility is guaranteed by us and collateralized by our Mineral Wells BPD, Buffalo Niagara Center and Buffalo SSA properties. The credit facility contains financial covenants related to maintenance of leverage, fixed charge coverage ratios and tangible net worth and also contains affirmative and negative covenants including, among other things, limitations on certain indebtedness, guarantees of indebtedness, level of cash dividends and other transactions as defined in the agreement.

Our long-term liquidity requirements consist primarily of funds to pay for property acquisitions, scheduled debt maturities, renovations, expansions and other non-recurring capital expenditures that need to be made periodically to our properties, the costs associated with acquisitions of properties that we pursue and dividend payments to stockholders. Historically, we have satisfied our long-term liquidity requirements through various sources of capital, including our existing working capital, cash provided by operations, sales of equity securities, and long-term mortgage indebtedness. Certain of our fixed-rate mortgages require that fully-funded sinking fund reserves be established and maintained for future capital expenditures related to capital repairs, marketing, tenant improvements or leasing commissions. We periodically evaluate requirements for future capital expenditures on our properties not covered by mortgage reserve fund provisions. Our intention is and has been to have a funded reserve for such situations available at the time the capital expenditure is expected to be incurred.

We believe that our net cash provided by operating activities, draws under our revolving line of credit and proceeds from other financing sources that we expect to be available to us will provide sufficient liquidity to meet our cash needs during the next twelve months.

Contractual Obligations

The following table summarizes our contractual obligations as of December 31, 2005:

	Less Than 1 Year	2-3 Years	4-5 Years	After 5 Years	Total
Mortgage notes payable fixed-rate	$ 2,915,740	$ 8,217,987	$ 34,701,480	$ 177,766,101	$ 223,601,308

We intend to refinance our mortgage notes payable as they become due or repay them if the related property is being sold. Total interest paid on the mortgage notes payable were $9,210,996 and $2,432,908 for the year ended December 31, 2005 and 2004, respectively.

Cash Distribution Policy

We have elected to be treated as a REIT under the federal tax laws commencing as of our taxable year beginning January 1, 2003. To qualify as a REIT, we must, among other things, distribute at least 90% of our ordinary taxable income to our stockholders. We intend to comply with these requirements and maintain our REIT status. As a REIT, we generally will not be subject to corporate federal income taxes on taxable income we distribute (in accordance with the federal tax laws and applicable regulations) to our stockholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income taxes at regular corporate rates and may not be able to qualify as a REIT for four subsequent tax years. Even as a REIT, we may be subject to certain state and local taxes on our income and property and to federal income and excise taxes on our undistributed taxable income, i.e., taxable income not distributed in the amounts and in the time frames prescribed by the federal tax laws and applicable regulations thereunder.

We intend to pay to our stockholders, within the time periods prescribed by the federal tax laws (in our case by January 31 of the following year), all or substantially all of our annual taxable income, including gains from the sale of real estate and recognized gains on sale of securities. We will continue our policy of making sufficient cash distributions to stockholders for us maintain REIT status under the federal tax laws and to avoid corporate income and excise tax on undistributed income. All distributions are made at the discretion of our board of directors and depend on our earnings, our financial condition, maintenance of our REIT status and other factors that our board of directors may deem relevant from time to time.

Inflation

Our GSA leases generally contain provisions designed to mitigate the adverse impact of inflation. These provisions increase rental rates during the terms of the leases by indexed escalations based on the Consumer Price Index. In addition, our GSA leases generally require the tenant to pay a share of increases in operating expenses and all increases in real estate taxes. This may reduce our exposure to increases in costs and operating expenses resulting from inflation. However, increases in property operating costs above the escalation amount would harm our cash flow and may harm our ability to pay dividends.

