

AMERIVEST PROPERTIES INC
Form POS AM
June 12, 2002
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As filed with the Securities and Exchange Commission on June 12, 2002

Registration No. 333-31690

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

POST EFFECTIVE AMENDMENT NO. 2
TO
FORM SB-2
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

AMERIVEST PROPERTIES INC.

(Name of small business issuer in its charter)

Maryland
(State or other jurisdiction
of incorporation or organization)

6798
(Primary Standard Industrial
Classification Code Number)

84-1240264
(I.R.S. Employer
Identification Number)

1780 South Bellaire, Suite 515
Denver, Colorado 80222
(303) 297-1800
(Address and telephone number of principal executive offices)

1780 South Bellaire, Suite 515
Denver, Colorado 80222
(Address of principal place of business or intended place of business)

Charles K. Knight
President
AmeriVest Properties Inc.
1780 South Bellaire, Suite 515
Denver, Colorado 80222
(303) 297-1800
(Name, address and telephone number of agent for service)

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Approximate date of commencement of proposed sale of the securities to the public: As soon as practicable after the effective date of this Registration Statement.

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If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. " _____

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. " _____

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. " _____

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. " _____

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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PROSPECTUS

135,800 Shares
Common Stock

We intend to issue up to 135,800 shares of our common stock upon the exercise of warrants issued in an offering of 300,000 units, each consisting of two shares of common stock and one redeemable common stock purchase warrant, beginning in July 2000. Each warrant entitles the registered holder to purchase one share of common stock at an exercise price of \$5.00 per share, subject to adjustment in certain events, at any time during the period commencing on July 10, 2000 and expiring on September , 2005. The warrants are subject to our redemption at \$.01 per warrant at any time prior to their exercise upon 30 days prior notice to the holders of the warrants, provided that the last trade price of the common stock reported on the American Stock Exchange for at least 15 of the 20 consecutive days ending on the third day prior to the date on which we give notice of redemption has been at least 125% of the then effective exercise price of the warrants or \$6.25 per share. There is no public market for the warrants. As of June 11, 2002, 164,200 of the original 300,000 warrants had been exercised.

	Proceeds to Company
Per Share	\$5.00
Total	\$679,000.00

Our common stock is quoted on the American Stock Exchange under the symbol "AMV". On June 11, 2002, the closing price of the common stock was \$6.12 per share.

Investing in the common stock involves certain risks. See the "Risk Factors" section beginning on page 7.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is June , 2002

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You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with different information. We are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate as of the date on the front cover of this prospectus only.

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PROSPECTUS SUMMARY

The following summary highlights information contained in this prospectus. You should read this entire prospectus carefully, including the Risk Factors section, the financial statements and the notes to the financial statements, before investing in shares of our common stock. Unless the context otherwise requires, all references to we, us, our company or AmeriVest refer collectively to AmeriVest Properties Inc. and its subsidiaries, considered as a single enterprise.

Our Company

AmeriVest

We are a self-administered real estate investment trust, or REIT, that owns 23 office properties. We market and lease Class A and B office space to small and mid-sized tenants, and the design, finish and amenities of our core properties are specifically tailored for this target market. Our current properties, which include an aggregate of approximately 912,000 rentable square feet, are located in Colorado, Arizona, Indiana, and Texas.

Our current management team assumed control of our day-to-day operations on January 1, 2000, at which time we owned a portfolio of diversified properties. Since that time, we have focused our efforts on the acquisition, rehabilitation and development of multi-tenant office buildings targeting tenants with office space needs between 2,000 and 4,000 square feet. We have sold our non-office building assets, and since August 2000, all our assets have been office buildings. Our six core properties are located in Denver, Indianapolis and Phoenix and are representative of our current and ongoing strategy.

Business Strategy

We believe the public equity markets for REITs reward a strongly focused strategy and that the currently depressed office sector can support a relatively higher valuation than many other property types. We have elected to focus on the office sector because we believe the demand for office space will continue to grow as the economy continues to transition from manufacturing to service businesses. We believe that demand will continue to grow in our target markets specifically and have responded by developing a focused strategy, the key elements of which are:

Focus on Small To Mid-Size Tenants Our strategy is to focus on tenants that typically require 2,000 to 4,000 square feet of office space.

Provide a Superior, Consistent Product We believe that the small tenant market has been under-served by most office landlords, and that our core properties provide a level of amenities to the small tenant that usually only larger tenants enjoy.

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Simplify the Leasing Process We operate our multi-tenant buildings under a no-hassle leasing philosophy, using a standard simplified lease and a turn-key tenant finish package.

Capitalize on the Perceived Risks We believe that the perceived risks of smaller tenants provide an effective deterrent for competition and an attractive opportunity for us.

Provide a High Level of Service With our deliberate focus on small to mid-size tenants, we have developed a positive, service-oriented approach specifically tailored for our tenants.

Target Select Cities We target cities that meet specific criteria and where we hope to build meaningful multi-property portfolios over the near term.

As a result of our focused strategy, we believe that our properties provide office space that is particularly attractive for small to mid-size tenants. According to data compiled by the United States Small Business Administration Office of Advocacy, in 1999, 89% of all U.S. businesses employed fewer than 20 employees. As a result, we believe that many businesses have office space requirements of no more than 3,000 square feet. Our strategy is to provide office space that effectively capitalizes on this significant opportunity.

Properties

We own 23 office buildings totaling approximately 912,000 square feet of rentable space. These properties are located in metropolitan Denver, Colorado, Phoenix, Arizona, Indianapolis, Indiana, and in a number of smaller cities in Texas. The geographic distribution of our property portfolio by rentable square footage as of December 31, 2001 was 47% in Colorado, 31% in Texas, 11% in Arizona and 11% in Indiana. Set forth below is a description of our core, 100% owned properties:

Sheridan Center, our largest property, consists of three buildings, totaling 143,332 square feet of rentable space in a prime mid-town Denver location. Since our purchase of this property in September 2000, we have completely renovated the buildings to add AmeriVest's signature small-tenant amenities, including two high-tech common area conference rooms, keyless entries to all suites, a computerized building directory and high-speed phone and data wiring to all suites. Sheridan Center is 92% occupied by 105 tenants.

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Sheridan Plaza at Inverness, or *Sheridan Plaza*, consists of two Class A office buildings, totaling 118,720 rentable square feet. Sheridan Plaza is located in the Inverness Business Park in Englewood, Colorado. Sheridan Plaza won the National Association of Industrial and Office Properties Small Office Building of the Year award for the Denver area in 1999. In addition to our signature amenities, the property features a range of customized design elements such as V-shaped, 15,000 square foot floor plates allowing visibility to all tenant suites from the elevator banks, and distinctive contemporary building materials and finishes. Sheridan Plaza is 100% occupied by 45 tenants.

Arrowhead Fountains consists of one building containing 96,076 rentable square feet in suburban Phoenix, Arizona. The Arrowhead Fountains building features versatile L shaped floor plates and interior finished with natural stone floors, wood trim and coffered ceilings. We currently intend to upgrade the building over time with our signature small tenant amenities. Arrowhead Fountains is 90% occupied by 20 tenants.

The Kellogg Building consists of one eight-story building containing 112,732 rentable square feet located in a mixed-use business park in Littleton, Colorado. The building features red brick veneer over concrete block with reflective insulating glass windows. Building amenities include an exercise studio with hot tub and shower facilities, two common area conference rooms and immediate access to the Highline Canal bike and jogging path. We currently intend to further upgrade the building over time with our signature small tenant amenities. The Kellogg Building is 92% occupied by 35 tenants.

Keystone Office Park consists of three two-story buildings containing a total of 96,048 rentable square feet in Carmel, Indiana, which is in the Indianapolis metropolitan area. Building amenities include keyless access to each building, computerized touch screen directories and a common area conference center with Internet connectivity and presentation equipment. Keystone Office Park is 98% occupied by 35 tenants.

Recent Dividends

Since our initial public offering in November 1996, we have paid a cash dividend on our common stock each quarter. We have paid a quarterly cash dividend of \$0.125 per share for each of our seven most recent quarters. We declared a dividend of \$0.125 on June 10, 2002 for the current quarter. This dividend will be paid on July 16, 2002.

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Recent Developments

In 2000 and 2001, all of our properties were managed under an agreement with Sheridan Realty Advisors, LLC, which is owned by certain of our executive officers and directors, and which also managed our day-to-day operations and assisted and advised our Board of Directors with respect to real estate acquisitions and investment opportunities. Effective as of January 1, 2002, we purchased the administrative and property management and accounting services business of Sheridan Realty Advisors for approximately \$50,000. As a result, most of Sheridan Realty Advisors' employees, including three of our senior executives, became our employees. The three senior executives also remain employees of Sheridan Realty Advisors. We currently employ 16 full-time employees, including our senior executives, and three part-time employees.

Sheridan Realty Advisors continues as an outside advisor to our company in connection with our capital market activities, real estate acquisitions and dispositions and major capital projects and continues to earn an advisory and capital project fee for those services under the terms of our agreement with them, which expires on December 31, 2003. The advisory fee is intended to cover overhead expenses of Sheridan Realty Advisors not covered by other fees paid by AmeriVest and is limited to amounts set forth in an annual budget submitted to AmeriVest by Sheridan Realty Advisors.

Potential Property Acquisitions

We are presently evaluating acquisition opportunities in Phoenix, Indianapolis and Denver; however, we have not entered into any agreements to acquire any property as of the date of this prospectus.

AMEX Symbol

Our common stock trades on the American Stock Exchange under the symbol AMV.

Company Information

Our offices are located in our Sheridan Center property at 1780 South Bellaire Street, Suite 515, Denver, Colorado 80222. Our telephone number is (303) 297-1800. Our website address is www.amvproperties.com. Information at our website is not and should not be deemed to be part of this prospectus.

The Offering

Securities Offered

Up to 135,800 shares of common stock. The shares are issuable upon the exercise of warrants issued in an offering of 300,000 units, each consisting of two shares of common stock and one redeemable common stock purchase warrant. Each warrant entitles the registered holder to purchase one share of common stock at an exercise price of \$5.00 per share, subject to adjustment in certain events, at any time during the period commencing on July 10, 2000 and expiring on September 30, 2005, which was extended from July 10, 2005 to reflect the time during which the warrants were not exercisable because the registration statement covering the underlying shares of common stock was not current. Warrant holders may only exercise their warrants if AmeriVest has a current effective registration statement covering the common stock issuable upon exercise of the warrants. If at any time during the exercise period we do not have on file with the SEC a current effective registration statement covering the common stock issuable upon exercise of the warrants we will suspend the exercise of the warrants until after the filing of such current effective registration statement and will extend the period for exercise of the warrants by such number of days that the exercises of the warrants have been suspended. The warrants are subject to our redemption at \$.01 per warrant at any time prior to their exercise upon 30 days prior notice to the holders of the warrants, provided that the last trade price of the common stock reported on the American Stock Exchange for at least 15 of the 20 consecutive days ending on the third day prior to the date on which we give notice of redemption has been at least 125% of the then effective exercise price of the warrants or \$6.25 per share. There is no public market for the warrants. As of June 11, 2002, 164,200 of the original 300,000 warrants had been exercised.

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You should read the following information together with Selected Financial Information, Management's Discussion and Analysis of Financial Condition and Results of Operations, and our financial statements and the related notes included in this prospectus. Our historical results are not necessarily indicative of our results for any future period.

	Year Ended December 31,			Three Months Ended March 31,	
	2001	2000	1999	2002	2001
Statement of Operations Data:					
Real estate operating revenue	\$ 10,944,383	\$ 7,222,437	\$ 5,976,757	\$ 3,626,052	\$ 1,979,081
Net operating income (a)	\$ 5,640,471	\$ 3,490,483	\$ 2,962,202	\$ 1,992,564	\$ 980,206
Net income	\$ 1,488,493 (b)	\$ 2,676,724 (c)	\$ 968,748 (d)	\$ 390,962	\$ 44,570
Weighted average diluted shares outstanding	4,801,307	2,495,919	1,882,232	6,863,423	3,012,600
Diluted net income per share	\$ 0.31(b)	\$ 1.07(c)	\$ 0.51(d)	\$ 0.06	\$ 0.01
Dividends declared per share	\$ 0.50	\$ 0.49	\$ 0.48	\$ 0.125	\$ 0.125

	Year Ended December 31,			Three Months Ended March 31,	
	2001	2000	1999	2002	2001
Balance Sheet Data:					
Net investment in real estate	\$ 80,841,027	\$ 38,922,380	\$ 28,079,446	\$ 81,214,727	\$ 41,444,321
Total assets	\$ 88,021,284	\$ 42,363,797	\$ 30,314,458	\$ 88,550,769	\$ 45,001,228
Mortgage loans and notes payable	\$ 58,408,424	\$ 28,122,856	\$ 22,467,915	\$ 58,616,715	\$ 28,828,554
Stockholders' equity	\$ 24,996,985	\$ 11,358,503	\$ 6,258,776	\$ 24,653,836	\$ 12,011,730

- (a) Represents real estate operating revenue less:
property operating expenses,
general and administrative expense,
severance expense, and
impairment of deferred rents receivable.
- (b) Includes a gain of \$1,156,445 (\$0.24 per diluted share) recognized on the sale of non-core office buildings in Appleton, Wisconsin and Odessa, Texas.
- (c) Includes a gain of \$2,556,839 (\$1.02 per diluted share) recognized on the sale of our four self-storage facilities.
- (d) Includes a gain of \$720,712 (\$0.38 per diluted share) recognized on the sale of our industrial/showroom property.

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RISK FACTORS

The purchase of shares of our common stock involves a high degree of risk. Before purchasing shares, you should read this entire prospectus and consider the following factors concerning AmeriVest in addition to the other information in this prospectus.

Our floating rate debt subjects us to interest rate risk.

As of May 31, 2002, more than 50% of our total property debt was at floating rates ranging from 190 to 250 basis points over LIBOR. We have fixed the interest rates on most of this debt through 2002 and are attempting to refinance this indebtedness prior to the end of 2002 with a new lender. Should short-term interest rates rise significantly prior to our completion of our refinancing or should we be unable to refinance or otherwise fix the interest rates on this debt beyond 2002, our cost of debt service could increase dramatically in 2003 and beyond. Our current weighted-average interest rate on this floating rate debt is under 5%. Most of this debt is due in 2003 and 2004. Increases in interest rates could increase our interest expense, which would adversely affect net earnings and cash available for payment of our debt obligations and distributions to our stockholders.

Our debt level may have a negative impact on our income and asset value.

We have incurred indebtedness in connection with the acquisition of our properties, and we may incur new indebtedness in the future in connection with our acquisition, development and operating activities. As a result of our use of debt, we will be subject to the risks normally associated with debt financing, including:

that our cash flow will be insufficient to make required payments of principal and interest;

that we will be unable to refinance some or all of our indebtedness;

that any refinancing will not be on terms as favorable as those of the existing indebtedness;

that required payments on mortgages and on our other indebtedness are not reduced if the economic performance of any property declines;

that debt service obligations will reduce funds available for distribution to our stockholders; and

that any default on our indebtedness could result in acceleration of those obligations.

If the economic performance of any of our properties declines, our ability to make debt service payments would be adversely affected. If a property is mortgaged to secure payment of indebtedness and we are unable to meet mortgage payments, we may lose that property to lender foreclosure with a consequent loss of income and asset value.

We do not have a policy limiting the amount of debt that we may incur. Accordingly, our management and Board of Directors have discretion to increase the amount of our outstanding debt at any time. Our total liabilities to total market capitalization ratio of 61% at March 31, 2002 exceeds those normally carried by our competitors and REITs in general. Our higher leverage levels may make it difficult to obtain any additional financing based on our current portfolio or to refinance existing debt on favorable terms or at all. Our high leverage levels also may adversely affect the market value of our stock if we are perceived as more risky than our peers.

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We face a strong competitive market, which could limit our ability to lease our properties or secure attractive investment opportunities.

Our business strategy contemplates expansion through acquisition. The commercial real estate industry is highly competitive, and we compete with substantially larger companies, including substantially larger REITs, for the acquisition, development and operation of properties. Some of these companies are national or regional operators with far greater resources than we have. As a result, we may not be able or have the opportunity to make suitable investments on favorable terms in the future. Competition in a particular area also could adversely affect our ability to lease our properties or to increase or maintain rental rates. Thus, the presence of these competitors may impede the continuation and development of our business.

The net proceeds from the offering will have no specific designated use. To the extent that we decide to use some or all of the proceeds to acquire new properties, there can be no assurance that we will be able to locate acquisition properties that meet our acquisition criteria and, if not, our funds from operations per share would be adversely affected.

We may not be able to pay dividends to our stockholders regularly.

Our ability to pay dividends in the future depends on our ability to operate profitably and to generate cash from our operations in excess of debt service obligations. The payment of dividends is in the sole discretion of our board of directors. We cannot guarantee that we will be able to pay dividends consistently with historical payments.

We may incur tax liabilities if we fail to qualify as a REIT.

We believe that we have been organized and operated so as to qualify as a REIT under the Internal Revenue Code of 1986, as amended, since our taxable year ended December 31, 1996. However, we cannot assure you that we will continue to be qualified as a REIT. Qualification as a REIT involves the application of highly technical and complex Internal Revenue Code provisions for which there are only limited judicial or administrative interpretations. The determination of various factual matters and circumstances not entirely within our control may affect our ability to qualify as a REIT. In addition, legislation, new regulations, administrative interpretations or court decisions may significantly change the requirements for qualification as a REIT or the federal income tax consequences of that qualification.

In order to qualify as a REIT, at all times during the second half of each taxable year following our first taxable year, no more than 50% in value of our shares may be owned, directly or indirectly and by applying constructive ownership rules, by five or fewer individuals, including some tax-exempt entities. Our bylaws provide restrictions regarding the transfer of shares, including a 9.0% limitation on the ownership of our shares by any stockholder, that are intended to assist us in continuing to satisfy this share ownership requirement. If the ownership limitation is not enforceable, a stockholder could acquire shares in excess of the 9.0% ownership limit such that more than 50% in value of our shares could be owned by five or fewer individuals, causing us to fail to qualify as a REIT.

If we were unable to qualify as a REIT in any taxable year, we would not be allowed a deduction for distributions to stockholders in computing our taxable income and would be subject to federal income tax on our taxable income at regular corporate rates and possibly to the alternative minimum tax. Unless we are entitled to relief under certain Internal Revenue Code provisions, we also would be disqualified from treatment as a REIT for the four taxable years following the year during which REIT qualification was lost. As a result, the funds available for distribution to our stockholders would be reduced for each of the years involved. In addition, we may incur substantial indebtedness or may liquidate substantial investments in order to pay the resulting federal income tax liabilities if differences in timing exist between the receipt of income and payment of our tax obligations. Although we currently intend to operate in a manner designed to qualify as a REIT, it is possible that future economic, market, legal, tax or other considerations may cause us to revoke our REIT election.

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We may have to borrow money to make required distributions to our stockholders.

In order to qualify as a REIT, we generally are required each year to distribute to our stockholders at least 90% of our REIT taxable income, excluding any net capital gains. To the extent that we satisfy the distribution requirement, but distribute less than 100% of our taxable income, we will be subject to federal corporate income tax on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible excise tax on the amount, if any, by which certain distributions paid by us with respect to any calendar year are less than the sum of 85% of our ordinary income for that year plus 95% of our capital gain net income for that year plus any undistributed taxable income from prior periods. We intend to make distributions to our stockholders to comply with the 90% distribution requirement and to avoid corporate income tax and the nondeductible excise tax. We may have to borrow funds on a short-term basis to meet the 90% distribution requirement and to avoid corporate income tax and the nondeductible excise tax if differences in timing between taxable income and cash available for distribution exist. Because we already have significant debt obligations and are highly leveraged, we may not be able to borrow these funds at favorable interest rates or at all.

Some of our buildings are subject to special income tax considerations, which could result in substantial tax liability upon their sale.

If we sell any of our Sheridan Center buildings before 2006 (ten years after the original acquisition date of the property or the property exchanged for that property), we will be required to pay tax at the highest applicable corporate rate on the excess of the buildings' fair market value at the effective time of our REIT election over its adjusted basis at such time (or, if lesser, the excess of the fair market value of the building at the time of the sale over its adjusted basis at the time of the sale).

Because we used proceeds from a recent sale of an office building in Wisconsin to purchase Sheridan Plaza in an exchange qualifying under Section 1031 of the Internal Revenue Code, we may also be required to hold Sheridan Plaza until 2006 in order to avoid corporate tax on the appreciation of the exchanged property as of the effective date of our REIT election. If we are subject to tax on any such gain at the highest corporate rate, the amount of this corporate tax could be substantial. We may not have sufficient cash available to pay the corporate taxes resulting from the sale of these properties.

New developments and acquisitions may fail to perform as we expect.

Over the last few years, we have focused our efforts on the acquisition and redevelopment of multi-tenant office buildings. We intend to continue to selectively develop and acquire office properties. In deciding whether to acquire or develop a particular property, we make assumptions regarding the expected future performance of that property. In particular, we estimate the return on our investment based on expected occupancy and rental rates. If the property is unable to achieve the expected occupancy and rental rates, it may fail to perform as we expected in analyzing our investment. When we acquire a property, we often reposition or redevelop that property with the goal of increasing profitability. Our estimate of the costs of repositioning or redeveloping an acquired property may prove inaccurate, which may result in our failure to meet our profitability goals. Additionally, we may acquire new properties not fully leased and the cash flow from existing operations may be insufficient to pay the operating expenses and debt service associated with that property until the property is fully leased. If one or more of these new properties do not perform as expected or we are unable to successfully integrate new properties into our existing operations, our financial performance may be adversely affected.

Development and construction risks could adversely affect our profitability.

We currently are renovating and redeveloping some of our properties and may develop new properties in the future. Our renovation, redevelopment, development and related construction activities may subject us to the following risks:

We may be unable to obtain, or suffer delays in obtaining necessary zoning, land-use, building, occupancy and other required governmental permits and authorizations, which could result in increased costs or our abandonment of these projects.

We may incur construction costs for a property which exceed our original estimates due to increased costs for materials or labor or other costs that we did not anticipate.

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We may not be able to obtain financing on favorable terms, which may make us unable to proceed with our development activities.

We may be unable to complete construction and lease-up of a property on schedule, which could result in increased debt service expense or construction costs.

Additionally, the time frame required for development, construction and lease-up of these properties means that we may have to wait years for a significant cash return. Because we are required to make cash distributions to our stockholders, if the cash flow from operations or refinancing is not sufficient, we may be forced to borrow additional money to fund such distributions.

Failure to succeed in new markets may limit our growth.

We may make selected acquisitions outside our current market areas from time to time as appropriate opportunities arise. Our historical experience is in Colorado, Indiana, Arizona and Texas, and we may not be able to operate successfully in other market areas new to us. We may be exposed to a variety of risks if we choose to enter into new markets. These risks include:

- a lack of market knowledge and understanding of the local economies;
- an inability to identify acquisition or development opportunities;
- an inability to obtain construction trades people; and
- an unfamiliarity with local government and permitting procedures.

Any of these factors could adversely affect the profitability of projects outside our current markets and limit the success of our acquisition and development strategy.

Real estate investments are inherently risky, which could adversely affect our profitability and our ability to make distributions to our stockholders.

Real estate investments are subject to varying degrees of risk. If we acquire or develop properties and they do not generate sufficient operating cash flow to meet operating expenses, including debt service, capital expenditures and tenant improvements, our income and ability to pay dividends to our stockholders will be adversely affected. Income from properties may be adversely affected by:

- decreases in rent rates due to competition or other factors;
- changes in economic conditions;
- increases in operating costs such as real estate taxes, insurance premiums, site maintenance and utilities;
- changes in interest rates and the availability of financing; and
- changes in laws and governmental regulations, including those governing real estate usage, zoning and taxes.

Future terrorist attacks in the United States may result in declining economic activity, which could reduce the demand for and the value of our properties.

Future terrorist attacks in the United States, such as the attacks that occurred in New York and Washington, D.C. on September 11, 2001, and other acts of terrorism or war, may result in declining economic activity and reduced demand for our properties. A decrease in demand would make it difficult for us to renew or release our properties at lease rates equal to or above historical rates. Terrorist activities also could directly impact the value of our properties through damage, destruction or loss. To the extent that our tenants are impacted by future attacks, their businesses similarly could be adversely affected, including their ability to continue to honor obligations under their existing leases.

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These types of events also may adversely affect the markets in which our securities trade. These acts may cause further erosion of business and consumer confidence and spending and may result in increased volatility in national and international financial markets and economies. Any one of these events may cause a decline in the demand for real estate, delay the time in which our new or renovated properties reach stable occupancy, increase our operating expenses due to increased physical security and insurance costs for our properties and limit our access to capital or increase our cost of raising capital.

General economic conditions may adversely affect our financial condition and results of operations.

Periods of economic slowdown or recession in the United States and in other countries, rising interest rates or declining demand for real estate, or the public perception that any of these events may occur, could result in a general decline in rents or an increased incidence of defaults by our tenants under existing leases, which would adversely affect our financial position, results of operations, cash flow, trading price of our common stock and ability to satisfy our debt service obligations and to make distributions to our stockholders.

Unfavorable changes in local market and economic conditions could hurt occupancy or rental rates.

Currently, our properties are located in Colorado, Indiana, Arizona and Texas. Economic conditions in our local markets may significantly affect occupancy and rental rates. Occupancy and rental rates, in turn, may significantly affect our profitability and our ability to satisfy our financial obligations. The economic condition of our local markets may depend on one or more industries and, therefore, an economic downturn in one of these industry sectors may adversely affect our performance in that market. Local real estate market conditions may include a large supply of competing space, and we will need to compete for tenants based on rental rates, attractiveness and location of a property, and quality of maintenance and management services.

We are subject to the credit risk of our tenants, which could result in lease payments not being made and a significant decrease in our revenues.

We are subject to the credit risk of our tenants. We cannot assure you that our tenants will not default on their leases and fail to make rental payments to us. In particular, local economic conditions and factors affecting the industries in which our tenants operate may affect our tenants ability to make lease payments to us. Moreover, we may be unable to locate a replacement tenant in a timely manner or on comparable or better terms if a tenant defaults on its lease. The loss of rental revenues from a number of our tenants may adversely affect our profitability and our ability to meet our financial obligations.

We may be unable to renew leases or re-lease space on a timely basis or on comparable or better terms, which could significantly decrease our revenues.

Current tenants may not renew their leases upon the expiration of their terms. Alternatively, current tenants may attempt to terminate their leases prior to the expiration of their current terms. If non-renewals or terminations occur, we may not be able to locate a qualified replacement tenant and, as a result, we would lose a source of revenue while remaining responsible for the payment of our obligations. Moreover, the terms of a renewal or new lease may be less favorable than current lease terms.

Loss of a significant tenant could lead to a substantial decrease in our cash flow.

Although we target tenants seeking 2,000 to 4,000 square feet of office space, we may have several significant tenants from time to time, the loss of any of which could adversely affect our cash flow. In August 2001, Rhythms NetConnections, Inc., the primary tenant in our Panorama Falls building in Englewood, Colorado, filed for reorganization under Chapter 11 of the Bankruptcy Code. In November 2001, we agreed to terminate the lease with Rhythms and apply a security deposit of \$335,000 against future lease payments. The rental revenue related to Rhythms was approximately \$611,000 and \$480,000 for the years ended December 31, 2001 and 2000, respectively, which was approximately 5.6% and 6.6% of our total rental revenue for the respective periods. On December 6, 2001, we completed the sale of an 80% interest in the Panorama Falls building.

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Currently, thirteen of our office buildings are leased to various agencies of the State of Texas. Although each of these leases includes a specific termination date, the State of Texas may terminate a lease at any time state appropriated funds necessary to pay the required rents are unavailable or federally-funded programs are curtailed. If the State of Texas were to terminate or fail to renew a lease, it may be difficult for us to locate another tenant on a timely basis or on comparable or better terms, especially for those buildings located in smaller cities and more remote locations. On occasion, the State of Texas may elect not to renew leases with us upon termination. We were not the successful bidder in a recent request by the Texas Department of Human Services for a new lease on our Clint, Texas building, which provided for an annual gross rent of \$125,676. The lease on this building terminated November 30, 2001. Subsequent to December 31, 2001, we began negotiations with the Town of Clint for a long-term lease of the building. In addition, the lease on our Paris, Texas building, which provides for an annual gross rent of \$208,376 expires on August 31, 2002 and we believe the State of Texas will not renew.

Our uninsured and underinsured losses could result in loss of value of our properties.

There are certain types of losses, generally of a catastrophic nature, such as earthquakes and floods, that may be uninsurable or not economically insurable, as to which our facilities are at risk in their particular locations. Our management will use its discretion in determining amounts, coverage limits and deductibility provisions of insurance, with a view to requiring appropriate insurance on our investments at a reasonable cost and on suitable terms. These decisions may result in our having insurance coverage that, in the event of a substantial loss, would not be sufficient to repay us for the full current market value or current replacement cost. Also, due to inflation, changes in codes and ordinances, environmental considerations, and other factors, it may not be feasible to use insurance proceeds to replace a building after it has been damaged or destroyed. Generally, our insurance does not cover acts of war or terrorist attacks. As a result of the September 11 attacks, we believe that the cost of our insurance may increase.

Sheridan Realty Advisors and its affiliates have significant influence over our company.

Entities affiliated with Sheridan Realty Advisors, our former external administrator, and members of our Board of Directors and management who also are affiliated with Sheridan Realty Advisors collectively beneficially own approximately 25% of our common stock. As a result, these individuals and entities acting together would be able to exert significant influence over us through their ability to influence the election of directors and all other matters that require action by our stockholders. The voting power of these individuals and entities could have the effect of preventing or delaying a change in control of our company which they oppose even if our other stockholders believe it is in their best interests. In addition, all of our executive officers are principals of Sheridan Realty Advisors and related entities and, thus, these Sheridan affiliates have the ability to influence the day-to-day operations of our company. Sheridan Realty Advisors continues to act as our outside advisor with respect to capital market activities, real estate acquisitions and dispositions and major capital projects and continues to earn an advisory and capital project fee for those services.

Conflicts of interest may result in decisions not in your best interest.

All of our executive officers and three of our directors have been officers, directors or investors in various real estate investment companies that are related to Sheridan Realty Advisors. We maintain an advisory agreement with Sheridan Realty Advisors and purchased our interests in Sheridan Plaza at Inverness and Keystone Office Park from entities affiliated with Sheridan Realty Advisors. In addition, another affiliate of these officers and directors, Sheridan Investments, LLC, has extended us a line of credit. The terms of these agreements were not negotiated on an arm's-length basis.

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The success of our company depends on the continuing contributions of our key personnel.

We have a highly skilled management team and specialized workforce managing our properties. All of our executive officers are principals of Sheridan Realty Advisors. Three of these executive officers became our employees as of January 1, 2002 as a result of our purchasing the administrative and property management and accounting services business from Sheridan Realty Advisors. We do not have employment agreements with any of our executive officers or key employees and, thus, any executive officer or key employee may terminate his or her relationship with us at any time.

There is limited liquidity in our real estate investments, which could limit our flexibility.

Real estate investments are relatively illiquid. Our ability to vary our portfolio in response to changes in economic and other conditions will be limited. We may not be able to dispose of an investment when we find disposition advantageous or necessary, and the sale price of any disposition may not recoup or exceed the amount of our investment. In addition, federal tax laws limit our ability to sell properties that we have owned for fewer than four years, and this may affect our ability to sell properties without adversely affecting returns to our stockholders.

There is a limited market for our common stock, which could hinder the ability of our stockholders to sell our shares.

Historically, there has been extremely limited trading volume for our common stock. Our equity market capitalization places us at the extreme low end of market capitalization among all REITs. Because of our small market capitalization, substantially all of our investors are individuals. We cannot assure you that the market for our common stock will remain at current levels or expand. Due to our limited trading volume and small market capitalization, many investors may not be interested in owning our securities because of the inability to acquire or sell a substantial block of our stock at one time. This illiquidity could have an adverse effect on the market price of our common stock. In addition, a stockholder may not be able to borrow funds using our common stock as collateral because lenders may be unwilling to accept the pledge of securities having such a limited market. Any substantial sale of our securities could have a material adverse effect on the market price of our common stock.

We may suffer environmental liabilities which could result in substantial costs.

Under various environmental laws, a current or previous owner or operator of real property may be liable for the costs of removal or remediation of hazardous or toxic substances, including asbestos-containing materials that are located on or under the property. These laws often impose liability whether the owner or operator knew of, or was responsible for, the presence of those substances. In connection with our ownership and operation of properties, we may be liable for these costs, which could be substantial. Also, our ability to arrange for financing secured by that real property might be adversely affected because of the presence of hazardous or toxic substances or the failure to properly remediate any contamination. In addition, we may be subject to claims by third parties based on damages and costs resulting from environmental contamination at or emanating from our properties. In particular, two lawsuits have been filed against our AmeriVest Properties Texas Inc. subsidiary alleging that our Mission, Texas property is contaminated with airborne contaminants. Our insurance company is defending us in these lawsuits. These lawsuits, or similar lawsuits, if adversely determined, could have a material adverse effect on our business and financial condition, and we cannot assure you that other lawsuits will not be filed against us with respect to this building or our other buildings. We incurred costs of approximately \$37,000 to monitor and evaluate the adequacy of the air quality in our Mission, Texas building.

After the acquisition of the Sheridan Center buildings, we embarked on an asbestos remediation program in accordance with applicable federal and state requirements, using licensed contractors to remove, wherever accessible or otherwise required, asbestos-containing materials in the buildings, including ceiling tiles, drywall

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joint compound, wood and metal fire doors, wall texture, mudded pipe elbows and valves, thermal systems insulation, floor tile and mastic and boiler insulation. Most of the remediation has been completed, except for one building, which is expected to be completed over the next few years as tenants vacate spaces, allowing access to the asbestos materials. Through March 31, 2002, we had incurred approximately \$272,000 in asbestos remediation costs. We plan to spend an additional \$380,000 over the next few years to remediate tenant spaces as they become vacant. We cannot assure you that we will not incur additional costs for remediation or that lawsuits will not be filed as a result of this condition.

Non-compliance with the Americans with Disabilities Act could result in compliance costs and fines.

Under the Americans with Disabilities Act of 1990, or the ADA, all public accommodations are required to meet certain federal requirements related to physical access and use by disabled persons. A determination that we are not in compliance with the ADA could require capital expenditures to remove access barriers and non-compliance could result in the imposition of fines or an award of damages to private litigants. If we were required to make modifications to comply with the ADA or other governmental rules and regulations, our ability to make expected distributions to our stockholders could be adversely affected.

The ability of our stockholders to control our policies or effect a change in control of our company is limited, which may not be in our stockholders' best interests.

Charter and Bylaws Provisions. Some provisions of our charter and bylaws may delay or prevent a change in control of our company or other transactions that could provide our common stockholders with a premium over the then-prevailing market price of our common stock or that might otherwise be in the best interests of our stockholders. These provisions include:

Classified Board of Directors and size of Board fixed within range; removal of directors only for cause. Our Board of Directors is divided into three classes with staggered terms of office. The total number of directors is fixed by a majority vote of the Board of Directors within a range of a minimum of three and a maximum of nine. Directors may only be removed for cause. These provisions may make it more difficult for a third party to gain control of our Board of Directors. At least two annual meetings of stockholders, instead of one, generally would be required to effect a change in a majority of our Board of Directors, and the number of directors cannot be increased above the maximum number of directors specified in our charter without board and stockholder approvals.

Two-thirds stockholder vote required to approve some amendments to the charter. Some amendments to our charter must be approved by the affirmative vote of stockholders holding at least 66 2/3% of the outstanding shares of our common stock, voting together as a single class. These voting requirements may make amendments to our charter that stockholders believe desirable more difficult to effect.

Issuance of preferred stock without stockholder approval. Our Board of Directors has the ability to authorize the issuance of preferred stock without stockholder approval and to set or change the designation, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications, or terms or conditions of redemption of the preferred stock. Our Board of Directors could therefore authorize series of preferred stock that may have voting provisions that could delay or prevent a change in control or other transaction that might involve a premium price or otherwise be in the best interests of our stockholders.

Ownership Limit. In order to assist us in maintaining our qualification as a REIT, our bylaws contain provisions generally limiting the ownership of shares of our capital stock by any single stockholder to 9.0% of our outstanding shares, unless waived by our Board of Directors. These provisions could also delay or prevent an acquisition or change in control of our company that could benefit our stockholders. In 2001, our Board granted a one-time waiver of this restriction in order to allow the exercise of warrants by Jerry Tepper, a director who beneficially owned or controlled approximately 4% of our outstanding shares as of June 11, 2002 taking into account the shares acquired pursuant to the exercise

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of such warrants. In April of 2002, our Board granted waivers allowing William Atkins and Alexander Hewitt, directors who beneficially owned or controlled approximately 8% and 6%, respectively, of our outstanding shares as of June 11, 2002, to beneficially own up to 12.0% and 10.0%, respectively, of our outstanding shares. In connection with these waivers, our Board also reduced the ownership limitation from 9.8% to 9.0%, as described above, so as to assist us in our continued qualification as a REIT. Sheridan Investments, LLC has also been granted a waiver by our Board allowing it to beneficially own up to 19.0% of our outstanding shares. For REIT qualification purposes, our outstanding shares that are owned by Sheridan Investments, LLC are treated as if such shares were owned by the members of Sheridan Investments, LLC in proportion to their respective membership interests. Sheridan Investments, LLC has represented to us that no individual will be treated as beneficially owning shares of our capital stock in excess of the 9.0% ownership limitation (except for Messrs. Atkins and Hewitt, who will not be treated as owning more than 12.0% and 10.0%, respectively, of our outstanding shares) as a result of Sheridan Investments, LLC owning up to 19.0% of our outstanding shares.

Maryland Business Statutes. As a Maryland corporation, we are subject to the provisions of the Maryland General Corporation Law. Maryland law imposes restrictions on some business combinations and requires compliance with statutory procedures before some mergers and acquisitions can occur. These provisions of Maryland law may have the effect of discouraging offers to acquire us even if the acquisition would be advantageous to our stockholders. These provisions include:

Unsolicited takeover provisions. Maryland law provides that the Board of Directors of a Maryland corporation is not subject to higher duties with regard to actions taken in a takeover context. These provisions may make it more difficult to effect an unsolicited takeover of a Maryland corporation. Maryland law also allows publicly held corporations with at least three independent trustees to elect to be governed by all or any part of Maryland law provisions relating to extraordinary actions and unsolicited takeovers.

Business combination with interested stockholders. The Maryland Business Combination Act provides that, unless exempted, a Maryland corporation may not engage in business combinations, including mergers, dispositions of 10% or more of its assets, issuance of shares and other specified transactions, with an interested stockholder or its affiliates, for five years after the most recent date on which the interested stockholder became an interested stockholder and thereafter unless specified criteria are met.

Control share acquisition. The Maryland Control Shares Acquisition Act provides that shares acquired by any person over one-tenth, one-third and a majority of the voting power of a corporation do not have voting rights, except to the extent approved by the vote of two-thirds of the votes entitled to be cast on the matter.

Other constituencies. Maryland law expressly authorizes a Maryland corporation to include in its charter a provision that allows the Board of Directors to consider the effect of a potential acquisition of control on stockholders, employees, suppliers, customers, creditors and communities in which offices or other establishments of the corporation are located. Our current charter does not include a provision of this type. Maryland law also provides, however, that the inclusion or omission of this type of provision in the charter of a Maryland corporation does not create an inference concerning factors that may be considered by the Board of Directors regarding a potential acquisition of control. This law may allow our Board of Directors to reject an acquisition proposal even though the proposal was in the best interests of our stockholders.

Other Maryland laws. Maryland law also permits the board of directors of a REIT, without stockholder approval, and even if contrary to a company's bylaws or charter, to classify the board of directors, require a two-thirds vote for the removal of directors and give the board sole power to fill board vacancies occurring for any reason.

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Our independent public accountant may become unable to provide audit-related services.

Our independent public accountant, Arthur Andersen, has informed us that on March 14, 2002, it was indicted on federal obstruction of justice charges arising from the government's investigation of Enron Corporation. Arthur Andersen has indicated that it intends to contest vigorously the indictment. Our Audit Committee has been carefully monitoring this situation. As a public company, we are required to file with the SEC periodic financial statements audited or reviewed by an independent, public accountant. The SEC has said that it will continue accepting financial statements audited by Arthur Andersen, and interim financial statements reviewed by it, so long as Arthur Andersen is able to make certain representation to its clients. Our access to the capital markets and our ability to make timely SEC filings could be impaired if the SEC ceases accepting financial statements audited or reviewed by Arthur Andersen, if Arthur Andersen becomes unable to make the required representations to us or if for any other reason Arthur Andersen is unable to perform required audit-related services for us.

FORWARD-LOOKING STATEMENTS

This prospectus includes forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. All statements other than statements of historical facts included in or incorporated by reference into this annual report, including statements regarding our expected financial position, business strategy, plans and objectives of management for future operations, expected capital expenditures, expected funding sources, planned investments and forecasted dates, are forward-looking statements. These forward-looking statements are based on our current expectations, beliefs, assumptions, estimates and projections about the industry and markets in which we operate. Words such as expects, anticipates, intends, plans, believes, seeks, estimates, variations of such words and similar expressions are often used to identify forward-looking statements. Although we believe that the expectations and assumptions reflected in the forward-looking statements are reasonable, these statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict and many of which are beyond our control. Therefore, actual outcomes and results may differ materially from what is expressed, forecasted or implied in such forward-looking statements. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

USE OF PROCEEDS

The net proceeds to us from the issuance of 135,800 shares of our common stock upon the exercise of the related warrants will be \$679,000. The net proceeds will be used for general corporate purposes.

Table of Contents**MARKET FOR COMMON STOCK AND DIVIDENDS**

Our common stock has traded on the American Stock Exchange under the symbol **AMV** since January 27, 2000. From our initial public offering in November 1996 until our listing on the American Stock Exchange, our common stock traded on the Nasdaq SmallCap Stock Market under the symbol **AMVP**. The warrants issued in our initial public offering were traded on the Nasdaq SmallCap Stock Market under the symbol **AMVPW** until November 20, 2000 when they expired without being exercised.

The table below presents the range of high and low sale prices for our common stock during each of the quarters indicated, as reported by the American Stock Exchange and Nasdaq SmallCap Stock Market and the cash dividends per share declared with respect to those quarters:

<u>Quarter Ended</u>	<u>Common Stock</u>		<u>Dividend Per Share</u>
	<u>High</u>	<u>Low</u>	
2000			
March 31, 2000	\$ 4.750	\$ 3.313	\$ 0.120
June 30, 2000	4.750	3.875	0.120
September 30, 2000	5.125	4.250	0.125
December 31, 2000	4.875	4.250	0.125(1)
2001			
March 31, 2001	5.950	4.250	0.125
June 30, 2001	6.200	4.850	0.125
September 30, 2001	6.200	5.200	0.125
December 31, 2001	6.000	5.050	0.125(1)
2002			
March 31, 2002	6.550	5.450	0.125
Through June 11, 2002	6.450	5.560	0.125(2)

(1) Declared in the fourth quarter and paid in the first quarter of the following year.

(2) Declared on June 10, 2002 and to be paid July 16, 2002.

On June 10, 2002, the closing sale price for our common stock was \$6.08 per share, as reported by the American Stock Exchange. On June 4, 2002, we had approximately 282 stockholders of record. As of June 7, 2002, we had approximately 3,832 beneficial stockholders. The information concerning beneficial owners is based on information provided by brokers and depositories who hold shares in their names on behalf of others.

Dividend Policy

Since our initial public offering in November 1996, we have paid a dividend each quarter. We intend to pay quarterly dividends in the future. Future dividends will be at the discretion of our Board of Directors and will depend on a number of factors, including our operating results and financial condition. We cannot assure you that any dividends will be paid or that we will maintain our historical level of dividends.

Table of Contents**SELECTED FINANCIAL INFORMATION**

The selected consolidated financial data set forth below should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, our consolidated historical financial statements and the related notes, and the other information included in this prospectus. The selected financial data for each of the three years in the period ended December 31, 2001 is derived from the consolidated financial statements of AmeriVest, which have been audited by Arthur Andersen LLP for the years ended December 31, 2001 and 2000 and by Wheeler Wasoff, P.C. for the year ended December 31, 1999, each of whom are independent public accountants. The selected financial data for the three months ended March 31, 2002 and 2001 is derived from our unaudited consolidated financial statements. The selected data provided below is not necessarily indicative of the future results of operations or financial performance of AmeriVest and should be reviewed in conjunction with our consolidated financial statements, accompanying notes, and selected financial data presented elsewhere in this prospectus.

	Year Ended December 31,			Three Months Ended March 31,	
	2001	2000	1999	2002	2001
Operating Data:					
Real estate operating revenue	\$ 10,944,383	\$ 7,222,437	\$ 5,976,757	\$ 3,626,052	\$ 1,979,081
Net operating income (a)	\$ 5,640,471	\$ 3,490,483	\$ 2,962,202	\$ 1,992,564	\$ 980,206
Net income	\$ 1,488,493 (b)	\$ 2,676,724 (c)	\$ 968,748 (d)	\$ 390,962	\$ 44,570
Weighted average diluted shares outstanding	4,801,307	2,495,919	1,882,232	6,863,423	3,012,600
Diluted net income per share	\$ 0.31(b)	\$ 1.07(c)	\$ 0.51(d)	\$ 0.06	\$ 0.01
Dividends declared per share	\$ 0.50	\$ 0.49	\$ 0.48	\$ 0.125	\$ 0.125
Other Data:					
Funds from operations (FFO)(e):					
Net income	\$ 1,488,493	\$ 2,676,724	\$ 968,748	\$ 390,962	\$ 44,570
Depreciation and amortization expense	2,244,435	1,205,795	1,033,450	684,930	341,055
Share of depreciation of unconsolidated affiliates	29,634	59,635		6,562	27,447
Gain on sale of real estate	(1,156,445)	(2,556,839)	(720,712)		
Total FFO	\$ 2,606,117	\$ 1,385,315	\$ 1,281,486	\$ 1,082,454	\$ 413,072
Net cash flow from operating activities	\$ 3,427,586	\$ 2,439,916	\$ 1,557,743	\$ 1,320,944	\$ 318,438
Net cash flow from investing activities	(24,577,134)	(15,005,789)	(384,953)	(1,237,623)	(1,400,648)
Net cash flow from financing activities	21,221,927	13,154,513	(1,155,770)	(573,895)	1,170,529
Net change in cash and cash equivalents	\$ 72,379	\$ 588,640	\$ 17,020	\$ (490,574)	\$ 88,319
Balance Sheet Data:					
Net investment in real estate	\$ 80,841,027	\$ 38,922,380	\$ 28,079,446	\$ 81,214,727	\$ 41,444,321
Total assets	\$ 88,021,284	\$ 42,363,797	\$ 30,314,458	\$ 88,550,769	\$ 45,001,228
Mortgage loans and notes payable	\$ 58,408,424	\$ 28,122,856	\$ 22,467,915	\$ 58,616,715	\$ 28,828,554
Stockholders' equity	\$ 24,996,985	\$ 11,358,503	\$ 6,258,776	\$ 24,653,836	\$ 12,011,730

- (a) Represents real estate operating revenue less: property operating expenses, general and administrative expense, severance expense, and impairment of deferred rents receivable

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- (b) Includes a gain of \$1,156,445 (\$0.24 per diluted share) recognized on the sale of non-core office buildings in Appleton, Wisconsin and Odessa, Texas.
- (c) Includes a gain of \$2,556,839 (\$1.02 per diluted share) recognized on the sale of our four self-storage facilities.
- (d) Includes a gain of \$720,712 (\$0.38 per diluted share) recognized on the sale of our industrial/showroom property.
- (e) The White Paper on Funds from Operations approved by the Board of Governors of the National Association of Real Estate Investment Trusts, or NAREIT, in March 1995 defines Funds from Operations, or FFO, as net income (loss), computed in accordance with generally accepted accounting principals, or GAAP, excluding gains (or losses) from debt restructuring and sales of properties, plus real estate related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. In November 1999, NAREIT issued a National Policy Bulletin effective January 1, 2000 clarifying the definition of FFO to include all operating results, both recurring and non-recurring, except those defined as extraordinary under GAAP. In accordance with this NAREIT Bulletin, we no longer adjust for the amortization of deferred financing costs when calculating FFO. We believe that FFO is helpful to investors as a measure of the performance of an equity REIT because, along with cash flow from operating activities, financing activities and investing activities, it provides investors with an indication of our ability to incur and service debt, to make capital expenditures and to fund other cash needs. We compute FFO in accordance with 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 we do. 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.

Table of Contents**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS**

The following is a discussion and comparison of the financial condition and results of operations of AmeriVest as of and for the years ended December 31, 2001 and 2000 and the quarters ended March 31, 2002 and 2001. These discussions should be read in conjunction with our financial statements, the notes to the financial statements, and the other financial data included in this prospectus.

Results of Operations

Comparison of the three months ended March 31, 2002 to the three months ended March 31, 2001:

	Three Month Periods Ended March 31,		
	2002	2001	Change
Rental revenue	\$ 3,626,052	\$ 1,979,081	\$ 1,646,971
Property operating expenses:			
Operating expenses	886,095	586,649	299,446
Real estate taxes	367,023	147,980	219,043
Management fees	28,062	101,301	(73,239)
General and administrative expenses	352,308	162,945	189,363
Interest expense	898,356	595,476	302,880
Depreciation and amortization expense	684,930	341,055	343,875
	<u>3,216,774</u>	<u>1,935,406</u>	<u>1,281,368</u>
Other income:			
Interest income	2,081	11,738	(9,657)
Equity in loss of unconsolidated affiliates	(20,397)	(10,843)	(9,554)
	<u>(18,316)</u>	<u>895</u>	<u>(19,211)</u>
Net income	<u>\$ 390,962</u>	<u>\$ 44,570</u>	<u>\$ 346,392</u>

Rental Revenue

The increase in rental revenue is due primarily to the inclusion of the operations of Sheridan Plaza at Inverness, LLC, which was acquired in April 2001, Arrowhead Fountains, which was acquired in November 2001, and the Kellogg Building, which was acquired in December 2001, offset by the exclusion of the operations of the Giltedge building, which was sold in June 2001, and the Panorama Falls building, 80% of which was sold in December 2001.

Property Operating Expenses

Operating expenses and real estate taxes increased as a result of the above-mentioned transactions.

The decrease in management fees is due to our acquisition of Sheridan Realty Advisors, LLC's administrative and property management and accounting services business, along with elimination of those related fees, effective January 1, 2002. As a result, most of Sheridan Realty Advisors' employees became our employees and manage our day-to-day operations, and we became a self-administered REIT. Subsequent to January 1, 2002, management fees will decrease and general and administrative expenses will increase due to us being internally managed versus externally managed in 2000 and 2001.

General and Administrative Expenses

The increase in general and administrative expenses is due to the above-mentioned acquisition of Sheridan Realty Advisors' administrative and property management and accounting services business.

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The increase in interest expense is due to the increase in debt outstanding at March 31, 2002 by approximately 103% from the prior year. The effect of the increase in debt level is partially offset by a decrease in interest rates, which resulted in lower interest costs on our variable rate debt.

Depreciation and Amortization Expense

The increase in depreciation and amortization expense is due to the overall increase in depreciable assets resulting from the acquisitions discussed above.

Interest Income

Interest income decreased due to lower average outstanding cash balances and lower interest rates during the first quarter of 2002.

Equity in Loss of Unconsolidated Affiliates

The equity in loss of our unconsolidated affiliate recognized in 2002 represents our share of the net loss of Panorama Falls. We sold 80% of its interest in Panorama Falls in December 2001, retaining its current 20% interest.

The amount recognized in 2001 represents our share of the net loss of Sheridan Investments, LLC (which owned Sheridan Plaza at Inverness, LLC). We acquired the original 9.639% interest in Sheridan Investments, LLC in September 2000. This interest was then used as partial consideration for the acquisition of 100% of Sheridan Plaza at Inverness, LLC in April 2001.

Comparison of the year ended December 31, 2001 with the year ended December 31, 2000:

	Year Ended December 31,		
	2001	2000	Change
Rental revenue	\$ 10,944,383	\$ 7,222,437	\$ 3,721,946
Property operating expenses:			
Operating expenses	2,643,448	1,946,633	696,815
Real estate taxes	1,132,819	668,224	464,595
Management fees	523,687	344,636	179,051
General and administrative expense	677,845	517,019	160,826
Severance expense		255,442	(255,442)
Impairment of deferred rents receivable	326,113		326,113
Interest expense	3,181,697	2,167,869	1,013,828
Depreciation and amortization expense	2,244,435	1,205,795	1,038,640
	<u>10,730,044</u>	<u>7,105,618</u>	<u>3,624,426</u>
Other income:			
Interest income	135,075	55,874	79,201
Equity in loss of unconsolidated affiliates	(17,366)	(52,808)	(35,442)
	<u>117,709</u>	<u>3,066</u>	<u>114,643</u>
Income before gain on sales of real estate	<u>332,048</u>	<u>119,885</u>	<u>212,163</u>
Gain on sales of real estate	1,156,445	2,556,839	(1,400,394)
Net income	<u>\$ 1,488,493</u>	<u>\$ 2,676,724</u>	<u>\$ (1,188,231)</u>

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Rental Revenue

The increase in rental revenue is due primarily to the inclusion of the operations of the Sheridan Center office complex which was acquired in August 2000 and Sheridan Plaza at Inverness, LLC, which was acquired in April 2001, offset by the exclusion of the operations of the four self-storage facilities which were sold in August 2000 and the Giltedge building which was sold in June 2001. The acquisition of Arrowhead Fountains in November 2001 and the Kellogg Building in December 2001, offset by the sale of the 80% interest in Panorama Falls in December 2001, also contributed to the net increase in rental revenue. Rental revenue for 2001 also included approximately \$285,000 attributable to increased property taxes at Sheridan Plaza at Inverness, which were passed through to the tenants in accordance with their leases.

Property Operating Expenses

Operating expenses, real estate taxes and management fees increased as a result of the above-mentioned transactions. Operating expenses also increased in 2001 due to planned maintenance projects, increased utility costs and increased property taxes at Sheridan Plaza at Inverness.

General and Administrative Expense

The increase in general and administrative expenses is due to the above-mentioned transactions as well as costs related to our continued growth.

Severance Expense

The severance expense recognized in 2000 was in accordance with a separation agreement between us and a former officer.

Impairment of Deferred Rents Receivable

During the second quarter of 2001, we recorded an impairment of a deferred rents receivable from a significant tenant, Rhythms NetConnections, Inc., which filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code. We reached an agreement with Rhythms to terminate its lease effective November 1, 2001. See the discussion in the *Liquidity and Capital Resources* section.

Interest Expense

The increase in interest expense is due to the increase in debt outstanding at December 31, 2001 by approximately 108% from the prior year as a result of property acquisitions. The effect of the increase in debt level is partially offset by a decrease in interest rates, which results in lower interest costs on our floating rate debt.

Depreciation and Amortization Expense

The increase in depreciation and amortization is due to the overall increase in depreciable assets due to the previously mentioned transactions and the continued redevelopment of Sheridan Center. The 2001 amount also includes the accelerated amortization of a lease commission related to the Rhythms lease that was recorded in the second quarter in the amount of \$323,447.

Interest Income

Interest income increased due to higher outstanding cash balances in 2001 resulting from our public offering of approximately 2.3 million shares of common stock in July 2001.

Table of Contents*Equity in Loss of Unconsolidated Affiliates*

The equity in losses of our unconsolidated affiliates recognized in 2001 represents our share of the net loss of Sheridan Investments, LLC (which owned Sheridan Plaza at Inverness, LLC) and Panorama Falls. We acquired a 9.639% interest in Sheridan Investments, LLC in September 2000. We acquired 100% of the interests of Sheridan Plaza at Inverness, LLC in April 2001 in exchange for our 9.639% interest in Sheridan Investments, LLC and other consideration. Our 20% interest in Panorama Falls as of December 31, 2001, resulted from our sale of an 80% interest in the property in December 2001.

Gain on Sales of Real Estate

The gain recognized in 2001 was a result of the sales of the Giltedge building in the amount of \$1,143,698 and the building in Odessa, Texas in the amount of \$12,747. The gain recognized in 2000 resulted from the sale of the four self-storage facilities.

Comparison of year ended December 31, 2000 with year ended December 31, 1999:

	Year Ended December 31,		
	2000	1999	Change
Rental revenue	\$ 7,222,437	\$ 5,976,757	\$ 1,245,680
Property operating expenses:			
Operating expenses	1,946,633	1,636,305	310,328
Real estate taxes	668,224	596,790	71,434
Management fees	344,636	124,111	220,525
General and administrative expense	517,019	657,349	(140,330)
Severance expense	255,442		255,442
Interest expense	2,167,869	1,696,222	471,647
Depreciation and amortization expense	1,205,795	1,033,450	172,345
	<u>7,105,618</u>	<u>5,744,227</u>	<u>1,361,391</u>
Other income:			
Interest income	55,874	15,506	40,368
Equity in loss of unconsolidated affiliates	(52,808)		(52,808)
	<u>3,066</u>	<u>15,506</u>	<u>(12,440)</u>
Income (loss) before gain on sales of real estate	<u>119,885</u>	<u>248,036</u>	<u>(128,151)</u>
Gain on sales of real estate	<u>2,556,839</u>	<u>720,712</u>	<u>1,836,127</u>
Net income	<u>\$ 2,676,724</u>	<u>\$ 968,748</u>	<u>\$ 1,707,976</u>

Rental Revenue

The increase in rental revenue is due primarily to the inclusion of the operations of the Keystone Office Park for a full year, together with the operations of Sheridan Center beginning September 1, 2000 and the operations of Panorama Falls beginning May 25, 2000, offset by the elimination of the operations of the Broadway property which was sold on December 13, 1999 and the four self-storage facilities which were sold on August 25, 2000.

Property Operating Expenses

Operating expenses, real estate taxes and management fees increased as a result of the above-mentioned transactions. Management fees also increased due to the management agreement with Sheridan Realty Advisors, LLC in 2000 versus internal management in 1999.

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General and Administrative Expense

The decrease in general and administrative expenses decreased due to the management agreement with Sheridan Realty Advisors, LLC in 2000 versus internal management in 1999.

Severance Expense

The severance expense recognized in 2000 was in accordance with a separation agreement between us and a former officer.

Interest Expense

The increase in interest expense is due to the increase in debt outstanding as a result of property acquisitions.

Depreciation and Amortization Expense

The increase in depreciation and amortization is due to the overall increase in depreciable assets due to the previously mentioned transactions.

Interest Income

Interest income increased in 2000 primarily as a result of funds being held in escrow from the sale of the Broadway property for an IRS Section 1031 exchange and the investment of funds from the 1999 stock and warrants offering.

Equity in Loss of Unconsolidated Affiliate

The equity in losses of our unconsolidated affiliate recognized in 2000 represents our share of the net loss of Sheridan Investments, LLC.

Gain on Sales of Real Estate

The gains recognized in 2000 and 1999 were a result of the sales of the four self-storage facilities and industrial office and showroom building, respectively.

Liquidity and Capital Resources

Liquidity

Net cash from operations for the twelve months ended December 31, 2001 was approximately \$3.4 million and for the three months ended March 31, 2002 was approximately \$1.3 million. Those funds are the primary source of liquidity to fund distributions, debt service and capital expenditures. We also have lines of credit totaling \$1.8 million available to assist with our cash needs.

Management believes that the cash flow from our existing properties, together with our existing lines of credit, will be sufficient to meet our working capital needs for the near term.

We desire to acquire additional properties. In order to do so, we will need to raise additional debt or equity capital. We also intend to obtain credit facilities for short and long-term borrowing with commercial banks or other financial institutions. We may be unable to raise additional capital, however the issuance of additional securities or an increase in debt for additional properties could adversely affect the amount of cash available to pay dividends to stockholders.

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Mortgage loans are collateralized by substantially all properties. The following table details the scheduled maturities of mortgages as of March 31, 2002:

2002	\$	396,268
2003		22,362,859
2004		9,654,927
2005		488,010
2006		14,579,886
Thereafter		10,834,765
Total	\$	58,316,715

Included in the 2003 maturities is the outstanding balance on the mortgage loan on Panorama Falls in the amount of \$3,036,294. Although we sold 80% of its interest in the property, we have retained 100% of the loan balance on its balance sheet due to our continued obligation. As an offset, we have recorded a receivable for 80% of this amount as due from related party, with the remaining 20% included in the investment in unconsolidated affiliate balance.

As of March 31, 2002, total mortgage loans (including the Panorama Falls mortgage loan) consisted of approximately \$27.1 million of fixed rate debt with a weighted-average interest rate of approximately 7.9% and approximately \$31.2 million of variable rate debt with a weighted-average interest rate of approximately 4.5%. We intend to secure long-term financing at a fixed interest rate to replace certain of our variable rate debt in late 2002.

We have a short-term revolving credit line from a bank in the amount of \$300,000 and a \$1,500,000 short-term unsecured credit line from Sheridan Investments, LLC, a related party. At March 31, 2002, we had an outstanding balance of \$300,000 on the bank line with an interest rate of 5.75%, and no outstanding balance on the Sheridan Investments, LLC line. On April 30, 2002, we drew down \$1,000,000 on the Sheridan Investments, LLC line to be used as working capital. On May 8, 2002, the bank line was repaid and on May 24, 2002, the Sheridan Investments, LLC line was repaid.

On April 4, 2002, we drew down the remaining available amount of \$1,030,201 on our loan from US Bank for a total outstanding balance of \$10,500,000. The loan is secured by a mortgage on Sheridan Center.

Tenant Bankruptcy

On August 2, 2001, Rhythms NetConnections, Inc., the primary tenant in our Panorama Falls building in Englewood, Colorado, filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code. Effective November 1, 2001, we agreed to terminate our lease with Rhythms and apply the security deposit from Rhythms in the amount of \$335,000 against future lease payments. We also wrote off tenant leasing costs in the amount of \$323,447 and deferred rents receivable in the amount of \$326,113 during 2001. The rental revenue related to Rhythms was approximately \$611,000 and \$480,000 for the years ended December 31, 2001 and 2000, respectively, which is approximately 5.6% and 6.6% of our total rental revenue for the respective periods. In December 2001, we sold 80% of our interest in Panorama Falls to a related party.

Inflation

Management believes that inflation should not have a material adverse effect on our operations. Our office leases require the tenants to pay increases in operating expenses should any inflationary pressures materialize.

New Accounting Principles

In June 2001, the Financial Accounting Standards Board (FASB) authorized the issuance of Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets. Under SFAS No. 142, goodwill will no longer be amortized on a straight-line basis over its estimated useful life, but will be

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tested for impairment on an annual basis and whenever indicators of impairment arise. The goodwill impairment test, which is based on fair value, is to be performed on a reporting unit level. A reporting unit is defined as a SFAS No. 131, Disclosure about Segments of an Enterprise and Related Information, operating segment or one level lower. Goodwill will no longer be allocated to other long-lived assets for impairment testing under SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of. Under SFAS No. 142, intangible assets with indefinite lives will not be amortized. Instead they will be carried at the lower cost or market value and tested for impairment at least annually. All other recognized intangible assets will continue to be amortized over their estimated useful lives. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. Our adoption of SFAS No. 142 will not have an impact on our financial statements, as we have not recorded any goodwill or intangible assets.

In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement, which is effective for financial statements issued for fiscal years beginning after June 15, 2002. SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. We are currently evaluating the potential impact, if any, the adoption of SFAS No. 143 will have on our financial position and results of operations.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which is effective for fiscal periods beginning after December 15, 2001 and interim periods within those fiscal years. SFAS No. 144 establishes an accounting model for impairment or disposal of long-lived assets to be disposed of by sale. Our adoption of SFAS No. 144 had no impact on our financial statements.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements required us to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, which would potentially result in materially different results under different assumptions and conditions. We believe that our critical accounting policies are those described below. For a detailed discussion on the application of these and other accounting policies, see notes to the consolidated financial statements included elsewhere herein.

Investment in Real Estate

Real estate, property, and equipment are stated at cost. Depreciation and amortization are computed on a straight-line basis over the estimated useful lives as follows:

<u>Description</u>	<u>Estimated Useful Lives</u>
Land	Not depreciated
Buildings	20 to 40 years
Equipment	five to seven years
Tenant improvements and lease commissions	Term of lease

Maintenance and repairs are expensed as incurred and improvements are capitalized. The cost of assets sold or retired and the related accumulated depreciation and/or amortization are removed from the accounts and the resulting gain or loss is reflected in operations in the period in which such sale or retirement occurs.

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Revenue Recognition

Certain leases provide for tenant occupancy during periods for which no rent is due or where minimum rent payments increase during the term of the lease. We record rental revenue for the full term of each lease on a straight-line basis. Accordingly, we record a receivable from tenants from whom we expect to collect over the remaining lease term rather than currently, which is recorded as deferred rents receivable in the accompanying balance sheet. When we acquire a property, the term of the existing leases is considered to commence as of the acquisition date for the purposes of this calculation.

Sale of Properties

We account for the sale of properties under the full accrual method. Gains or losses on sale are recognized only after closing takes place, title has transferred, an adequate down payment has been received by us and the collectibility of the note receivable from the buyer, if applicable, is reasonably assured.

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BUSINESS AND PROPERTIES

Overview

AmeriVest Properties Inc. was incorporated in 1993 in the State of Delaware and was reincorporated in 1999 in the State of Maryland. We are a self-administered real estate investment trust, or REIT, and own 23 office properties. We market and lease Class A and B office space to small and mid-sized tenants, and the design, finish and amenities of our core properties are specifically tailored for this target market. Our properties, which include an aggregate of approximately 912,000 rentable square feet, are currently located in Colorado, Arizona, Indiana, and Texas.

Current management assumed control of the day-to-day operations of AmeriVest on January 1, 2000, at which time we owned a portfolio of diversified properties. Since that time, we have focused our efforts in select cities on the acquisition, rehabilitation and development of multi-tenant office buildings with an average tenant size of between 2,000 and 4,000 square feet. We have sold our non-office building assets, which at one time included one industrial and four self-storage properties. Since August 25, 2000, all our assets have been office buildings. Of our 23 properties, six comprise our core holdings and are representative of our current and ongoing strategy. These core properties are located in Denver, Indianapolis and Phoenix and account for a majority of our square footage and revenue.

Business Strategy

We believe the public equity markets for REITs reward a strongly focused strategy and that the currently depressed office sector can support a relatively higher valuation than other property types. We have elected to focus on the office sector because we believe the demand for office space will continue to grow as the economy continues to transition from manufacturing to service businesses. We believe that demand will continue to grow in our target markets specifically and have responded by developing a focused strategy, the key elements of which follow.

Focus on Small Average Tenant Size

Our strategy is to focus on tenants that typically require 2,000 to 4,000 square feet of office space. Within the growing office sector, we believe that our niche focus on properties providing small average space per tenant is appropriate due to the positive corporate demographics of small firms. According to data compiled by the Office of Advocacy of the U.S. Small Business Administration, there were more than 5.6 million employer-firms in the U.S. economy in 1999. Of these firms, 98% employed fewer than 100 employees, and in 1999 this 98% employed 36% of all workers. Assuming each office worker occupies the national average of 150 square feet, these firms each require less than 15,000 square feet of office space. This research further reveals that in 1999, 89% of U.S. businesses employed fewer than 20 employees, indicating an average office space requirement of no more than 3,000 square feet.

Provide a Superior, Consistent Product

We believe that the small tenant market has been under-served by most office landlords, and that we bring a level of amenities to the small tenant that usually only larger tenants enjoy. We accomplish this through new development, such as Sheridan Plaza, redevelopment of existing properties, such as Sheridan Center, and improved management with a focus on customer service, such as at Keystone Office Park. For example, tenants in our core buildings enjoy a keyless entry card system to allow secure access 24 hours a day to their individual suites, as well as use of common area conference rooms with the latest telecommunications and presentation equipment. Entry lobbies feature touchpad electronic directories and, where possible, our buildings are engineered to provide control of heating and air conditioning in individual tenant suites. Signage for each tenant

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suite allows for the tenant's individual logo to be incorporated on a common background. Each property is wired to offer high speed voice and data service from multiple telecom providers, and in some buildings tenants can elect to use the building's centralized server and local area network as their own computer system, with 24 hour, seven days a week support from third party providers.

Simplify the Leasing Process

We operate our multi-tenant buildings under a no-hassle leasing philosophy, using a standard simplified lease that has been designed for fairness to both tenant and landlord. We also incorporate a turn-key tenant finish package, greatly reducing the time to design and build out finished space. Our streamlined system greatly reduces negotiation and space planning time and allows the tenant to move into its space more quickly and with less aggravation than is usual in the leasing process.

Capitalize on the Perceived Risks

A frequently cited concern about the small and mid-sized tenant office market is the perceived high level of credit risk. We believe that these perceived risks are higher than the actual risks and, thus, provide an effective deterrent for competition and an attractive opportunity for us. With a typical tenant size of 2,000 to 4,000 square feet, the loss of a single tenant of such size does not meaningfully affect our financial results. Additionally, we maintain a high level of credit quality in our core office buildings through accounting and collection systems that flag any late payments and rigorously impose late payment penalty charges. Eviction action will be quickly taken if a tenant does not make timely lease payments. These control systems are centralized in our Denver headquarters, and monitored by an experienced accounting staff. We believe that we can maintain and improve this high level of credit quality in all our properties.

Provide a High Level of Service

Another frequently cited concern about the small and mid size tenant is management intensity. We believe, based on our experience, the issue of management intensity may be largely a matter of perception. Multiple smaller tenants may be viewed as requiring more management time than larger tenants. Over time, we believe that smaller tenants actually are less demanding than large tenants, who use their economic leverage not only in initial lease negotiations but throughout their tenancy as well. With our focus on small to mid-sized tenants and our no-hassle leasing philosophy, we bring a positive, service-oriented mentality to our smaller tenants.

Our core buildings feature a regional Tenant Relations Advocate who has responsibility for interfacing regularly with all tenants and maximizing tenant retention. The Tenant Relations Advocate, unlike a conventional property manager, does not have responsibility for the physical operation of a building, but rather is dedicated to tenant issues with a singular focus on tenant retention. The Tenant Relations Advocate personifies our service-oriented mentality and is available to resolve minor tenant service complaints before they develop into major issues. Our Tenant Relations Advocates work with team leaders for each region, who in turn report to a senior manager in our Denver headquarters, providing direct and regular feedback on tenant concerns. We believe that our tenant-focused management will improve our tenant retention rates.

Target Select Cities

We target buildings or projects containing at least 100,000 square feet within select cities where we hope to build meaningful multi-property portfolios over the short- and medium-term. Target cities must have a high concentration of firms of fewer than 20 employees and, currently, must be within a two-hour air travel radius from our headquarters in Denver. The target cities also must be large enough in total office square footage to

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offer the possibility of multiple acquisitions and liquidity in the event of a desired sale. We believe that by focusing on a specific property type in cities with a growing small tenant market, we should be able to increase our revenues, our earnings, and our funds from operations. In the short term, we plan to focus our acquisition activities in the following cities:

Phoenix, AZ

Indianapolis, IN

Denver, CO

Dallas, TX

San Francisco, CA

Property Acquisitions and Sales

2002

Keystone AmeriVest Joint Venture

In January 2002, we formed Keystone AmeriVest, LLC, to serve as a joint venture company, with Sheridan Realty Partners, L.P., which is owned by certain of our executive officers and directors. Subject to receipt of consent from our lender, we will contribute Keystone Office Park to the joint venture and Sheridan Realty Partners will contribute 2.55 acres of vacant land adjacent to Keystone Office Park. In exchange, we will receive 92 of the 100 total outstanding membership units and Sheridan Realty Partners will receive the remaining eight membership units of Keystone AmeriVest. Under the operating agreement of Keystone AmeriVest, we will have the option to purchase seven of Sheridan Realty Partners eight membership units in exchange for shares of our common stock having a market value equal to \$280,000 at the time of such purchase.

2001

Kellogg Building Acquisition

On December 21, 2001, we completed the acquisition of the Kellogg Building. The Kellogg Building is located in Littleton, Colorado, contains 112,732 rentable square feet and is located on approximately five acres of land. The aggregate purchase price for the Kellogg Building was \$13,550,000, which was paid with \$9,500,000 from the proceeds of a loan from US Bank National Association and the balance from a portion of the proceeds from the 2001 public offering.

Panorama Falls Sale

On December 6, 2001, we completed the sale of an 80% interest in the Panorama Falls building to an investor affiliated with a large stockholder. Panorama Falls is a three-story office building with 61,963 rentable square feet on approximately six acres located in Englewood, Colorado. The aggregate sales price for the interest in Panorama Falls was \$4,880,000 payable as follows:

\$2,180,000 to Key Bank National Association to pay down a portion of the existing mortgage loan;

the assumption of 80% of the remaining existing mortgage loan in the amount of \$2,395,732; and

the remainder of \$304,268 in cash, less closing costs.

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Arrowhead Fountains Acquisition

On November 19, 2001, we completed the acquisition of the Arrowhead Fountains office building. Arrowhead Fountains is located in suburban Phoenix, Arizona, contains 96,076 rentable square feet and is located on approximately five acres of land. The aggregate purchase price for Arrowhead Fountains was \$12,750,000, which was paid by the assumption of the mortgage loan from Nationwide Life Insurance Company with a principal balance of \$9,300,000 and the balance from a portion of the proceeds from the 2001 public offering.

Odessa Sale

On October 23, 2001, we completed the sale of our office building in Odessa, Texas for \$132,500. The sale resulted in a gain on sale of \$12,747.

Giltedge Sale

On June 1, 2001, we completed the sale of our Giltedge building in Appleton, Wisconsin for \$3,650,000. The sale resulted in a gain on sale of \$1,143,698. The cash proceeds from this transaction of \$458,030 were used to complete a tax-deferred exchange under Section 1031 of the Internal Revenue Code.

Sheridan Plaza at Inverness Acquisition

Effective April 1, 2001, we purchased from Sheridan Investments, LLC, an affiliate, 100% of the ownership interests of Sheridan Plaza at Inverness, LLC, an affiliate. Sheridan Plaza at Inverness, LLC owns two office buildings located in Englewood, Colorado consisting of 118,720 total rentable square feet on 6.7 acres of land with 405 total parking spaces, including 80 underground parking spaces. For accounting purposes, the purchase price was \$22,895,067, which consisted of:

\$705,135 for our 9.639% preferred membership interest in Sheridan Investments, LLC, the owner of all of the membership interests in Sheridan Plaza at Inverness LLC, which was transferred back to Sheridan Investments, LLC;

\$6,474,329 paid with (1) 1,057,346 shares of our common stock, at a price of \$5.69 per share (as required for accounting purposes, based on an average market price of the shares over a period of several days before and after the date of the announcement of the acquisition) and (2) the cash proceeds of \$458,030 from the sale of the Giltedge building;

assumption of the mortgage in the principal amount of \$14,954,425 secured by the property; and

assumption of other liabilities in the amount of \$761,178.

The acquisition was structured as a tax-deferred exchange of the Giltedge building under Section 1031 of the Internal Revenue Code. Due to the related party nature of this transaction, accounting principles generally accepted in the United States require us to record this acquisition at its historical net book value. The difference between the purchase price and the historical net book value was \$4,507,557 and has been recorded as a non-cash dividend during 2001.

2000

Sheridan Investments, LLC Membership Interest Acquisition

On September 29, 2000, we purchased a 9.639% preferred membership interest in Sheridan Investments, LLC, the sole owner of Sheridan Plaza at Inverness, LLC, which owns two office buildings in Englewood, Colorado, containing 118,720 square feet and located on approximately 6.7 acres of land. The aggregate purchase price for the interest was \$658,918, which we paid by issuing 131,784 shares of common stock and 65,892 common stock purchase warrants exercisable at \$5 per share. This interest was transferred back to Sheridan Investments, LLC in April 2001 as partial consideration for the remaining interest in Sheridan Plaza at Inverness, LLC.

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Self-Storage Sale

On June 6, 2000, we entered into a contract to sell our four self-storage facilities in the metropolitan Denver, Colorado area for \$8,400,000. This sale closed on August 25, 2000, resulting in a gain on sale of approximately \$2,557,000. The net proceeds of approximately \$1,818,000 were used to complete a tax-deferred exchange under Section 1031 of the Internal Revenue Code for office building assets.

Sheridan Center Acquisition

On June 2, 2000, we entered into a contract to purchase a three-building office complex, Sheridan Center, in southeast Denver, Colorado for \$9,600,000. The buildings contain 143,332 square feet and are located on approximately 3.74 acres of land. The transaction closed on August 31, 2000 and was recorded on September 1, 2000. Funds for closing included approximately \$1,818,000 held in escrow and on deposit as part of the tax-deferred exchange under Section 1031 of the Internal Revenue Code from the sale of the self-storage facilities, together with mortgage financing and a portion of the proceeds from our 2000 public offering.

Panorama Falls Acquisition

On May 25, 2000, we purchased a three-story office building, Panorama Falls, for \$5,900,000. Panorama Falls contains 61,693 square feet on approximately six acres of land in southeast Denver, Colorado. Funds for closing included approximately \$514,000 being held in escrow and on deposit as part of the tax-deferred exchange under Section 1031 of the Internal Revenue Code from the sale of the Broadway Property completed in December 1999, together with mortgage financing and short-term financing, which was partially repaid in August 2000 with proceeds from our 2000 public offering.

1999

Broadway Property Sale

On December 13, 1999, we sold our industrial office and showroom building in Denver, Colorado for \$2,100,000, resulting in a gain on sale of approximately \$737,000. We reinvested approximately \$510,000 in net proceeds from this transaction in a tax-deferred exchange under Section 1031 of the Internal Revenue Code on May 25, 2000, purchasing the 61,693 square foot three-story Panorama Falls office building.

Keystone Office Park Acquisition

On August 12, 1999, we completed the acquisition of three office buildings, known as Keystone Office Park, located in suburban Indianapolis, Indiana. Keystone Office Park contains a total of 96,048 rentable square feet. The total purchase price for Keystone Office Park was \$7,944,000, which we paid by assuming approximately \$5,255,000 of existing debt and \$116,400 of related escrow balances on the properties and issuing 541,593 shares of our common stock at \$4.75 per share. In conjunction with the assumption of the debt, we also agreed to indemnify the original guarantors of this debt if we fail to repay it.

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Properties

We own and operate 23 office properties in Colorado, Texas, Indiana and Arizona. Of our 23 properties, we consider six to be our core properties, which are representative of our current and planned strategy. Four of these core properties are located in Denver, one is located in Indianapolis and one is located in Phoenix. Our core properties account for a majority of our square footage and revenue. Our Texas properties are legacy properties acquired by our prior management and are not reflective of our current strategy. Prepayment penalties and yield maintenance requirements with respect to the debt on our Texas properties make divestiture of these properties uneconomical at the present time. Other than as described under Description of Specific Properties below, we have no plans to renovate our office properties other than for routine capital maintenance.

The following chart illustrates the geographic distribution of our property portfolio by square footage:

The following chart illustrates the geographic distribution of our property portfolio based on 2001 revenue:

* The Giltedge building in Appleton, Wisconsin was sold on June 1, 2001 and the Arrowhead Fountains building in Phoenix, Arizona was purchased on November 19, 2001.

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The following table sets forth certain information about our office properties:

<u>Location</u>	<u>Year Acquired</u>	<u>Rentable Square Footage (a)</u>	<u>Percentage Occupancy at March 31, 2002</u>	<u>Average Rent Per Square Foot (b)</u>
Small Tenant Office Buildings				
Denver, CO Sheridan Center	2000	143,332	91.5%	\$ 14.85
Englewood, CO Sheridan Plaza	2001	118,720	100.0%	\$ 23.59
Indianapolis, IN Keystone	1999	96,048	99.2%	\$ 16.97
Englewood, CO Panorama Falls(c)	2000	61,963	16.3%	\$ 20.50
Phoenix, AZ Arrowhead Fountains	2001	96,076	90.3%	\$ 22.12
Littleton, CO Kellogg Building	2001	112,732	91.6%	\$ 22.40
Bank of America Buildings(d)	1998	60,095	98.2%	\$ 16.00
Mineral Wells, Georgetown, Henderson and Clifton, TX				
State of Texas Leased Buildings(e)	1997-1998	222,542	92.9%	\$ 9.20
Arlington, Paris, Marshall, Amarillo, El Paso (2 buildings), Belleville, Mission, Clint, Lubbock, Temple, Hempstead and Columbus, TX				
Totals		911,508	89.0%(f)	\$ 16.83

(a) Includes office space but excludes storage, telecommunications and garage space.

(b) Annualized base rent divided by net rentable area leased. Annualized base rent is original base rent plus contractual increases, but excludes additional rent for common area maintenance, taxes, expense reimbursements and parking.

(c) We own a 20% interest in this property. An 80% interest is owned by Freemark Abbey Panorama, LLC as a tenant in common with AmeriVest.

(d) Four buildings leased approximately 63% to Bank of America, with the remainder leased to a number of small to mid-sized tenants.

(e) Thirteen buildings leased primarily to various agencies of the State of Texas.

(f) Weighted average occupancy was 94.3% for 100% owned properties.

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The following is a schedule of lease expirations for all of our properties over the next ten years:

Year	Number of Leases That Will Expire (1)	Total Area in Square Feet of Expiring Leases (1)	Annual Rent Revenue of Expiring Leases (1) (2)	Percentage of Gross Rents on Expiring Leases (1)
2002	63	114,354	1,544,527	13.4%
2003	68	166,828	2,636,511	22.8%
2004	67	127,711	2,548,332	22.1%
2005	43	138,948	2,558,477	22.2%
2006	30	108,445	1,494,623	12.9%
2007	5	8,554	126,219	1.1%
2008				0.0%
2009	1	7,951	166,971	1.5%
2010	1	17,150	347,288	3.0%
2011	2	11,679	120,593	1.0%

(1) Does not include Panorama Falls leases, leases of executive suites in the Kellogg Building or month to month leases.

(2) Annualized base rent for the year ended December 31, 2001. Excludes additional rent for common area maintenance, taxes, expense reimbursements and parking.

Description of Specific Properties

As of March 31, 2002, the following four properties had a book value greater than or equal to 10% of our consolidated assets: Sheridan Center, Sheridan Plaza at Inverness, Arrowhead Fountains and the Kellogg Building. Set forth below is a description of each of these properties and of Keystone Office Park, which we consider to be one of our core properties.

Sheridan Center. On August 31, 2000, we acquired the Sheridan Center office buildings, formerly known as The Writer Buildings, which transaction was recorded on September 1, 2000. The project consists of one four-story, one five-story and one eight-story office building on 3.72 acres of land. The buildings total 143,332 rentable square feet and site improvements include parking for approximately 400 cars. The buildings were built in 1966, 1968 and 1971 and, prior to our renovation, were considered Class C office buildings.

We substantially renovated the buildings at a cost of approximately \$5.0 million for the period from our acquisition in August 2000 through March 2002. The buildings are now considered Class B office buildings and command higher rental rates.

Exterior improvements include:

- a new exterior facade for each building to tie the buildings together visually;
- a new entry and handicap access ramp for each building;
- new fixed and operable thermal windows; and
- resurfaced parking lots with new landscape and lighting.

Interior improvements include:

- refurbished lobbies and hallways with new carpet and lighting;
- new oak suite entry doors and sidelights;
- new building and suite signage;

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computerized touch-screen building directories;

keyless entry systems to the building with each suite monitored by computer;

refurbished bathrooms with new tile, lighting, paint and ADA fixtures;

a new selection of interior tenant finish packages; and

improved HVAC systems and new fire safety sprinklers and systems.

As part of the renovation, we embarked on an asbestos remediation program in accordance with state and federal requirements using licensed contractors to remove, wherever accessible or otherwise required, asbestos containing materials in the buildings, including ceiling tiles, drywall joint compound, wood and metal fire doors, wall texture, mudded pipe elbows and valves, thermal systems insulation, floor tile and mastic and boiler insulation. We have completed most of the remediation except for one building, which we expect to complete over the next few years as tenants vacate spaces, allowing access to the asbestos materials. As of March 31, 2002, we had incurred approximately \$272,000 in asbestos remediation costs at this building. The estimated cost of the future asbestos remediation is approximately \$380,000.

The property is located in a central location between downtown Denver and the southeast suburbs along Interstate 25 at Colorado Boulevard. The Colorado Department of Transportation and the Regional Transportation District has commenced construction of a light-rail system and highway expansion project on Interstate 25, or I-25. The project, which is scheduled to continue through June 2008, has disrupted traffic on I-25 due to lane closures and massive construction along 19 miles of the Interstate adjacent to Sheridan Center and near our Sheridan Plaza and Panorama Falls buildings. Sheridan Center is located north of I-25 on the other side of most of the proposed construction, which allows for alternative access from most metropolitan Denver locations. We believe that the central location of Sheridan Center, together with our focus on tenants whose employees have flexible work schedules, should minimize the adverse impact of the highway construction on occupancy levels and leasing activity at this project.

Sheridan Center competes with several buildings in the area, including buildings that lease to small and mid-sized tenants.

Sheridan Center is leased to 100 tenants at base rental rates ranging from \$8.69 to \$17.50 per rentable square foot. The average effective annual rent per square foot for the year ended December 31, 2001 was \$13.91. Lease terms range from approximately one to five years.

The occupancy rate for Sheridan Center was 91.5% at March 31, 2002, 90.4% at December 31, 2001, 90.0% at December 31, 2000 and 91.0% at December 31, 1999. Occupancy information for prior years, which are before we acquired the property, is not available. As of December 31, 2001, there are no tenants occupying 10% or more of the rentable space.

The following is a schedule of lease expirations for Sheridan Center:

Year	Number of Leases That Will Expire	Total Area in Square Feet of Expiring Leases	Annual Rent Revenue of Expiring Leases (1)	Percentage of Gross Rents on Expiring Leases
2002	30	38,658	530,179	29.2%
2003	29	32,666	472,704	26.0%
2004	18	15,713	245,559	13.5%
2005	6	6,248	84,898	4.7%
2006	14	22,737	356,768	19.6%
2007(2)	5	8,554	126,219	7.0%

(1) Annualized base rent for the year ended December 31, 2001. Excludes additional rent for common area maintenance, taxes, expense reimbursements and parking.

(2) At March 31, 2002, there were no leases in effect with an expiration date after 2007.

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For 2001, the real estate taxes for the Sheridan Center buildings were \$123,874, which is equal to 5.9% of the assessed value of the Sheridan Center buildings for real estate tax purposes as determined by the Denver County Assessors Office. We are not able to estimate the possible impact of the renovations to Sheridan Center on future real estate taxes.

Sheridan Plaza at Inverness. On April 1, 2001, we purchased 100% of the ownership interests of Sheridan Plaza at Inverness, LLC. The primary assets of this entity are two multi-tenant office buildings, together known as Sheridan Plaza at Inverness, located in Englewood, Colorado, and related assets. These two office buildings consist of 118,720 square feet on approximately 6.7 acres of land with 405 total parking spaces, including 80 underground parking spaces. Sheridan Plaza was constructed in 1998 and 1999.

Sheridan Plaza is located within the Inverness Business Park just east of I-25 at County Line Road. We believe that the location of Sheridan Plaza near the southern end of the highway project described above under Sheridan Center could be an advantage in leasing during the highway construction period. Sheridan Plaza is just off the first exit north of the planned construction activity and is easily accessible from all southeast and east metro Denver residential areas. We currently do not have any plans for major capital improvements for Sheridan Plaza. The property competes with several mid-sized office buildings in the area, including buildings that lease to small to mid-sized tenants, but there is no dominant owner or building.