Funds from Operations

REIT analysts generally consider funds from operations or FFO an alternative measure of performance for an equity REIT. The National Association of Real Estate Investment Trusts, or NAREIT, defines funds from operations as net income, computed in accordance with accounting principles generally accepted in the United States (GAAP), excluding gains or losses from sales of properties, plus real estate related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. We believe that FFO is helpful to investors as one of several measures of the performance of an equity REIT. We further believe that by excluding the effect of depreciation, amortization and gains or losses from sales of real estate, all of which are based on historical costs, which may be of limited relevance in evaluating current performance, FFO can facilitate comparison of operating performance between periods and between other equity REITs. Investors should review FFO along with GAAP Net Income Available for Common Shares and cash flow from operating activities, investing activities and financing activities, when evaluating an equity REIT s operating performance. We compute FFO in accordance with

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standards established by NAREIT, which may not be comparable to FFO reported by other REITs that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently than us. FFO does not represent cash generated from operating activities in accordance with GAAP, nor does it represent cash available to pay distributions and should not be considered as an alternative to net income, determined in accordance with GAAP, as an indication of our financial performance, or to cash flow from operating activities, determined in accordance with GAAP, as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to make cash distributions.

The following table presents a reconciliation of GAAP to our funds from operations for the periods presented:

	2005	2004	2003
Net loss	$ (2,422,113)	$ (2,743,531)	$ (382,116)
Adjustments to reconcile to funds from Operations:			
Gain from disposal of property		(313,857)	
Real estate depreciation and amortization(a)	9,845,758	2,626,193	757,400
Funds from operations	$ 7,423,645	$ (431,195)	$ 375,284
Funds from operations per common share	$ 0.36	$ (0.02)	$ 0.45
Weighted average common shares outstanding	20,568,819	19,071,652	836,133

(a) Excludes depreciation of non-real estate assets of $41,822, $23,554 and $6,689 for the years ended December 31, 2005, 2004 and 2003, respectively.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

Our future income, cash flows and fair values relevant to financial instruments depend upon prevailing market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates.

Market Risk Related to Fixed-Rate Debt

As of December 31, 2005, our debt included fixed-rate mortgage notes with a carrying value of $223.6 million. Changes in market interest rates on our fixed-rate debt impacts the fair market value of the debt, but it has no impact on interest incurred or cash flow. The sensitivity analysis related to our fixed debt assumes an immediate 100 basis point move in interest rates from their actual December 31, 2005 levels, with all other variables held constant.

A 100 basis point increase in market interest rates would result in a decrease in the fair value of our fixed-rate debt by approximately $15.0 million at December 31, 2005. A 100 basis point decrease in market interest rates would result in an increase in the fair market value of our fixed-rate debt by approximately $15.4 million at December 31, 2005.

As of December 31, 2005, our derivatives, comprised of two forward starting interest rate swap contracts with a notional value of $50 million, had a carrying value of $601,489 included in other assets. A 100 basis point increase in market interest rates would result in an asset of approximately $4.2 million, a change of $3.6 million in the fair market value of the derivatives at December 31, 2005. A 100 basis point decrease in market interest rates would result in an accounts payable and accrued liability of approximately $3.3 million, a change of $3.9 million in the fair market value of the derivatives at December 31, 2005.

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Interest Rate Sensitivity

The following table provides information about our financial instruments that are subject to interest rate sensitivity. The table presents our mortgage notes payable by expected maturity date and weighted average interest rate as of December 31, 2005.

Interest Rate Sensitivity

	2006	2007	2008	2009	2010	Thereafter	Total
gage notes ble:							
l rate amount	$ 2,915,740	$ 3,993,870	$ 4,224,117	$ 30,575,150	$ 4,126,330	$ 177,766,101	$ 223,601,3
hted-average est rate	6.10%	5.96%	5.97%	5.56%	6.06%	5.82%	5.

Item 8. *Financial Statements and Supplementary Data*

See Index to Financial Statements on page F-1 of this Form 10-K.

Item 9. *Changes In and Disagreements with Accountants on Accounting and Financial Disclosure*

None.

Item 9A. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures. As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon their evaluation as of December 31, 2005, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are effective to ensure that information required to be disclosed by us in our Exchange Act filings is recorded, processed, summarized and reported within the time periods specified in the Commission s rules and forms.

Management s Report on Internal Control over Financial Reporting. The Company s management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2005 based on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2005.

Management s assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report included herein, which expresses an unqualified opinion on management s assessment and on the effectiveness of the Company s internal control over financial reporting as of December 31, 2005.

Changes in Internal Control over Financial Reporting. There were no changes in our internal control over financial reporting identified in connection with the evaluation referred to above that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. ***Other Information***

None.

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PART III

Item 10. ***Directors and Executive Officers of the Registrant***

The information required by Item 10 is incorporated by reference from our definitive proxy statement for the 2006 annual meeting of stockholders to be held on June 1, 2006.