Sheridan Plaza is leased to 45 tenants at base rental rates ranging from \$22.00 to \$25.71 per rentable square foot. The average effective annual rent per square foot for the year ended December 31, 2001 was \$23.45. Lease terms range from approximately two to six years.

The occupancy rate for Sheridan Plaza at March 31, 2002 was 100%, at December 31, 2001 was 100%, at December 31, 2000 was 100% and at December 31, 1999 was 61%. Only one tenant, a local law firm, occupies 10% or more of the rentable space. This tenant occupies 12,136 rentable square feet under a direct lease through September 2005 and an additional 2,915 rentable square feet under a sublease through December 2004. The tenant is responsible for its pro-rata share of operating expenses and the leases contain annual base rent escalation provisions.

The following is a schedule of lease expirations for Sheridan Plaza:

<u>Year</u>	<u>Number of Leases That Will Expire</u>	<u>Total Area in Square Feet of Expiring Leases</u>	<u>Annual Rent Revenue of Expiring Leases (1)</u>	<u>Percentage of Gross Rents on Expiring Leases</u>
2002	6	10,738	\$ 259,621	9.3%
2003	7	13,805	\$ 334,490	12.0%
2004	14	38,006	\$ 902,737	32.3%
2005(2)	18	56,171	\$ 1,294,964	46.4%

(1) Annualized base rent for the year ended December 31, 2001. Excludes additional rent for common area maintenance, taxes, expense reimbursements and parking.

(2) At March 31, 2002, there were no leases in effect with an expiration date after 2005.

For 2001, the real estate taxes for Sheridan Plaza were \$582,490, which is equal to 10.3% of the assessed value of Sheridan Plaza for real estate tax purposes as determined by the Douglas County Assessors Office.

Arrowhead Fountains. On November 19, 2001 we acquired Arrowhead Fountains, located in Peoria, Arizona (metropolitan Phoenix). Arrowhead Fountains consists of one building containing 96,076 rentable square feet located on approximately five acres of land. Arrowhead Fountains was built in 1998 and is the only commercial office building in its area.

Arrowhead Fountains is leased to 21 tenants at base rental rates ranging from \$20.00 to \$23.50 per rentable square foot. The average effective annual rent per square foot for the year ended December 31, 2001 was \$23.03. Lease terms range from approximately two to ten years.

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The occupancy rate for Arrowhead Fountains at March 31, 2002 was 90.3%, at December 31, 2001 was 90.3% and at December 31, 2000 was 90.0%. Occupancy information for prior years, which are before we acquired the property, is not available.

The following is a schedule of tenants who occupy 10% or more of the rentable space:

Tenant	Business	Lease Expiration	Square Footage	Base Rent (\$/SF) at December 31, 2001
A	Realty company	December 31, 2005	18,282	\$20.00
B	Insurance company	April 14, 2010	17,150	\$20.25

The following is a schedule of lease expirations for Arrowhead Fountains:

Year	Number of Leases That Will Expire	Total Area in Square Feet of Expiring Leases	Annual Rent Revenue of Expiring Leases (1)	Percentage of Gross Rents on Expiring Leases
2002	3	5,163	\$ 119,484	6.5%
2003	3	12,968	\$ 294,366	15.9%
2004	7	12,475	\$ 279,850	15.1%
2005	4	25,052	\$ 519,038	28.1%
2006	2	5,167	\$ 120,843	6.6%
2007				
2008				
2009	1	7,951	\$ 166,971	9.0%
2010(2)	1	17,150	\$ 347,288	18.8%

- (1) Annualized base rent for the year ended December 31, 2001. Excludes additional rent for common area maintenance, taxes, expense reimbursements and parking.
- (2) At March 31, 2002, there were no leases in effect with an expiration date after 2010.

For 2001, the real estate taxes for Arrowhead Fountains were \$152,892, which is equal to 13.6% of the assessed value of Arrowhead Fountains for real estate tax purposes as determined by the Maricopa County Assessors Office.

Kellogg Building. On December 21, 2001 we acquired the Kellogg Building, located in Littleton, Colorado. The Kellogg Building consists of one building containing 112,732 rentable square feet located on approximately five acres of land. The Kellogg Building was built in 1983.

The Kellogg Building is leased to 35 tenants at base rental rates ranging from \$19.22 to \$24.00 per rentable square foot. The average effective annual rent per square foot for the year ended December 31, 2001 was \$22.39. Lease terms range from approximately three to six years. We currently intend to upgrade the building over time with our signature small tenant amenities.

The Kellogg Building also contains executive office suites. These suites account for 11,882 rentable square feet of the total square footage. These suites are leased to 30 tenants at base rental rates ranging from \$39.71 to \$63.75 per rentable square foot. Lease terms range from two months to two years. Due to the short-term nature and high turnover of these leases, these were not included in the lease expiration table below.

Executive office suite tenants are provided additional services other than the rental of real property. These additional services include a receptionist as well as other administrative services. In accordance with the Internal Revenue Code, the revenue generated from these additional services is non-qualified REIT income. As a result, we have formed a taxable REIT subsidiary to provide these services, segregating this non-qualified REIT income from the qualified REIT lease revenue of the building.

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The occupancy rate for the Kellogg Building at March 31, 2002 was 91.6%, at December 31, 2001 was 90.4% and at December 31, 2000 was 94.0%. Occupancy information for prior years, which are before we acquired the property, is not available. As of December 31, 2001, there were no tenants occupying 10% or more of the rentable space.

The Kellogg Building competes with several office buildings in its area, including buildings that lease to small and mid-sized tenants.

The following is a schedule of lease expirations for the Kellogg Building:

<u>Year</u>	<u>Number of Leases That Will Expire</u>	<u>Total Area in Square Feet of Expiring Leases</u>	<u>Annual Rent Revenue of Expiring Leases (1)</u>	<u>Percentage of Gross Rents on Expiring Leases</u>
2002	4	8,599	\$ 184,283	9.4%
2003	9	38,243	\$ 817,313	41.7%
2004	15	26,037	\$ 548,106	28.0%
2005	6	12,853	\$ 281,670	14.4%
2006(2)	2	5,715	\$ 128,588	6.5%

- (1) Annualized base rent for the year ended December 31, 2001. Excludes additional rent for common area maintenance, taxes, expense reimbursements and parking.
- (2) At March 31, 2002, there were no leases in effect with an expiration date after 2006.

For 2001, the real estate taxes for the Kellogg Building were \$197,902, which is equal to 7.0% of the assessed value of the Kellogg Building for real estate tax purposes as determined by the Arapahoe County Assessors Office.

Keystone Office Park. We acquired Keystone Office Park in Indianapolis, Indiana from Sheridan Realty Partners, L.P., an affiliate of Sheridan Realty Advisors, effective August 12, 1999. Keystone Office Park consists of three two-story multi-tenant office buildings located at 3021, 3077 and 3091 East 98th Street at the intersection of 98th Street and North Keystone Avenue (US 431) in north central Indianapolis, Indiana. These buildings consist of 96,048 rentable square feet on approximately nine acres of land with 336 surface parking spaces, plus a 1,596 square foot freestanding maintenance building. Keystone Office Park was constructed and completed from 1984 to 1986.

Keystone Office Park is leased to various business entities for general office purposes. The average effective annual rent per square foot for the year ended December 31, 2001 was \$16.90. In 2000, we completed major capital improvements to Keystone Office Park, including new common area carpets and lighting, an electronic directory system, telecommunications wiring and exterior cleaning and refurbishing. We currently intend to continue to operate and hold Keystone Office Park for income purposes. Keystone Office Park competes with several mid-rise office buildings in the area, including buildings owned by a dominant owner in the Indianapolis market.

The occupancy rate for Keystone Office Park at March 31, 2002 was 99.2%, at December 31, 2001 was 99.2%, at December 31, 2000 was 93.7% and at December 31, 1999 was 99.2%. There are no tenants occupying 10% or more of the rentable space.

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The following is a schedule of lease expirations for Keystone Office Park:

Year	Number of Leases That Will Expire	Total Area in Square Feet of Expiring Leases	Annual Rent Revenue of Expiring Leases (1)	Percentage of Gross Rents on Expiring Leases
2002	6	11,415	\$ 183,856	11.3%
2003	8	13,235	\$ 224,333	13.9%
2004	11	32,659	\$ 553,480	34.2%
2005	5	11,499	\$ 188,912	11.7%
2006(2)	6	26,448	\$ 467,409	28.9%

- (1) Annualized base rent for the year ended December 31, 2001. Excludes additional rent for common area maintenance, taxes, expense reimbursements and parking.
- (2) At March 31, 2002, there were no leases in effect with an expiration date after 2006.

For 2000, the real estate taxes for Keystone Office Park were \$114,715, which is equal to 6.9% of the assessed value of Keystone Office Park for real estate tax purposes as determined by the Hamilton County Assessors Office. We have not been informed as to the amount of the 2001 real estate taxes for Keystone Office Park.

Other Leases

State of Texas Office Building Leases. Thirteen of our office buildings are leased to various agencies of the State of Texas with primary lease periods ranging from approximately six months to eight years, subject to the right of the State to terminate these leases as discussed below. Most of the leases provide for five multiple renewal option periods of three years to five years at the election of the tenant. Although each of the leases with the State of Texas includes a specific termination date, the State of Texas may terminate a lease at any time that the legislature of the State of Texas fails to appropriate funds necessary to pay required rents, or federally-funded programs housed in one of these office buildings are discontinued. Prior to terminating the lease, the State of Texas may assign another agency to fill or partially fill the rented space, and the lease would be adjusted accordingly. Despite this risk, we have no information that would lead us to believe that the State of Texas is considering any such early terminations. If the State of Texas terminates or fails to renew a lease, it may be difficult to locate another tenant in a timely manner or on comparable or better terms, especially for certain buildings in smaller cities or remote locations. We were not the successful bidder in a recent request by the Texas Department of Human Services for a new lease on our Clint, Texas building, which provided for an annual gross rent of \$125,676. Subsequent to year-end, we have begun negotiations with the Town of Clint for a long-term lease of the building. In addition, the lease on our Paris, Texas building, which provides for an annual gross rent of \$208,376 expires on August 31, 2002 and we believe the State of Texas will not renew.

Bank of America Leases. Approximately 63% of four office buildings in Texas are leased to Bank of America on a long-term basis, with the primary leases expiring July 20, 2012. The leases with Bank of America provide for automatic rent increases every three years at a predetermined rate. They also provide for multiple renewal option periods at the option of Bank of America. The other leases in these buildings are with smaller tenants and range from one year to five years in length.

Depreciation

The following table shows the federal tax basis at December 31, 2001 used to determine depreciation for federal income tax purposes on each of Sheridan Center, Sheridan Plaza at Inverness, Arrowhead Fountains and the Kellogg Building. For federal income tax purposes, depreciation is computed using the straight-line method over a useful life of 39 years, for a depreciation rate of 2.56% per year.

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	<u>Federal Tax Basis</u>
Sheridan Center	
Denver, Colorado	\$ 10,119,508
Sheridan Plaza at Inverness	
Englewood, Colorado	\$ 20,296,868
Arrowhead Fountains	
Peoria, Arizona	\$ 12,762,642
Kellogg Building	
Littleton, Colorado	\$ 13,551,672

For accounting purposes, depreciation is determined in accordance with generally accepted accounting principles, which use different bases for the properties and useful lives of 25 years (Sheridan Center) and 40 years (Sheridan Plaza at Inverness, Arrowhead Fountains and the Kellogg Building). See Notes to Consolidated Financial Statements Note 2 Significant Accounting Policies.

Property Improvements

We currently intend to spend up to \$1 million for capital improvements, including tenant finish, on our properties during 2002. This amount is in addition to amounts that will be expended for routine maintenance and repairs. This amount is expected to be funded from working capital and borrowings under our credit facilities.

Mortgages and Promissory Notes

Substantially all of our properties are pledged as collateral for our mortgage debt. The following is a summary of our indebtedness, including mortgage debt:

<u>Description of Indebtedness</u>	<u>Outstanding Balance</u>	
	<u>at December 31,</u>	<u>at March 31,</u>
	<u>2001</u>	<u>2000</u>
	<u>2002</u>	

Note payable to Transatlantic Capital Company, LLC. Fixed interest at 7.66%, due in monthly installments of principal and interest of \$42,612 through July 1, 2028, with the principal balance and accrued interest due on August 1, 2028. This note may be prepaid on or after July 1, 2008 without penalty and may be defeased after July 13, 2002 by providing non-callable U.S. Government obligations in an amount sufficient to meet all interest and principal payments due under the note. This note is secured by a mortgage on the State of Texas buildings.