Our Code of Ethical Business Conduct is located on our website at www.gptrust.com.

Item 11. ***Executive Compensation***

The information required by Item 11 is incorporated by reference from our definitive proxy statement for the 2006 annual meeting of stockholders to be held on June 1, 2006.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The information required by Item 12 is incorporated by reference from our definitive proxy statement for the 2006 annual meeting of stockholders to be held on June 1, 2006.

Item 13. ***Certain Relationships and Related Transactions***

The information required by Item 13 is incorporated by reference from our definitive proxy statement for the 2006 annual meeting of stockholders to be held on June 1, 2006.

Item 14. ***Principal Accountant Fees and Services***

The information required by Item 14 is incorporated by reference from our definitive proxy statement for the 2006 annual meeting of stockholders to be held on June 1, 2006.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

(a)(1) *Financial Statements*

See Index to Financial Statements on page F-1 of this Form 10-K.

(a)(2) *Financial Statement Schedules*

Schedule III Real Estate and Accumulated Depreciation as of December 31, 2005

All other schedules for which provision is made in the applicable accounting regulations of the SEC are not required under the related instructions or are inapplicable and therefore have been omitted.

(a)(3) *Exhibits*

3.1	Charter (incorporated by reference to exhibit 3.1 to our registration statement on Form S-11 (file no. 333-109565))
3.2	Bylaws (incorporated by reference to exhibit 3.2 to our registration statement on Form S-11 (file no. 333-109565))
4.1	Form of Common Stock Certificate (incorporated by reference to exhibit 4.1 to our registration statement on Form S-11 (file no. 333-109565))
10.1	2003 Equity Incentive Plan (incorporated by reference to exhibit 10.1 to our registration statement on Form S-11 (file no. 333-109565))
10.2	Form of Indemnification Agreement (incorporated by reference to exhibit 10.2 to our registration statement on Form S-11 (file no. 333-109565))
10.3	Chief Executive Officer Employment Agreement (incorporated by reference to exhibit 10.3 to our registration statement on Form S-11 (file no. 333-109565))

10.4	Letter of Intent College Park, Maryland property (incorporated by reference to exhibit 10.7 to our registration statement on Form S-11 (file no. 333-109565))
10.5	Purchase and Sale Agreement Parkersburg, West Virginia property (incorporated by reference to exhibit 10.8 to our registration statement on Form S-11 (file no. 333-109565))
10.6	Letter of Intent Baton Rouge, Louisiana property (incorporated by reference to exhibit 10.9 to our registration statement on Form S-11 (file no. 333-109565))
10.7	Letter of Intent Pittsburgh, Pennsylvania property (incorporated by reference to exhibit 10.10 to our registration statement on Form S-11 (file no. 333-109565))
10.8	Purchase and Sale Agreement Mineral Wells, West Virginia property (incorporated by reference to exhibit 10.11 to our registration statement on Form S-11 (file no. 333-109565))
10.9	Purchase and Sale Agreement Harlingen, Texas INS properties (incorporated by reference to exhibit 10.12 to our registration statement on Form S-11 (file no. 333-109565))
10.10	Purchase and Sale Agreement Harlingen, Texas USBP property (incorporated by reference to exhibit 10.13 to our registration statement on Form S-11 (file no. 333-109565))
10.11	Revolving Credit Agreement dated November 21, 2005 (incorporated by reference to exhibit 10.16 to our Form 8-K filed on November 23, 2005)
12.1	Ratio of Earnings to Fixed Charges
21.1	Subsidiaries of the Registrant
23.1	Consent of Ernst & Young LLP
31.1	Certification of Chief Executive Officer
31.2	Certification of Principal Financial Officer
32.1	Certification of Chief Executive Officer
32.2	Certification of Principal Financial Officer

(b) *Exhibits*

See (a)(3).

(c) *Financial Statement Schedules*

See (a)(2).

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GOVERNMENT PROPERTIES TRUST, INC.

INDEX TO FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
Government Properties Trust, Inc.

We have audited the accompanying consolidated balance sheets of Government Properties Trust, Inc., as of December 31, 2005 and 2004, and the related consolidated statements of operations, changes in stockholders equity and cash flows for each of the three years in the period ended December 31, 2005. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the management of Government Properties Trust, Inc. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting