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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

/X/ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2000
OR

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NO. 1-10150

ISTAR FINANCIAL INC. *

(Exact name of registrant as specified in its charter)

MARYLAND	95-6881527
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
1114 AVENUE OF THE AMERICAS, 27(TH) FLOOR NEW YORK, NY 10036 (Address of principal executive offices)	10036 (Zip Code)

Registrant's telephone number, including area code: (212)930-9400

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

Title of each class:	Name of Exchange on which registered:
COMMON STOCK, $0.001 PAR VALUE	NEW YORK STOCK EXCHANGE
9.375% SERIES B CUMULATIVE REDEEMABLE PREFERRED STOCK, $0.001 PAR VALUE	NEW YORK STOCK EXCHANGE
9.200% SERIES C CUMULATIVE REDEEMABLE PREFERRED STOCK, $0.001 PAR VALUE	NEW YORK STOCK EXCHANGE
8.000% SERIES D CUMULATIVE REDEEMABLE PREFERRED STOCK, $0.001 PAR VALUE	NEW YORK STOCK EXCHANGE

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

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

As of May 5, 2000, there were 85,279,088 shares of common stock of IStar Financial Inc., $0.001 par value per share outstanding ("Common Stock").

* On November 4, 1999, the registrant completed a transaction in which its name was changed from Starwood Financial Trust to Starwood Financial Inc., it issued Common Stock in exchange for the class A and class B shares then outstanding, and the registrant listed its Common Stock on the New York Stock Exchange. Further, effective on April 30, 2000, the registrant changed its name to IStar Financial Inc.

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ISTAR FINANCIAL INC.

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT PER SHARE AND SHARE DATA)

	AS OF MARCH 31, 2000 (UNAUDITED)	AS OF DECEMBER 31, 1999
ASSETS		
Loans and other lending investments, net	$2,120,744	$2,003,506
Real estate subject to operating leases, net	1,664,350	1,714,284
Cash and cash equivalents	41,710	34,408
Restricted cash	11,256	10,195
Marketable securities	95	4,344
Accrued interest and operating lease income receivable	17,624	16,211
Deferred operating lease income receivable	3,429	1,147
Deferred expenses and other assets	37,081	29,074
Investment in IStar Operating Inc	251	383
Total assets	$3,896,540	$3,813,552
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	$ 52,154	$ 54,773
Dividends payable	5,225	53,667
Debt obligations	1,987,394	1,901,204
Total liabilities	2,044,773	2,009,644
Commitments and contingencies	--	--
Minority interests in consolidated entities	2,565	2,565
Shareholders' equity:		
Series A Preferred Stock, $0.001 par value, liquidation preference $50.00 per share, 4,400,000 shares authorized and outstanding at March 31, 2000 and December 31, 1999, respectively	4	4
Series B Preferred Stock, $0.001 par value, liquidation preference $25.00 per share, 2,000,000 shares issued and outstanding at March 31, 2000 and December 31, 1999, respectively	2	2
Series C Preferred Stock, $0.001 par value, liquidation preference $25.00 per share, 1,300,000 shares issued and outstanding at March 31, 2000 and December 31, 1999, respectively	1	1
Series D Preferred Stock, $0.001 par value, liquidation preference $25.00 per share, 4,000,000 shares issued and outstanding at March 31, 2000 and December 31, 1999, respectively	4	4
Common Stock, $0.001 par value, 200,000,000 shares authorized, 85,279,088 and 84,985,392 shares issued and outstanding at March 31, 2000 and December 31, 1999, respectively	85	85
Warrants and options	17,935	17,935
Accumulated other comprehensive income (losses)	--	(229)
Additional paid in capital	1,958,946	1,953,972
Retained earnings (deficit)	(87,230)	(129,992)
Treasury stock (at cost)	(40,545)	(40,439)
Total shareholders' equity	1,849,202	1,801,343
Total liabilities and shareholders' equity	$3,896,540	$3,813,552

The accompanying notes are an integral part of the financial statements.

ISTAR FINANCIAL INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT PER SHARE DATA)

(UNAUDITED)

	FOR THE THREE MONTHS ENDED MARCH 31,	
	2000	1999
REVENUE:		
Interest income	$ 60,083	$ 49,919
Operating lease income	46,272	3,727
Other income	4,533	1,778
Total revenue	110,888	55,424
COSTS AND EXPENSES:		
Interest expense	37,789	19,693
Property operating costs	3,325	--
Depreciation and amortization	9,009	1,365
General and administrative	6,903	484
Provision for possible credit losses	1,500	1,000
Stock option compensation expense	548	--
Advisory fees	--	4,665
Total costs and expenses	59,074	27,207
Net income before minority interest, gain on sale and extraordinary loss	51,814	28,217
Minority interest in consolidated entities	(41)	--
Gain on sale of net lease assets	533	--
Net income before extraordinary loss	52,306	28,217
Extraordinary loss on early extinguishment of debt	(317)	--
Net income	$ 51,989	$ 28,217
Preferred dividend requirements	$ (9,227)	$ (5,308)
Net income allocable to common shareholders	$ 42,762	$ 22,909
Basic earnings per common share(1)	$ 0.50	$ 0.43
Diluted earnings per common share(1)	$ 0.50	$ 0.41

EXPLANATORY NOTE:

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(1) Net income per basic common share excludes 1% of net income allocable to the Company's class B shares prior to November 4, 1999. These shares were exchanged for Common Stock in connection with the TriNet acquisition and related transactions on November 4, 1999. As a result, the Company now has a single class of Common Stock outstanding.

The accompanying notes are an integral part of the financial statements.

ISTAR FINANCIAL INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(IN THOUSANDS)

(UNAUDITED)

	SERIES A PREFERRED STOCK	SERIES B PREFERRED STOCK	SERIES C PREFERRED STOCK	SERIES D PREFERRED STOCK	COMMON STOCK AT PAR	WARRANTS AND OPTIONS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TREASURY STOCK
Balance at December 31, 1999.....	$ 4	$ 2	$ 1	$ 4	$ 85	$ 17,935	$ (229)	$ (40,439)
Dividends declared - preferred stock.....	--	--	--	--	--	--	--	--
Acquisition of ACRE Partners.....	--	--	--	--	--	--	--	--
Restricted stock units issued to employees in lieu of cash bonuses.....	--	--	--	--	--	--	--	--
Restricted stock units granted to employees.....	--	--	--	--	--	--	--	--
Treasury stock.....	--	--	--	--	--	--	--	(106)
Change in accumulated other comprehensive income.....	--	--	--	--	--	--	229	--
Net income for the period.....	--	--	--	--	--	--	--	--
Balance at March 31, 2000.....	$ 4	$ 2	$ 1	$ 4	$ 85	$ 17,935	$ --	$ (40,545)

	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS (DEFICIT)	TOTAL
Balance at December 31, 1999.....	$ 1,953,972	$(129,992)	$1,801,343
Dividends declared - preferred stock.....	--	(9,227)	(9,227)
Acquisition of ACRE Partners.....	3,637	--	3,637
Restricted stock units issued to employees in lieu of cash bonuses.....	1,125	--	1,125
Restricted stock units granted to employees.....	212	--	212
Treasury stock.....	--	--	(106)
Change in accumulated other comprehensive income.....	--	--	229
Net income for the period.....	--	51,989	51,989
Balance at March 31, 2000.....	$ 1,958,946	$ (87,230)	$1,849,202

The accompanying notes are an integral part of the financial statements.

ISTAR FINANCIAL INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

(UNAUDITED)

	FOR THE THREE MONTHS ENDED MARCH 31,	
	2000	1999
Cash flows from operating activities:		
Net income	$ 51,989	$ 28,217
Adjustments to reconcile net income to cash flows provided by operating activities:		
Minority interest	41	--
Equity in (earnings) loss of unconsolidated joint ventures and subsidiaries	(324)	105
Depreciation and amortization	11,134	2,905
Amortization of discounts/premiums, deferred interest and costs on lending investments	(7,067)	(7,302)
Distributions from operating joint ventures	952	--
Straight-line operating lease income adjustments	(2,282)	--
Realized (gains) losses on sales of securities	229	--
Gain on sale of net lease assets	(533)	--
Extraordinary loss on early extinguishment of debt	317	--
Provision for possible credit losses	1,500	1,000
Changes in assets and liabilities:		
(Increase) decrease in restricted cash	(1,061)	1,553
(Increase) decrease in accrued interest and operating lease income receivable	(1,413)	156
Increase in deferred expenses and other assets	(2,895)	(411)
Decrease in accounts payable, accrued expenses and other liabilities	(4,756)	(3,707)
Cash flows provided by operating activities	45,831	22,516
Cash flows from investing activities:		
New loan or investment originations/acquisitions	(211,925)	(154,318)
Principal fundings on existing loan commitments	(16,542)	(7,127)
Net proceeds from sale of net lease assets	45,291	--
Repayments of and principal collections from loans and other lending investments	121,803	56,668
Net investments in and advances to unconsolidated joint ventures	(668)	--
Capital expenditures on real estate subject to operating leases	(1,858)	--
Cash flows used in investing activities	(63,899)	(104,777)
Cash flows from financing activities:		
Net borrowings under revolving credit facilities	65,177	87,148
Borrowings under term loans	30,000	29,717
Repayments under term loans	(9,726)	--
Repayments under repurchase agreements	(119)	(453)
Common dividends paid	(48,441)	(21,704)
Preferred dividends paid	(9,144)	(929)
Minority interest	(41)	--
Extraordinary loss on early extinguishment of debt	(317)	--
Payment for deferred financing costs	(1,913)	(4,813)
Purchase of treasury stock	(106)	--
Proceeds from exercise of options	--	722
Cash flows provided by financing activities	25,370	89,688
Increase in cash and cash equivalents	7,302	7,427
Cash and cash equivalents at beginning of period	34,408	10,110
Cash and cash equivalents at end of period	$ 41,710	$ 17,537
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 36,850	$ 18,797

The accompanying notes are an integral part of the financial statements.

NOTE 1--ORGANIZATION AND BUSINESS

ORGANIZATION--IStar Financial Inc.(1) (the "Company") began its business in 1993 through private investment funds (collectively, the "Starwood Investors") formed to capitalize on inefficiencies in the real estate finance market. In March 1998, these funds contributed their approximately $1.1 billion of assets to the Company's predecessor, Starwood Financial Trust, in exchange for a controlling interest in that company. Since that time, the Company has grown by originating new lending and leasing transactions, as well as through corporate acquisitions. Specifically, in September 1998, the Company acquired the loan origination and servicing business of a major insurance company, and in December 1998, the Company acquired the mortgage and mezzanine loan portfolio of its largest private competitor. Additionally, in November 1999, the Company acquired TriNet Corporate Realty Trust, Inc. ("TriNet"), the largest publicly traded company specializing in the net leasing of corporate office and industrial facilities. The TriNet acquisition was structured as a stock-for-stock merger of TriNet with a subsidiary of the Company. Concurrent with the TriNet acquisition, the Company also acquired its external advisor (the "Advisor Transaction") in exchange for shares of common stock, $0.001 par value, of the Company ("Common Stock"), and converted its organizational form to a Maryland corporation (the "Incorporation Merger"). As part of the conversion to a Maryland corporation, the Company replaced its dual class common share structure with a single class of Common Stock. The Company's Common Stock began trading on the New York Stock Exchange under the symbol "SFI" in November 1999.

During 1993 through 1997, the Company did not qualify as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code"). However, pursuant to a closing agreement with the Internal Revenue Service (the "IRS") obtained in March 1998, the Company was eligible and elected to be taxed as a REIT for the taxable year beginning January 1, 1998.

BUSINESS--The Company believes it is the largest publicly traded finance company in the United States focused exclusively on the commercial real estate industry. The Company, which is taxed as a real estate investment trust, provides structured mortgage, mezzanine and lease financing through its nationwide origination, acquisition and servicing platform. The Company's investment strategy targets specific sectors of the real estate credit markets in which it can deliver value-added, flexible financial solutions to its customers, thereby differentiating its financial products from those offered by other capital providers.

The Company has implemented its investment strategy by: (i) focusing on the origination of large, highly structured mortgage, mezzanine and lease financings where customers require flexible financial solutions, and avoiding commodity businesses in which there is significant direct competition from other providers of capital; (ii) developing direct relationships with borrowers and corporate tenants as opposed to sourcing transactions through intermediaries; (iii) adding value beyond simply providing capital by offering borrowers and corporate tenants specific lending expertise, flexibility, speed, certainty and continuing relationships beyond the closing of a particular financing transaction; and (iv) taking advantage of market anomalies in the real estate financing markets when the Company believes credit is mispriced by other providers of capital such as the spread between lease yields and the yields on corporate tenants' underlying credit obligations.

The Company intends to continue to emphasize a mix of portfolio financing transactions to create built-in diversification and single-asset financings for properties with strong, long-term positioning.

EXPLANATORY NOTE:
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(1) As more fully discussed in Note 4, on November 4, 1999, the Company changed its form and became a corporation under Maryland law and changed its name from Starwood Financial Trust to Starwood Financial Inc. Further, effective on April 30, 2000, the registrant changed its name to IStar Financial Inc.

NOTE 2--BASIS OF PRESENTATION

The accompanying unaudited Consolidated Financial Statements have been prepared in conformity with the instructions to Form 10-Q and Article 10, Rule 10-01 of Regulation S-X for interim financial statements. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles ("GAAP") for complete financial statements. The Consolidated Financial Statements include the accounts of the Company, its qualified REIT subsidiaries, and its majority-owned and controlled partnership. Certain third-party mortgage servicing operations are conducted through IStar Operating Inc. ("IStar Operating"), a taxable corporation which is not consolidated with the Company for financial reporting or income tax purposes. The Company owns all of the preferred stock and a 95% economic interest in IStar Operating, which is accounted for under the equity method for financial reporting purposes. In addition, the Company has an investment in TriNet Management Operating Company, Inc. ("TMOC"), a taxable noncontrolled subsidiary of the Company, which is also accounted for under the equity method. Further, certain other investments in partnerships or joint ventures which the Company does not control are also accounted for under the equity method. All significant intercompany balances and transactions have been eliminated in consolidation.

In the opinion of management, the accompanying financial statements contain all adjustments, consisting of normal and recurring accruals, necessary for a fair presentation of the Company's financial condition at March 31, 2000 and December 31, 1999 and the results of its operations, changes in shareholders' equity and its cash flows for the three-month periods ended March 31, 2000 and 1999, respectively. Such operation results are not necessarily indicative of the results that may be expected for any other interim periods or the entire year.

NOTE 3--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

LOANS AND OTHER LENDING INVESTMENTS, NET--As described in Note 5 "Loans and Other Lending Investments," includes the following investments: senior mortgages, subordinate mortgages, partnership loans/ unsecured notes, loan participations and other lending investments. In general, management considers its investments in this category as held-to-maturity and, accordingly, reflects such items at amortized historical cost.

REAL ESTATE SUBJECT TO OPERATING LEASES AND DEPRECIATION--Real estate subject to operating leases is generally recorded at cost. Certain improvements and replacements are capitalized when they extend the useful life, increase capacity or improve the efficiency of the asset. Repairs and maintenance items are expensed as incurred. The Company capitalizes interest costs incurred during the land development or construction period on qualified development projects including investments in joint ventures accounted for under the equity method. Depreciation is computed using the straight line method of cost recovery over estimated useful lives of 40.0 years for buildings, seven years for furniture and equipment, the shorter of the remaining lease term or expected life for tenant improvements, and the remaining life of the building for building improvements.

Real estate assets to be disposed of are reported at the lower of their carrying amount or fair value less cost to sell. The Company also periodically reviews long-lived assets to be held and used for an impairment in value whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. In management's opinion, real estate assets to be held and used are not carried at amounts in excess of their estimated recoverable amounts.

NOTE 3--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CASH AND CASH EQUIVALENTS--Cash and cash equivalents include cash held in banks or invested in money market funds with original maturity terms of less than 90 days.

MARKETABLE SECURITIES--From time to time, the Company invests excess working capital in marketable securities such as those issued by the Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), and Federal Home Loan Mortgage Corporation (FHLMC). Although the Company generally intends to hold such investments for investment purposes, it may, from time to time, sell any of its investments in these securities as part of its management of liquidity. Accordingly, the Company considers such investments as "available-for-sale" and reflects such investments at fair market value with changes in fair market value reflected as a component of shareholders' equity.

REPURCHASE AGREEMENTS--The Company may enter into sales of securities or loans under agreements to repurchase the same security or loan. The amounts borrowed under repurchase agreements are carried on the balance sheet as part of debt obligations at the amount advanced plus accrued interest. Interest incurred on the repurchase agreements is reported as interest expense.

REVENUE RECOGNITION--The Company's revenue recognition policies are as follows:

LOANS AND OTHER LENDING INVESTMENTS: The Company generally intends to hold all of its loans and other lending investments to maturity. Accordingly, it reflects all of these investments at amortized cost less allowance for loan losses, acquisition premiums or discounts, deferred loan fees and undisbursed loan funds. The Company may acquire loans at either premiums or discounts based on the credit characteristics of such loans. These premiums or discounts are recognized as yield adjustments over the lives of the related loans. If loans that were acquired at a premium or discount are prepaid, the Company immediately recognizes the unamortized premium or discount as a decrease or increase in the prepayment gain or loss, respectively. Loan origination or exit fees, as well as direct loan origination costs, are also deferred and recognized over the lives of the related loans as a yield adjustment. Interest income is recognized using the effective interest method applied on a loan-by-loan basis.

Certain of the Company's loans provide for accrual of interest at specified rates which differ from current payment terms. Interest is recognized on such loans at the accrual rate subject to management's determination that accrued interest and outstanding principal are ultimately collectible, based on the underlying collateral and operations of the borrower.

Prepayment penalties or yield maintenance payments from borrowers are recognized as additional income when received. Certain of the Company's loan investments provide for additional interest based on the borrower's operating cash flow or appreciation of the underlying collateral. Such amounts are considered contingent interest and are reflected as income only upon certainty of collection.

LEASING INVESTMENTS: Operating lease revenue is recognized on the straight-line method of accounting from the later of the date of the origination of the lease or the date of acquisition of the facility subject to existing leases. Accordingly, contractual lease payment increases are recognized evenly over the term of the lease. The difference between lease revenue recognized under this method and actual cash receipts is recorded as a deferred rent receivable on the balance sheet.

PROVISION FOR POSSIBLE CREDIT LOSSES--The Company's accounting policies require that an allowance for estimated credit losses be maintained at a level that management, based upon an evaluation of known and inherent risks in the portfolio, considers adequate to provide for possible credit losses. Specific valuation allowances are established for impaired loans in the amount by which the carrying value, before allowance

NOTE 3--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
for estimated losses, exceeds the fair value of collateral less disposition costs on an individual loan basis. Management considers a loan to be impaired when, based upon current information and events, it believes that it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement on a timely basis. Management measures these impaired loans at the fair value of the loans' underlying collateral less estimated disposition costs. Impaired loans may be left on accrual status during the period the Company is pursuing repayment of the loan, however, these loans are placed on non-accrual status at such time that the loans either: (i) become 90 days delinquent; or (ii) management determines the borrower is incapable of, or has ceased efforts toward, curing the cause of the impairment. While on non-accrual status, interest income is recognized only upon actual receipt. Impairment losses are recognized as direct write-downs of the related loan with a corresponding charge to the provision for possible credit losses. Charge-offs occur when loans, or a portion thereof, are considered uncollectible and of such little value that further pursuit of collection is not warranted. Management's periodic evaluation of the allowance for possible credit losses is based upon an analysis of the portfolio, historical and industry loss experience, economic conditions and trends, collateral values and quality and other relevant factors.

INCOME TAXES--The Company did not qualify as a REIT from 1993 through 1997; however, it did not incur any material tax liabilities as a result of its operations. See Note 10 to the Consolidated Financial Statements for more information.

As confirmed in a closing agreement with the IRS obtained in March 1998, the Company was eligible and elected to be taxed as a REIT for its tax year beginning January 1, 1998. As a REIT, the Company will be subject to federal income taxation at corporate rates on its REIT taxable income; however, the Company is allowed a deduction for the amount of dividends paid to its stockholders, thereby subjecting the distributed net income of the Company to taxation at the shareholder level only. IStar Operating and TMOC are not consolidated for federal income tax purposes and are taxed as corporations. For financial reporting purposes, current and deferred taxes are provided for in the portion of earnings recognized by the Company with respect to its interest in IStar Operating and TMOC.

NET INCOME ALLOCABLE TO COMMON SHARES--Net income allocable to common shares excludes 1% of net income allocable to the class B shares prior to November 4, 1999. The class A and class B shares were exchanged for Common Stock in connection with the TriNet acquisition, as more fully described in Note 4.

EARNINGS (LOSS) PER COMMON SHARES--In February 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS No. 128") effective for periods ending after December 15, 1997. SFAS No. 128 simplifies the standard for computing earnings per share and makes them comparable with international earnings per share standards. The statement replaces primary earnings per share with basic earnings per share ("Basic EPS") and fully-diluted earnings per share with diluted earnings per share ("Diluted EPS").

USE OF ESTIMATES--The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NEW ACCOUNTING STANDARDS--In June 1997, the FASB issued Statement of Financial Accounting Standards No. 131, "Disclosure about Segments of an Enterprise and Related Information" ("SFAS No. 131")

NOTE 3--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
effective for financial statements issued for periods beginning after December 15, 1997. SFAS No. 131 requires disclosures about segments of an enterprise and related information regarding the different types of business activities in which an enterprise engages and the different economic environments in which it operates. The Company adopted the requirements of this pronouncement in its financial statements beginning with its reporting for fiscal 1999. As of March 31, 2000, the Company maintains two basic business segments for reporting purposes: real estate lending and credit tenant leasing.

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). On June 23, 1999 the FASB voted to defer the effectiveness of SFAS 133 for one year. SFAS 133 is now effective for fiscal years beginning after June 15, 2000, but earlier application is permitted as of the beginning of any fiscal quarter subsequent to June 15, 1998. SFAS No. 133 establishes accounting and reporting standards for derivative financial instruments and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments as fair value. If certain conditions are met, a derivative may be specifically designated as: (i) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment; (ii) a hedge of the exposure to variable cash flows of a forecasted transaction; or (iii) in certain circumstances a hedge of a foreign currency exposure. The Company currently plans to adopt this pronouncement as required effective January 1, 2001. The adoption of SFAS 133 is not expected to have a material financial impact on the financial position or results of operations of the Company.

NOTE 4--CAPITAL TRANSACTIONS

PRIOR TRANSACTIONS WITH AFFILIATES--Through a series of transactions beginning in November 1993 and through March 18, 1998, the date of the Recapitalization Transactions described in the following section, Starwood Mezzanine Investors, L.P. ("Starwood Mezzanine") and certain other affiliates (collectively, the "Starwood Investors") had acquired controlling interests in the Company represented by an aggregate of 874,016 class A shares, or 69.46% of the then total class A shares outstanding, and 629,167 class B shares, representing 100% of the then total class B shares outstanding. Together, the class A and class B shares held by the Starwood Investors represented 79.64% of the voting interests of the Company.

During the quarter ended March 31, 1998, the Company consummated certain transactions and entered into agreements which significantly recapitalized and expanded its capital resources, as well as modified future operations, including those described herein below in "Recapitalization Transactions" and "Advisor Transaction."

RECAPITALIZATION TRANSACTIONS--As more fully discussed above, pursuant to a series of transactions beginning in March 1994 and including the exercise of the Class A and Class B Warrants in January 1997, the Starwood Investors acquired joint ownership of 69.46% and 100% of the outstanding class A shares and class B shares of the Company, respectively, through which they controlled approximately 79.64% of the voting interests in the Company as of December 31, 1997. Prior to the consummation of these transactions (collectively, the "Recapitalization Transactions"), Starwood Mezzanine also owned 761,491 units which represented the remaining 91.95% of APMT Limited Partnership not held by the Company. Those units were convertible into cash, an additional 761,491 class A shares of the Company, or a combination of the two, as determined by the Company.

NOTE 4--CAPITAL TRANSACTIONS (CONTINUED)

On March 18, 1998, each outstanding unit held by Starwood Mezzanine was exchanged for one class A share of the Company and, concurrently, the partnership was liquidated through a distribution of its net assets to the Company, its then sole partner.

Simultaneously, Starwood Mezzanine contributed various real estate loan investments to the Company in exchange for 9,191,333 class A shares and $25.5 million in cash, as adjusted. Starwood Opportunity Fund IV, L.P., one of the Starwood Investors ("SOF IV"), contributed loans and other lending investments, $17.9 million in cash and certain letters of intent in exchange for 41,179,133 class A shares of the Company and a cash payment of $324.3 million. Concurrently, the holders of the class B shares who were affiliates of the Starwood Investors acquired 25,565,979 additional class B shares sufficient to maintain existing voting preferences pursuant to the Company's Amended and Restated Declaration of Trust. Immediately after these transactions, the Starwood Investors owned approximately 99.27% of the outstanding class A shares of the Company and 100% of the class B shares. Assets acquired from Starwood Mezzanine have been reflected using step acquisition accounting at predecessor basis adjusted to fair value to the extent of post-transaction third-party ownership. Assets acquired from SOF IV have been reflected at their fair market value.

ADVISORY AGREEMENT--In connection with the Recapitalization Transactions, the Company and the Advisor, an affiliate of the Starwood Investors, entered into an Advisory Agreement (the "Advisory Agreement") pursuant to which the Advisor managed the affairs of the Company, subject to the Company's purpose and investment policy, the investment restrictions and the directives of the Board of Directors. The services provided by the Advisor included the following: (i) identifying investment opportunities for the Company; (ii) advising the Company with respect to and effecting acquisitions and dispositions of the Company's investments; (iii) monitoring, managing and servicing the Company's loan portfolio; and (iv) arranging debt financing for the Company. The Advisor was prohibited from acting in a manner inconsistent with the express direction of the Board of Directors, and reported to the Board of Directors and the officers of the Company with respect to its activities.

The Company paid the Advisor a quarterly base management fee of 0.3125% (1.25% per annum) of the "Book Equity Value" of the Company determined as of the last day of each quarter but estimated and paid in advance subject to recomputation. "Book Equity Value" was generally defined as the excess of the book value of the assets of the Company over all liabilities of the Company.

In addition, the Company paid the Advisor a quarterly incentive fee of 5.00% of the Company's "Adjusted Net Income" during each quarter that the Adjusted Net Income for such quarter (restated and annualized as a rate of return on the Company's Book Equity Value for such quarter) equaled or exceeded the "Benchmark BB Rate." "Adjusted Net Income" was generally defined as the Company's gross income less the Company's expenses for the applicable quarter (including the base fee for such quarter but not the incentive fee for such quarter). In calculating both Book Equity Value and Adjusted Net Income, real estate-related depreciation and amortization (other than amortization of financing costs and other prepaid expenses to the extent such costs and prepaid expenses have previously been booked as an asset of the Company) were not deducted. The Advisor was also reimbursed for certain expenses it incured on behalf of the Company.

The Advisory Agreement had an initial term of three years subject to automatic renewal for one-year periods unless the Company had been liquidated or a Termination Event (as defined in the Advisory Agreement and which generally included violations of the Advisory Agreement by the Advisor, a

NOTE 4--CAPITAL TRANSACTIONS (CONTINUED)
bankruptcy event of the Advisor or the imposition of a material liability on the Company as a result of the Advisor's bad faith, willful misconduct, gross negligence or reckless disregard of duties) had occurred and was continuing. In addition, the Advisor could have terminated the Advisory Agreement on 60 days' written notice to the Company and the Company could have terminated the Advisory Agreement upon 60 days' written notice if a Termination Event had occurred or if the decision to terminate were based on affirmative vote of the holders of two thirds or more of the voting shares of the Company at the time outstanding.

Prior to the transactions described below through which, among other things, the Company became internally-managed, the Company was dependent on the services of the Advisor and its officers and employees for the successful execution of its business strategy.

1999 TRANSACTIONS--On November 3, 1999, consistent with previously announced terms, the Company's shareholders approved a series of transactions including: (i) the acquisition, through a merger, of TriNet; (ii) the acquisition, through a merger and a contribution of interests, of 100% of the ownership interests in the Advisor; and (iii) the change in form, through a merger, of the Company's organization into a Maryland corporation. TriNet stockholders also approved the TriNet acquisition on November 3, 1999. These transactions were consummated on November 4, 1999. As part of these transactions, the Company also changed its name to Starwood Financial Inc. and replaced its dual class common share structure with a single class of Common Stock.

TRINET ACQUISITION--TriNet merged with and into a subsidiary of the Company, with TriNet surviving as a wholly-owned subsidiary of the Company (the "Leasing Subsidiary"). In the TriNet acquisition, each share of TriNet common stock was converted into 1.15 shares of Common Stock, resulting in an aggregate issuance of 28.9 million shares of Common Stock. Each share of TriNet Series A, Series B and Series C Cumulative Redeemable Preferred Stock was converted into a share of Series B, Series C or Series D (respectively) Cumulative Redeemable Preferred Stock of the Company. The Company's preferred stock issued to the former TriNet preferred stockholders has substantially the same terms as the TriNet preferred stock, except that the new Series B, C, and D preferred stock has additional voting rights not associated with the TriNet preferred stock. The holders of the Company's Series A preferred stock will retain the same rights and preferences as existed prior to the TriNet acquisition.

The TriNet acquisition was accounted for as a purchase. Because the Company's stock prior to the transaction was largely held by the Starwood Investors, and, as a result, the stock was not widely traded relative to the amount of shares outstanding, the pro forma financial information presented below was prepared utilizing a stock price of $28.14 per TriNet share, which was the average stock price of TriNet during the five-day period before and after the TriNet acquisition was agreed to and announced.

ADVISOR TRANSACTION--Contemporaneously with the consummation of the TriNet acquisition, the Company acquired 100% of the interests in the Advisor in exchange for total consideration of four million shares of Common Stock. For accounting purposes, the Advisor Transaction was not considered the acquisition of a "business" in applying Accounting Principles Board Opinion No. 16, "Business Combinations" and, therefore, the market value of the Common Stock issued in excess of the fair value of the net tangible assets acquired of approximately $94.5 million was charged to operating income as a one-time item in the fourth quarter of 1999, rather than capitalized as goodwill.

INCORPORATION MERGER--Prior to the consummation of the TriNet acquisition and the Advisor Transaction, the Company changed its form from a Maryland trust to a Maryland corporation in the Incorporation

NOTE 4--CAPITAL TRANSACTIONS (CONTINUED)
Merger, which technically involved a merger of the Company with a wholly-owned subsidiary formed solely to effect such merger. In the Incorporation Merger, the class B shares were converted into shares of Common Stock on a 49-for-one basis (the same ratio at which class B shares were previously convertible into class A shares), and the class A shares were converted into shares of Common Stock on a one-for-one basis. As a result, the Company no longer has multiple classes of common shares. The Incorporation Merger was treated as a transfer of assets and liabilities under common control. Accordingly, the assets and liabilities transferred from Starwood Financial Trust to Starwood Financial Inc. were reflected at their predecessor basis and no gain or loss was recognized.

The Company declared and paid a special dividend of one million shares of its Common Stock payable pro rata to all holders of record of its Common Stock following completion of the Incorporation Merger, but prior to the effective time of the TriNet acquisition and the Advisor Transaction.

PRO FORMA INFORMATION--The summary unaudited pro forma consolidated statement of operations for the three-month period ended March 31, 1999 is presented as if the following transactions, consummated in November 1999, had occurred on January 1, 1999: (i) the TriNet acquisition; (ii) the Advisor Transaction; and (iii) the borrowing necessary to consummate the aforementioned transactions. The unaudited pro forma information is based upon the historical consolidated results of operations of the Company and TriNet for the three-month period ended March 31, 1999, after giving effect to the events described above.

NOTE 4--CAPITAL TRANSACTIONS (CONTINUED)

PRO FORMA
CONSOLIDATED STATEMENT OF OPERATIONS
(IN THOUSANDS, EXCEPT FOR PER SHARE DATA)

	FOR THE THREE MONTHS ENDED MARCH 31, 1999 (UNAUDITED)
REVENUE:	
Interest income	$ 52,089
Operating lease income	47,275
Other income	2,127
Total revenue	101,491
EXPENSES:	
Interest expense	32,830
Property operating costs	2,897
Depreciation and amortization	9,010
General and administrative	5,241
Provision for possible credit losses	1,000
Stock option compensation expense	549
Total expenses	51,527
Income before minority interest	49,964
Minority interest in consolidated entities	(41)
Net income from continuing operations	$ 49,923
Preferred dividend requirements	(9,227)
Net income from continuing operations allocable to common shareholders	$ 40,696
BASIC EARNINGS PER SHARE:	
Basic earnings per common share	$ 0.47
Weighted average number of common shares outstanding	87,245

Investments and dispositions are assumed to have taken place as of January 1, 1999; however, loan originations and acquisitions are not reflected in these pro forma numbers until the actual origination or acquisition date by the Company. General and administrative costs represent estimated expense levels as an internally-managed Company.

The pro forma financial information is not necessarily indicative of what the consolidated results of operations of the Company would have been as of and for the periods indicated, nor does it purport to represent the results of operations for future periods.

NOTE 5--LOANS AND OTHER LENDING INVESTMENTS

The following is a summary description of the Company's loans and other lending investments (in thousands):

TYPE OF INVESTMENT	UNDERLYING PROPERTY TYPE	# OF BORROWERS IN CLASS	ORIGINAL COMMITMENT AMOUNT	PRINCIPAL BALANCES OUTSTANDING	CARRYING VALUE AS OF MARCH 31, 2000	CARRYING VALUE AS OF DECEMBER 31, 1999
					(UNAUDITED)	
Senior Mortgages	Office/Hotel/Mixed Use/ Apartment/Retail/Resort	19	$ 975,493	$ 880,989	$ 880,904	$ 938,040
Subordinated Mortgages (4)	Office/Hotel/Mixed Use/ Retail/Conference Center	18	580,835	544,192	527,493	540,441
Partnership Loans/Unsecured Notes	Office/Hotel/Residential/Land	14	408,273	400,685	398,312	309,768
Loan Participations	Office/Retail	4	168,747	133,031	132,886	152,782
Other Lending Investments	Real Estate-Related Securities/Ventures	N/A	N/A	N/A	190,149	69,975
Gross Carrying Value					$2,129,744	$2,011,006
Provision for Possible Credit Losses					(9,000)	(7,500)
Total, Net					$2,120,744	$2,003,506

TYPE OF INVESTMENT	EFFECTIVE MATURITY DATES	CONTRACTUAL INTEREST PAYMENT RATES(1)	CONTRACTUAL INTEREST ACCRUAL RATES(3)	PRINCIPAL AMORTIZ-ATION	PARTICI-PATION FEATURES
Senior Mortgages	2000 to 2009	Fixed: 7.28% to 18.00% Variable: LIBOR + 1.25% to 5.00%	Fixed: 7.28% to 20.00% Variable: LIBOR + 1.25% to 5.00%	Yes (2)	Yes (3)
Subordinated Mortgages (4)	2000 to 2007	9.53% to 15.25% Variable: LIBOR + 4.50% to 5.80%	9.53% to 17.00% Variable: LIBOR + 4.00% to 5.80%	Yes (2)	Yes (3)
Partnership Loans/Unsecured Notes	2000 to 2028	8.00% to 15.00% Variable: LIBOR + 5.37% to 7.50%	8.50% to 17.50% Variable: LIBOR + 5.37% to 7.50%	Yes	Yes (3)
Loan Participations	2000 to 2005	Fixed: 10.00% to 13.60% Variable: LIBOR + 4.00% to 6.00%	Fixed: 10.00% to 13.60% Variable: LIBOR + 4.00% to 6.00%	No	Yes (3)
Other Lending Investments	2002 and 2007	Fixed: 10.00% to 12.75%	Fixed: 10.00% to 12.75%	No	No
Gross Carrying Value					
Provision for Possible Credit Losses					
Total, Net					

EXPLANATORY NOTES:

(1) Substantially all variable-rate loans are based on 30-day LIBOR and reprice monthly.

(2) The loans require fixed payments of principal and interest resulting in partial principal amortization over the term of the loan with the remaining principal due at maturity. In addition, one of the loans permits additional annual prepayments of principal of up to $1.3 million without penalty at the borrower's option.

(3) Under some of these loans, the lender receives additional payments representing additional interest from participation in available cash flow from operations of the property and the proceeds, in excess of a base amount, arising from a sale or refinancing of the property.

(4) As of March 31, 2000 and December 31, 1999, the unfunded commitment amount on one of the Company's construction loans, included in subordinated mortgages, was $8.9 million and $16.2 million, respectively.

NOTE 5--LOANS AND OTHER LENDING INVESTMENTS (CONTINUED)

During the three-month periods ended March 31, 2000 and 1999, respectively, the Company and its affiliated ventures originated or acquired an aggregate of approximately $211.9 million and $152.1 million in loans and other lending investments, funded $16.5 million and $7.1 million under existing loan commitments and received principal repayments of $117.6 million and $56.7 million.

The Company has reflected additional provisions for possible credit losses of approximately $1.5 million and $1.0 million in its results of operations during the three months ended March 31, 2000 and 1999, respectively. There was no other activity in the Company's reserve balances during this period. These provisions represent portfolio reserves based on management's evaluation of general market conditions, the Company's and industry loss experience, likelihood of delinquencies or defaults and the underlying collateral. No direct impairment reserves on specific loans were considered necessary. Management may transfer reserves between general and specific reserves as considered necessary.

NOTE 6--REAL ESTATE SUBJECT TO OPERATING LEASES

The Company's investments in real estate subject to operating leases, at cost, were as follows (in thousands):

	MARCH 31, 2000	DECEMBER 31, 1999
	(UNAUDITED)	
Buildings and improvements	$1,346,564	$1,390,933
Land and land improvements	271,367	277,872
Less accumulated depreciation	(13,737)	(14,627)
	1,604,194	1,654,178
Investments in unconsolidated joint ventures	60,156	60,106
Real estate subject to operating leases, net	$1,664,350	$1,714,284

Under certain leases, the Company receives additional participating lease payments to the extent gross revenues of the tenant exceed a base amount. The Company earned no such additional participating lease payments in the three-month period ended March 31, 2000.

At March 31, 2000, the Company had investments in five joint ventures: (i) TriNet Sunnyvale Partners L.P. ("Sunnyvale") whose external partners are John D. O'Donnell, Trustee, John W. Hopkins, and Donald S. Grant; (ii) Corporate Technology Associates LLC ("CTC I") whose external member is Corporate Technology Centre Partners LLC; (iii) Sierra Land Ventures ("Sierra"), whose external joint venture partner is Sierra-LC Land, Ltd.; (iv) Corporate Technology Centre Associates II LLC ("CTC II") whose external joint venture member is Corporate Technology Centre Partners II LLC; and (v) TriNet Milpitas Associates, LLC ("Milpitas") whose external member is The Prudential Insurance Company of America, for the purpose of operating, acquiring and in certain cases, developing properties. Effective November 22, 1999, the joint venture partners, who are affiliates of Whitehall Street Real Estate Limted Partnership, IX and The Goldman Sachs Group L.P. (the "Whitehall Group") in W9/TriNet Poydras, LLC ("Poydras") elected to exercise their right under the partnership agreement, which was accelerated as a result of the TriNet acquisition, to exchange all of their membership units for 350,746 shares of Common Stock of the Company and a $767,000 distribution of available cash. As a consequence, Poydras is now wholly owned and is reflected on a consolidated basis in these financial statements.

NOTE 6--REAL ESTATE SUBJECT TO OPERATING LEASES (CONTINUED)

At March 31, 2000, the ventures comprised 25 net leased facilities totaling 1.7 million square feet, 18.3 acres of land under development and 28.4 acres of land held for development and sale. The Company's combined investment in these joint ventures at March 31, 2000 was $60.2 million. The joint ventures' purchase price for the 25 operating facilities owned at March 31, 2000 was $269.9 million. The purchase price of the land, both under development, or held for development, was approximately $38.6 million. In the aggregate, the joint ventures had total assets of $343.3 million, total liabilities of $261.4 million, and net income of $0.7 million. The Company accounts for these investments under the equity method because its joint venture partners have certain participating rights which limit the Company's control. The Company's investments in and advances to unconsolidated joint ventures, its percentage ownership interests, its respective income and pro rata share of third-party debt as of March 31, 2000 are presented below (in thousands):

UNCONSOLIDATED JOINT VENTURE	OWNERSHIP %	EQUITY INVESTMENT	NOTES RECEIVABLE	ACCRUED INTEREST RECEIVABLE	TOTAL INVESTMENT	JOINT VENTURE INCOME	INTEREST INCOME	TOTAL INCOME
Operating:								
Sunnyvale	44.7%	$ 13,616	$ --	$ --	$ 13,616	$ 310	$ --	$ 310
CTC II	50.0%	4,320	21,205	4,790	30,315	(273)	1,312	1,039
Milpitas	50.0%	20,647	--	--	20,647	629	--	629
Development:								
Sierra	50.0%	5,354	--	--	5,354	(155)	--	(155)
CTC I	50.0%	16,219	--	--	16,219	(55)	--	(55)
Total		$ 60,156	$ 21,205	4,790	$ 86,151	$ 456	$ 1,312	$ 1,768

UNCONSOLIDATED JOINT VENTURE	PRO RATA SHARE OF THIRD-PARTY DEBT
Operating:	
Sunnyvale	$ 7,416
CTC II	8,240
Milpitas	41,011
Development:	
Sierra	2,588
CTC I	35,390
Total	$ 94,645

At March 31, 2000 the Company was the guarantor for 50% of CTC I's $70.8 million construction loan. Additionally, if the Company agrees with its joint venture partner to commence the development of phase II of the project. As a result, it has an additional commitment to fund further development costs in the amount of approximately $10.0 million. This amount will vary depending upon the amount of senior third-party financing obtained.

Currently, the limited partners of the Sunnyvale partnership have the option to convert their partnership interest into cash; however, the Company may elect to deliver 297,728 shares of Common Stock in lieu of cash. Additionally, commencing in February 2002, subject to acceleration under certain circumstances, partnership units held by certain partners of Milpitas may be converted into 984,476 shares of Common Stock.

NOTE 7--DEBT OBLIGATIONS

As of March 31, 2000 and December 31, 1999, the Company has debt obligations under various arrangements with financial institutions as follows (in thousands):

	MAXIMUM AMOUNT AVAILABLE	CARRYING VALUE AS OF MARCH 31, 2000 (UNAUDITED)	CARRYING VALUE AS OF DECEMBER 31, 1999	STATED INTEREST RATES	SCHEDULED MATURITY DATE
SECURED REVOLVING CREDIT FACILITIES:					
Line of credit	$ 675,000	$ 649,249	$ 592,984	LIBOR + 1.50%	March 2001
Line of credit	500,000	203,964	169,952	LIBOR + 1.50% - 1.75%(1)	August 2002(1)
Total secured revolving credit facilities	1,175,000	853,213	762,936		
UNSECURED REVOLVING CREDIT FACILITIES:					
Line of credit	350,000	144,600	186,700	LIBOR + 1.55%	May 2001
Line of credit	50,000	17,000	--	LIBOR + 2.00% - 2.25%	January 2002
Total revolving credit facilities	$1,575,000	1,014,813	949,636		
SECURED TERM LOANS:					
Secured by real estate under operating leases		152,865	153,618	7.44%	March 2009
Secured by senior and subordinate mortgage investments		109,062	109,398	LIBOR + 1.00%	August 2000
Secured by senior mortgage investment		90,623	90,902	LIBOR + 1.00%	August 2000
Secured by mezzanine investment		30,000	--	LIBOR + 3.50%	June 2000
Secured by real estate under operating leases		78,610	78,610	LIBOR + 1.38%	June 2001
Secured by real estate under operating leases		64,925	73,279	Fixed: 6.00% + 11.30% Variable: LIBOR + 1.00%	(3)
Secured by senior mortgage investment		54,000	54,000	LIBOR + 1.75% (2)	May 2000(2)
Total term loans		580,085	559,807		
Less debt discounts		(388)	(521)		
Total secured term loans		579,697	559,286		
UNSECURED NOTES:					
6.75% Dealer Remarketable Securities (4)		125,000	125,000	6.75%	March 2013
7.30% Notes		100,000	100,000	7.30%	March 2001
7.70% Notes		100,000	100,000	7.70%	July 2017
7.95% Notes		50,000	50,000	7.95%	May 2006
Total unsecured notes		375,000	375,000		
Less debt discount (5)		(20,756)	(21,481)		
Total unsecured notes		354,244	353,519		
OTHER DEBT OBLIGATIONS		38,640	38,763	Various	Various
TOTAL DEBT OBLIGATIONS		$1,987,394	$1,901,204		

EXPLANATORY NOTES:

(1) On February 4, 2000, the Company extended the term of its $500.0 million facility to August 2002 and increased pricing under the facility to LIBOR + 1.50% to 1.75%.

(2) Based on a 12-month LIBOR contract currently at 5.317%, repricing in May 2000. Subsequent to quarter end, the Company extended its $54.0 million term loan to November 2000.

(3) Other mortgage loans mature at various dates through 2010.

(4) Subject to mandatory tender on March 31, 2003, to either the Dealer or the Leasing Subsidiary. The initial coupon of 6.75% applies to first five-year term through the mandatory tender date. If tendered to the Dealer, the notes must be remarketed. The rates reset upon remarketing.

(5) These obligations were assumed as part of the TriNet acquisition. As part of the accounting for the purchase, these fixed rate obligations were considered to have stated interest rates which were below the then prevailing market rates at which the Leasing Subsidiary could issue new debt obligations and, accordingly, the Company ascribed a market discount to each obligation. Such discounts will be amortized as an adjustment to interest expense using the effective interest method over the related term of the obligations. As adjusted, the effective annual interest rates on these obligations were 8.81%, 8.75%, 9.51% and 9.04%, for the 6.75% Dealer Remarketable Securities, 7.30% Notes, 7.70% Notes and 7.95% Notes,

respectively.

NOTE 7--DEBT OBLIGATIONS (CONTINUED)

Availability of amounts under the secured revolving credit facilities are based on percentage borrowing base calculations. Except as indicated above, all debt obligations are based on 30-day LIBOR and reprice monthly.

Certain of the Leasing Subsidiary's debt obligations contain financial covenants pertaining to the subsidiary. Such obligations also establish restrictions on certain intercompany transactions between the Leasing Subsidiary and other Company affiliates. Further, such obligations also provide for a limit on distributions from the Leasing Subsidiary at 85% of cash flow from operations on a rolling four-quarter basis.

On January 31, 2000, the Company closed a new unsecured revolving credit facility. The facility is led by a major commercial bank, which has committed $50.0 million of the facility amount and intends to increase the facility to $100.0 million through syndication. The new facility has a two-year primary term and one-year extension at the Company's option, and bears interest at LIBOR plus 2.00% to 2.25%, depending upon certain conditions.

On February 4, 2000, the Company extended the term of its existing $500.0 million secured credit facility. The Company extended the original August 2000 maturity date to August 2002, through a one-year extension to the facility's draw period and an additional one-year "term out" period during which outstanding principal amortizes 25% per quarter. In connection with the extension, the Company and the facility lender also expanded the range of assets that the lender would accept as collateral under the facility. In exchange for the extension and expansion, the Company agreed to increase the facility's interest rate from LIBOR plus 1.25% to 1.50%, to a revised rate of LIBOR plus 1.50% to 1.75%, depending upon certain conditions.

During the three-month period ended March 31, 2000, the Company incurred an extraordinary loss of approximately $0.3 million as a result of the early retirement of certain debt obligations of its Leasing Subsidiary.

Future maturities of outstanding long-term debt obligations are as follows (in thousands):

2000 (remaining nine months)	$ 298,745
2001	1,176,423
2002	32,256
2003	--
2004	36,296
Thereafter	464,818
Total principal maturities	2,008,538
Net unamortized debt (discounts)/premiums	(21,144)
Total debt obligations	$1,987,394

NOTE 8--STOCKHOLDERS' EQUITY

Prior to November 4, 1999, the Company was authorized to issue 105.0 million shares, representing 70.0 million class A shares and 35.0 million class B shares, with a par value of $1.00 and $0.01 per share, respectively. Class B shares were required to be issued by the Company in an amount equal to one half of the number of class A shares outstanding. Class A and class B shares were each entitled to one vote per

NOTE 8--STOCKHOLDERS' EQUITY (CONTINUED)
share with respect to the election of directors and other matters. Pursuant to the Declaration of Trust, the class B shares were convertible at the option of the class B shareholders into class A shares on the basis of 49 class B shares for one class A share. However, the holder of class B shares had agreed with the Company that it would not convert the class B shares into class A shares without the approval of a majority of directors that were not affiliated with such holder. All distributions of cash were made 99% to the holders of class A shares and 1% to the holders of class B shares.

On December 15, 1998, for an aggregate purchase price of $220.0 million, the Company issued 4.4 million shares of Series A Preferred Stock and warrants to acquire 6.1 million common shares of Common Stock, as adjusted for dilution, at $35.00 per share. The warrants are exercisable on or after December 15, 1999 at a price of $35.00 per share and expire on December 15, 2005. The proceeds were allocated between the two securities issued based on estimated relative fair values.

As more fully described in Note 4, the Company consummated a series of transactions on November 4, 1999, in which its class A and class B shares were exchanged into a single class of Common Stock. The Company's charter now provides for the issuance of up to 200.0 million shares of Common Stock, par value $0.001 per share, and 30.0 million shares of preferred stock. As part of these transactions, the Company adopted articles supplementary creating four series of preferred stock designated as 9.5% Series A Cumulative Redeemable Preferred Stock, consisting of 4.4 million shares, 9.375% Series B Cumulative Redeemable Preferred Stock, consisting of 2.3 million shares, 9.20% Series C Cumulative Redeemable Preferred Stock, consisting of approximately 1.5 million shares, and 8.0% Series D Cumulative Redeemable Preferred Stock, consisting of 4.6 million shares. The Series B, C and D Cumulative Redeemable Preferred Stock were issued in the TriNet acquisition in exchange for similar issuances of TriNet stock then outstanding. The Series A, B, C and D Cumulative Redeemable Preferred Stock are redeemable without premium at the option of the Company at their respective liquidation preferences beginning on December 15, 2003, June 15, 2001, August 15, 2001 and October 8, 2002, respectively.

STOCK REPURCHASE PROGRAM: The Board of Directors approved, and the Company has implemented, a stock repurchase program under which the Company is authorized to repurchase up to 5.0 million shares of its Common Stock from time to time, primarily using proceeds from the disposition of assets and excess cash flow from operations, but also using borrowings under its credit facilities if the Company determines that it is advantageous to do so. As of March 31, 2000 and December 31, 1999, the Company had repurchased approximately 2.3 million shares, at an aggregate cost of approximately $40.5 and $40.4 million, respectively.

NOTE 9--RISK MANAGEMENT AND USE OF FINANCIAL INSTRUMENTS

RISK MANAGEMENT--In the normal course of its on-going business operations, the Company encounters economic risk. There are three main components of economic risk: interest rate risk, credit risk and market risk. The Company is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different speeds, or different bases, than its interest-earning assets. Credit risk is the risk of default on the Company's loan assets that results from a property's, borrower's or tenant's inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of loans, securities available for sale and purchased mortgage servicing rights due to changes in interest rates or other market factors, including the rate of prepayments of principal and the value of the collateral underlying loans and the valuation of real estate held by the Company.

NOTE 9--RISK MANAGEMENT AND USE OF FINANCIAL INSTRUMENTS (CONTINUED)

USE OF DERIVATIVE FINANCIAL INSTRUMENTS--The Company's use of derivative financial instruments is primarily limited to the utilization of interest rate agreements or other instruments to manage interest rate risk exposure. The principal objective of such arrangements is to minimize the risks and/or costs associated with the Company's operating and financial structure as well as to hedge specific anticipated transactions. The counterparties to these contractual arrangements are major financial institutions with which the Company and its affiliates may also have other financial relationships. The Company is potentially exposed to credit loss in the event of nonperformance by these counterparties. However, because of their high credit ratings, the Company does not anticipate that any of the counterparties will fail to meet their obligations.

The Company has entered into LIBOR interest rate caps struck at 9.00%, 7.50% and 7.50% in notional amounts of $300.0 million, $40.4 million and $38.3 million, respectively, which expire in March 2001, January 2001 and June 2001, respectively. In addition, in connection with the TriNet acquisition, the Company acquired LIBOR interest rate caps currently struck at 7.75%, 7.75%, and 7.50% in notional amounts of $75.0 million, $35.0 million, and $75.0 million, respectively, which expire in December 2004, December 2004, and August 2001, respectively. At March 31, 2000 and December 31, 1999, the fair value of the Company's interest rate caps were $1.8 and $2.2 million, respectively.

The Company has entered into approximately $205.0 million of interest rate swaps to effectively fix the interest rate on a portion of the Company's floating-rate term loan obligations. In addition, in connection with the TriNet acquisition, the Company acquired an interest rate swap agreement which, together with certain existing interest rate cap agreements, effectively fix the interest rate on $75.0 million of the Leasing Subsidiary's LIBOR-based borrowings at 5.58% plus the applicable margin through December 1, 2004. Management expects that it will have aggregate LIBOR-based borrowings at the Leasing Subsidiary in excess of the notional amount for the duration of the swap. The actual borrowing cost to the Company with respect to indebtedness covered by the swap will depend upon the applicable margin over LIBOR for such indebtedness, which will be determined by the terms of the relevant debt instruments. At March 31, 2000 and December 31, 1999, the fair value of the Company's interest rate swaps were $4.1 and $3.4 million, respectively.

The Company is currently pursuing or recently consummated certain anticipated long-term fixed rate borrowings and had entered into certain derivative instruments based on U.S. Treasury securities to hedge the potential effects of interest rate movements on these transactions. Under these agreements, the Company would generally receive additional cash flow at settlement if interest rates rise and pay cash if interest rates fall. The effects of such receipts or payments will be deferred and amortized over the term of the specific related fixed-rate borrowings. During the year ended December 31, 1999, the Company settled an aggregate notional amount of approximately $63.0 million that was outstanding under such agreements, resulting in a receipt of approximately $0.6 million to be amortized over the term of the anticipated borrowing.

During the year ended December 31, 1999, the Company refinanced its $125.0 million term loan maturing March 15, 1999 with a $155.4 million term loan maturing March 5, 2009. The new term loan bears interest at 7.44% per annum, payable monthly, and amortizes over an approximately 22-year schedule. The new term loan represented one of the forecasted transactions for which the Company had previously entered into U.S. Treasury-based hedging transactions. The net $3.4 million cost of the settlement of the related interest rate hedges has been deferred and will be amortized as an increase to the effective financing cost of the new term loan over its effective 10-year term.

NOTE 9--RISK MANAGEMENT AND USE OF FINANCIAL INSTRUMENTS (CONTINUED)

In the event that, in the opinion of management, it is no longer probable that the remaining forecasted transaction will occur under terms substantially equivalent to those projected, the Company will cease recognizing such transactions as hedges and immediately recognize related gains or losses based on actual settlement or estimated settlement value of the underlying derivative contract. No such gains or losses have been recognized by the Company.

CREDIT RISK CONCENTRATIONS--Concentrations of credit risks arise when a number of borrowers or tenants related to the Company's investments are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations, including those to the Company, to be similarly affected by changes in economic conditions. The Company regularly monitors various segments of its portfolio to assess potential concentrations of credit risks. Management believes the current credit risk portfolio is reasonably well diversified and does not contain any unusual concentration of credit risks.

Substantially all of the Company's real estate subject to operating leases (including those held by joint ventures), loans and other lending investments are collateralized by properties located in the United States, with significant concentrations (i.e., greater than 10%) as of March 31, 2000 in California (25.6%) and Texas (14.3%). As of March 31, 2000, the Company's investments also contain significant concentrations in the following asset/collateral types: office (50.5%), hotel/resorts (13.1%), retail (7.6%) and industrial (7.6%).

The Company underwrites the credit of prospective borrowers and tenants and often requires them to provide some form of credit support such as corporate guarantees or letters of credit. Although the Company's loans and other lending investments and net lease assets are geographically diverse and the borrowers and tenants operate in a variety of industries, to the extent the Company has a significant concentration of interest or operating lease revenues from any single borrower or tenant, the inability of that borrower or tenant to make its payment could have an adverse effect on the Company. As of March 31, 2000, the Company's five largest borrowers or tenants collectively accounted for approximately 17.1% of the Company's annualized interest and operating lease revenue.

NOTE 10--INCOME TAXES

Although originally formed to qualify as a REIT under the Code for the purpose of making and acquiring various types of mortgage and other loans, during 1993 through 1997, the Company failed to qualify as a REIT. As confirmed by a closing agreement with the Internal Revenue Service (the "IRS") obtained in March 1998, the Company was eligible and elected to be taxed as a REIT for the tax years commencing on January 1, 1998. The Company did not incur any material tax liabilities as a result of its operations during such years.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and income tax purposes, as well as operating loss and tax credit carry forwards. A valuation allowance is recorded if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred income tax asset will not be realized. Given the limited nature of the Company's operations and assets and liabilities from 1993 through 1997, the only deferred tax assets were net operating loss carry forwards ("NOL's") of approximately $4.0 million, which arose during such periods. Since the Company has elected to be treated as a REIT for its tax years beginning January 1, 1998, the NOL's have expired unutilized. Accordingly, no net

NOTE 10--INCOME TAXES (CONTINUED)
deferred tax asset value, after consideration of a 100% valuation allowance, has been reflected in these financial statements as of March 31, 2000 or December 31, 1999 nor a net tax provision for the three-month periods ended March 31, 2000 and 1999.

NOTE 11--STOCK OPTION PLANS AND EMPLOYEE BENEFITS

The Company's 1996 Long-Term Incentive Plan (the "Plan") is designed to provide incentive compensation for officers, other key employees and directors of the Company. The Plan provides for awards of stock options and restricted stock and other performance awards. The maximum number of shares of Common Stock available for awards under the Plan is 9% of the outstanding shares of Common Stock, calculated on a fully diluted basis, from time to time; provided that, the number of shares of Common Stock reserved for grants of options designated as incentive stock options is 5.0 million, subject to certain antidilution provisions in the Plan. All awards under the Plan, other than automatic awards to non-employee directors, are at the discretion of the Board or a committee of the Board. At March 31, 2000, a total of approximately 7.7 million shares of Common Stock were available for awards under the Plan, of which options to purchase approximately 5.4 million shares of Common Stock were outstanding.

Concurrently with the Recapitalization Transactions, the Company issued approximately 2.5 million fully vested (as adjusted) and immediately exercisable options to purchase class A shares at $15.00 per share to the Advisor with a term of ten years. The Advisor granted a portion of these options to its employees and the remainder allocated to an affiliate. In general, the grants to the Advisor's employees provided for scheduled vesting over a predefined service period of three to five years and in some cases provided for accelerated vesting based on a change in control of the Advisor or completion of certain liquidity transactions. These options expire concurrently with the original option grant to the Advisor. Upon consummation of the Advisor Transaction these individuals became employees of the Company.

In connection with the TriNet acquisition, outstanding options to purchase TriNet stock under TriNet's stock option plans were converted into options to purchase shares of Common Stock on substantially the same terms, except that both the exercise price and number of shares issuable upon exercise of the TriNet options were adjusted to give effect to the merger exchange ratio of 1.15 shares of Common Stock for each share of TriNet common stock. In addition, options held by the directors of TriNet and certain executive officers became fully vested as a result of the transaction.

The TriNet directors received a number of options of the Company to purchase Common Stock on a fully vested basis on substantially the same terms as the TriNet options, in each case giving effect to the 1.15 exchange ratio for their options.

Also, as a result of the TriNet acquisition, TriNet terminated its dividend equivalent rights program. The program called for immediate vesting and cash redemption of all dividend equivalent rights upon a change of control of 50% or more of the voting common stock. Concurrent with the TriNet acquisition, all dividend equivalent rights were vested and amounts due to former TriNet employees of approximately $8.3 million were paid by the Company. Such payments were included as part of the purchase price paid by the Company to acquire TriNet for financial reporting purposes.

NOTE 11--STOCK OPTION PLANS AND EMPLOYEE BENEFITS (CONTINUED)

Changes in options outstanding during the three months ended March 31, 2000 was as follows:

	NUMBER OF SHARES			AVERAGE
	EMPLOYEES	NON-EMPLOYEE DIRECTORS	OTHER	STRIKE PRICE
OPTIONS OUTSTANDING, DECEMBER 31, 1999.....	3,001,270	183,177	764,146	$19.08
Granted in 2000.....	1,626,683	80,000	50,000	$17.00
Exercised in 2000.....	--	--	--	$ --
Forfeited in 2000.....	(316,212)	--	--	$25.25
OPTIONS OUTSTANDING, MARCH 31, 2000.....	4,311,741	263,177	814,146	$17.29

The following table summarizes information concerning outstanding and exercisable options as of March 31, 2000:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
EXERCISE PRICE RANGE	OPTIONS OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	CURRENTLY EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
$15.00	2,473,714	7.95	$15.00	1,303,803(1)	$15.00
$16.88	1,104,990	9.77	$16.88	--	$ --
$17.00-$17.38	600,750	9.94	$17.36	--	$ --
$21.09	86,250	3.18	$21.09	86,250	$21.09
$22.45	149,500	1.11	$22.45	149,500	$ --
$23.32	167,325	1.99	$23.32	167,325	$ --
$23.64	109,020	4.15	$23.64	--	$ --
$24.13-$24.57	239,657	3.61	$24.38	212,632	$24.36
$24.67	56,322	0.86	$25.33	52,872	$25.33
$27.88-$28.37	122,764	1.57	$28.33	108,102	$28.35
$29.63	10,185	8.10	$30.18	10,185	$29.63
$30.33	253,145	2.16	$30.33	197,967	$30.33
$33.15-$33.70	10,350	4.94	$33.39	7,475	$33.49
$57.50	5,092	9.65	$58.58	5,092	$57.50
	5,389,064	7.39	$18.19	2,301,203	$19.58

EXPLANATORY NOTE:

(1) Includes approximately 764,000 options which were granted, on a fully exercisable basis, in connection with the Recapitalization Transactions to an entity related to Starwood Capital Group, and which were subsequently regranted by that entity to employees of Starwood Capital Group subject to vesting and exercisability requirements. As a result of those requirements, less than 2,000 of these options are currently exercisable by the beneficial owners. In the event that these employees forfeit such options, they revert to such entity, which may regrant them at its discretion.

The Company has elected to use the intrinsic method for accounting for options issued to employees or directors, as allowed under Statement of Financial Accounting Standards No. 123 "Accounting for Stock Based Compensation" ("SFAS 123") and, accordingly, recognizes no compensation charge in connection with these options to the extent that the options exercise price equals or exceeds the quoted price of the

NOTE 11--STOCK OPTION PLANS AND EMPLOYEE BENEFITS (CONTINUED)
Company's common shares at the date of grant or measurement date. In connection with the Advisor Transaction, as part of the computation of the one-time charge to earnings, the Company calculated a deferred compensation charge of approximately $5.1 million. This deferred charge represents the difference of the closing sales price of the shares of Common Stock on the date of the Advisor Transaction of $20.25 over the strike price of the options of $15.00 for the unvested portion of the options granted to former employees of the Advisor who are now employees of the Company. This deferred charge will be amortized over the related remaining vesting terms to the individual employees as additional compensation expense.

In connection with the original grant of options to the Advisor, the Company utilized the option value method as required by SFAS 123 to account for the initial grant of options to the Advisor. An independent financial advisory firm estimated the value of these options at date of grant to be approximately $2.40 per share using a Black-Scholes valuation model. In the absence of comparable historical market information for the Company, the advisory firm utilized assumptions consistent with activity of a comparable peer group of companies including an estimated option life of five years, a 27.5% volatility rate and an estimated annual dividend rate of 8.5%. The resulting charge to earnings was calculated as the number of options allocated to the Advisor multiplied by the estimated value at consummation. A charge of approximately $6.0 million had been reflected in the Company's first quarter 1998 financial results for this original grant.

Future charges may be taken to the extent of additional option grants, which are at the discretion of the Board of Directors.

Effective November 4, 1999, the Company implemented a savings and retirement plan (the "401 (k) Plan"), which is a voluntary, defined contribution plan. All employees are eligible to participate in the 401 (k) Plan following completion of six months of continuous service with the Company. Each participant may contribute on a pretax basis between 2% and 15% of such participant's compensation. At the discretion of the Board of Directors, the Company may make matching contributions on the participant's behalf up to 50% of the first 10% of the participant's annual contribution. The Company made contributions of approximately $0.1 million to the 401 (k) Plan for the three-month period ended March 31, 2000.

NOTE 12--EARNINGS PER SHARE

Prior to November 4, 1999, basic EPS was computed based on the income allocable to class A shares (net income reduced by accrued dividends on preferred shares and by 1% allocated to class B shares) divided by the weighted average number of class A shares outstanding during the period. Diluted EPS was based on the net earnings allocable to class A shares plus dividends on class B shares which were convertible into class A shares, divided by the weighted average number of class A shares and dilutive potential class A shares that were outstanding during the period. Dilutive potential class A shares included the class B shares, which were convertible into class A shares at a rate of 49 class B shares for one class A share, and potentially dilutive options to purchase class A shares issued to the Advisor and the Company's directors and warrants to acquire class A shares.

As more fully described in Note 4, in the Incorporation Merger, the class B shares were converted into shares of Common Stock on a 49-for-one basis (the same ratio at which class B shares were previously convertible into class A shares), and the class A shares were converted into shares of Common Stock on a one-for-one basis. As a result, the Company no longer has multiple classes of common shares. Basic and

NOTE 12--EARNINGS PER SHARE (CONTINUED)
diluted earnings per share are based upon the following weighted average shares outstanding during the three-month periods ended March 31, 2000 and 1999, respectively (in thousands):

	THREE-MONTH PERIODS ENDED MARCH 31,	
	2000	1999
	(UNAUDITED)	
Weighted average common shares outstanding for basic earnings per common share	85,087	52,447
Add effect of assumed shares issued under treasury stock method for stock options and restricted stock units	362	1,715
Add effects of conversion of class B shares (49-for-one)	--	535
Add effects of assumed warrants exercised under treasury stock method for stock options	--	1,849
Weighted average common shares outstanding for diluted earnings per common share	85,449	56,546

NOTE 13--COMPREHENSIVE INCOME

In June 1997, the FASB issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS No. 130") effective for fiscal years beginning after December 15, 1997. The statement changes the reporting of certain items currently reported as changes in the shareholders' equity section of the balance sheet and establishes standards for the reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. SFAS No. 130 requires that all components of comprehensive income shall be reported in the financial statements in the period in which they are recognized. Furthermore, a total amount for comprehensive income shall be displayed in the financial statements. The Company has adopted this standard effective January 1, 1998. Total comprehensive income was $51.7 million and $28.1 million for the three-month periods ended March 31, 2000 and 1999, respectively. The primary component of comprehensive income other than net income was the change in value of certain investments in marketable securities classified as available-for-sale.

NOTE 14--DIVIDENDS

In order to maintain its election to qualify as a real estate investment trust, the Company must distribute, at a minimum, an amount equal to 95% of its taxable income and must distribute 100% of its taxable income to avoid paying corporate federal income taxes. Accordingly, the Company anticipates it will distribute all of its taxable income to its shareholders. Because taxable income differs from cash flow from operations due to non-cash revenues or expenses, in certain circumstances, the Company may be required to borrow to make sufficient dividend payments to meet this anticipated dividend threshold.

On November 4, 1999, the class A shares were converted into shares of Common Stock on a one-for-one basis. Total dividends declared by the Company aggregated $116.1 million, or $1.86 per common share, for the year ended December 31, 1999. On April 3, 2000, the Company declared a dividend of approximately $51.2 million, or $0.60 per common share applicable to the three-month period ended March 31, 2000 and payable to shareholders of record on April 14, 2000. The Company also declared dividends aggregating $5.2 million, $1.2 million, $0.7 million, and $2.0 million, respectively, on its Series A, B, C and D preferred stock, respectively, for the three-month period ended March 31, 2000. There are no dividend arrearages on any of the preferred shares currently outstanding.

In November 1999, the Company declared and paid a dividend of a total of one million shares of Common Stock pro rata to all holders of record of Common Stock as of the close of business on November 3, 1999.

The Series A preferred stock has a liquidation preference of $50.00 per share and carry an initial dividend yield of 9.50% per annum. The dividend rate on the preferred shares will increase to 9.75% on December 15, 2005, to 10.00% on December 15, 2006 and to 10.25% on December 15, 2007 and thereafter. Dividends on the Series A preferred shares are payable quarterly in arrears and are cumulative.

Holders of shares of the Series B preferred stock are entitled to receive, when and as declared by the Board of Directors, out of funds legally available for the payment of dividends, cumulative preferential cash dividends at the rate of 9.375% per annum of the $25.00 liquidation preference, equivalent to a fixed annual rate of $2.34 per share. Dividends are cumulative from the date of original issue and are payable quarterly in arrears on or before the 15th day of each March, June, September and December or, if not a business day, the next succeeding business day. Any dividend payable on the Series B preferred stock for any partial dividend period will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends will be payable to holders of record as of the close of business on the first day of the calendar month in which the applicable dividend payment date falls or on another date designated by the Board of Directors of the Company for the payment of dividends that is not more than 30 nor less than 10 days prior to the dividend payment date.

Holders of shares of the Series C preferred stock are entitled to receive, when and as declared by the Board of Directors, out of funds legally available for the payment of dividends, cumulative preferential cash dividends at the rate of 9.20% of the $25.00 liquidation preference per year, equivalent to a fixed annual rate of $2.30 per share.

Holders of shares of the Series D preferred stock are entitled to receive, when and as declared by the Board of Directors, out of funds legally available for the payment of dividends, cumulative preferential cash dividends at the rate of 8.00% of the $25.00 liquidation preference per year, equivalent to a fixed annual rate of $2.00 per share.

NOTE 14--DIVIDENDS (CONTINUED)

The exact amount of future quarterly dividends to common shareholders will be determined by the Board of Directors based on the Company's actual and expected operations for the fiscal year and the Company's overall liquidity position.

NOTE 15--SEGMENT REPORTING

Statement of Financial Accounting Standard No. 131 ("SFAS 131") establishes standards for the way the public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected financial information about operating segments in interim financial reports issued to stockholders.

The Company has two reportable segments: real estate lending and credit tenant leasing. The Company does not have substantial foreign operations. The accounting policies of the segments are the same as those described in Note 3. The Company has no single customer that accounts for 10% or more of revenues (see Note 9 for other information regarding concentrations of credit risk).

NOTE 15--SEGMENT REPORTING (CONTINUED)

The Company evaluates performance based on the following financial measures for each segment. Selected results of operations for the three months ended March 31, 2000 and 1999 and selected asset information as of March 31, 2000 and December 31, 1999 regarding the Company's operating segments are as follows (in thousands):

	REAL ESTATE LENDING	CREDIT TENANT LEASING (1)	CORPORATE/ OTHER (2)	COMPANY TOTAL
		(UNAUDITED)		
Total revenues(3):				
Three months ended:				
March 31, 2000	$ 60,083	$ 46,272	$ 4,533	$ 110,888
March 31, 1999	49,919	3,727	1,778	55,424
Total operating and interest expense(4):				
Three months ended:				
March 31, 2000	$ 22,517	$ 29,080	$ 7,477	$ 59,074
March 31, 1999	18,379	3,679	5,149	27,207
Net operating income before minority interests(5):				
Three months ended:				
March 31, 2000	$ 37,566	$ 17,192	$ (2,944)	$ 51,814
March 31, 1999	31,540	48	(3,371)	28,217
Total long-lived assets(6):				
March 31, 2000	$2,120,744	$1,664,350	N/A	$3,785,094
December 31, 1999	2,003,506	1,714,284	N/A	3,717,790
Total assets:				
March 31, 2000	N/A	N/A	$3,896,540	$3,896,540
December 31, 1999	N/A	N/A	3,813,552	3,813,552

EXPLANATORY NOTES:

(1) Includes the Company's pre-existing Credit Tenant Leasing investments acquired in the Recapitalization Transactions since March 18, 1998 and the Credit Tenant Leasing business acquired in the TriNet acquisition since November 4, 1999.

(2) Corporate and Other represents all corporate-level items, including, general and administrative expenses and any intercompany eliminations necessary to reconcile to the consolidated Company totals. This caption also includes the Company's servicing business, which is not considered a material separate segment.

(3) Total revenues represents all revenues earned during the period from the assets in each segment. Revenue from the Real Estate Lending Business primarily represents interest income and revenue from the Credit Tenant Leasing business primarily represents operating lease income.

(4) Total operating and interest expense represents provision for possible credit losses for the Real Estate Lending business and property operating costs (including real estate taxes) for the Credit Tenant Leasing business. Interest expense, general and administrative, advisory fees and stock option compensation expense is included in Corporate and Other for all periods. Depreciation and amortization of $9,009 and $1,365 for the three-month periods ended March 31, 2000 and 1999, respectively, are included in the amounts presented above.

(5) Net operating income before minority interests represents total revenues, as defined in note (3) above, less total operating and interest expense, as defined in note (4) above, for each period.

(6) Long-lived assets is comprised of Loans and Other Lending Investments, net and Real Estate Subject to Operating Leases, net, for each respective segment.

NOTE 16--SUBSEQUENT EVENTS

On April 14, 2000, the Company announced that its Board of Directors appointed Jay Sugarman, president and chief executive officer, to the added post of chairman of the board. In connection with the appointment, Barry S. Sternlicht stepped down as chairman, but remains a board member. In addition, on April 30, 2000, the Company changed its name from Starwood Financial Inc. to IStar Financial Inc.

In May 2000 the Company expects to close the inaugural offering under its proprietary matched funding program, IStar Asset Receivables, Series 2000-1 ("STARS"). In the initial transaction, a trust which is wholly owned by the Company will issue $886.0 million of investment grade bonds secured by the trust's assets. The maturity of the bonds will match fund the maturity of the underlying assets financed under the program.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

As more fully discussed in Note 4 to the Company's Consolidated Financial Statements, on March 18, 1998, the Company completed the Recapitalization Transactions which, among other things, substantially recapitalized the Company and modified its investment policy. Effective June 18, 1998, the Company (which was organized under California law) changed its domicile to Maryland by merging with a newly-formed subsidiary organized under Maryland law, and issued new shares of the subsidiary to the Company's shareholders in exchange for their shares in the Company. Concurrently, the Company consummated a one-for-six reverse stock split.

Immediately prior to the consummation of the Recapitalization Transactions, the Company's assets primarily consisted of approximately $11.0 million in short-term, liquid real estate investments, cash and cash equivalents.

On December 15, 1998, the Company sold $220.0 million of preferred shares and warrants to purchase class A shares to a group of investors affiliated with Lazard Freres. Concurrent with the sale of the preferred shares and warrants, the Company purchased $280.3 million in real estate loans and participation interests from a group of investors also affiliated with Lazard Freres. These transactions are referred to collectively as the "Lazard Transaction."

As more fully discussed in Note 4 to the Company's Consolidated Financial Statements, on November 3, 1999, the Company's shareholders approved a series of transactions including: (i) the acquisition of TriNet; (ii) the acquisition of the Company's external advisor; and (iii) the reorganization of the Company from a trust to a corporation and the exchange of the class A and class B shares for Common Stock. Pursuant to the TriNet acquisition, TriNet merged with and into a subsidiary of the Company, with TriNet surviving as a wholly-owned subsidiary of the Company. In the acquisition, each share of common stock of TriNet was converted into 1.15 shares of Common Stock. Each share of TriNet Series A, Series B and Series C Cumulative Redeemable Preferred Stock was converted into a share of Series B, Series C or Series D (respectively) Cumulative Redeemable Preferred Stock of the Company. The Company's preferred stock issued to the former TriNet preferred stockholders has substantially the same terms as the TriNet preferred stock, except that the new Series B, C, and D preferred stock have additional voting rights not associated with the TriNet preferred stock. The Company's Series A Preferred Stock remained outstanding with the same rights and preferences as existed prior to the TriNet acquisition. As a consequence of the acquisition of its external advisor, the Company is now internally-managed and will no longer pay external advisory fees.

The transactions described above and other related transactions have materially impacted the historical operations of the Company and will continue to impact the Company's future operations. Accordingly, the reported historical financial information for periods prior to these transactions is not believed to be fully indicative of the Company's future operating results or financial condition.

RESULTS OF OPERATIONS

THREE-MONTH PERIOD ENDED MARCH 31, 2000 COMPARED TO THE THREE-MONTH PERIOD ENDED MARCH 31, 1999

During the three-month period ended March 31, 2000, total revenue increased by approximately $55.5 million over total revenue for the same period in 1999. This increase is a result of the interest generated by $211.9 million of loan investments newly-originated or acquired by the Company during 2000, an additional $16.5 million funded under existing loan commitments, and approximately $42.1 million in operating lease income generated from net lease assets acquired in the TriNet acquisition. The increase was partially offset by a reduction in interest earned as a result of principal repayments of approximately $117.6 million made to the Company on its loan investments during the three months ended March 31, 2000. Included in other income for fiscal year 1999 are prepayment fees of approximately $3.1 million

resulting from the partial repayments of three loans, a forbearance fee of $1.1 million resulting from the purchase of a sub-performing loan and subsequent restructuring of such loan to fully performing status, and approximately $0.5 million in additional revenue from certain cash flow participation features on four of the Company's loan investments.

The Company's total costs and expenses during the three-month period ended March 31, 2000 increased by approximately $31.9 million compared to the same period in 1999, as explained in more detail below. These increases were generally the result of the increased scope of the Company's operations as a result of costs associated with additional lending operations and the TriNet acquisition.

The Company's interest expense increased by $18.1 million for the three-month period ended March 31, 2000 over the same period in the prior year. This was in part the result of higher interest rates and higher average borrowings by the Company on its credit facilities and other term loans, the proceeds of which were used to fund additional loan origination and acquisition activities. Further, interest expense in fiscal 2000 includes interest incurred by the Leasing Subsidiary subsequent to its acquisition.

Property operating costs represent unreimbursed property operating expenses incurred by the Leasing Subsidiary subsequent to its acquisition. All costs of this kind were borne directly by the tenant on the Company's pre-existing credit tenant leasing portfolio prior to the TriNet acquisition.

Depreciation and amortization increased approximately $7.6 million for the three-month period ended March 31, 2000 over the same period in the prior year, primarily as a result of depreciation and amortization on the Leasing Subsidiary's net leased assets subsequent to its acquisition.

General and administrative costs increased by approximately $6.4 million for the three-month period ended March 31, 2000 as a result of additional costs incurred subsequent to the acquisition of the Company's external advisor, as well as additional administrative expenses associated with the Leasing Subsidiary subsequent to its acquisition.

There were no advisory fees during the three-month period ended March 31, 2000 as, subsequent to the acquisition of the Company's external advisor, the Company is now internally-managed and no further advisory fees will be incurred.

The Company's charge for provision for possible credit losses increased to $1.5 million from $1.0 million as a result of expanded lending operations as well as additional seasoning of the Company's existing lending portfolio. As more fully discussed in Note 5 to the Company's Consolidated Financial Statements, the Company has not realized any actual losses on any of its loan investments to date.

Stock compensation expense increased by approximately $0.5 million as a result of charges relating to grants of stock options to the Company's employees.

During the three-month period ended March 31, 2000, the Company incurred an extraordinary loss of approximately $0.3 million as a result of the early retirement of certain debt obligations of its Leasing Subsidiary.

INTEREST RATE RISK MANAGEMENT

Market risk is the exposure to loss resulting from changes in interest rates, foreign currency exchange rates, commodity prices and equity prices. In pursuing its business plan, the primary market risk to which the Company is exposed is interest rate risk. Consistent with its expected election to qualify as a REIT, the Company has implemented an interest rate risk management policy based on match funding, with the objective that floating-rate assets be primarily financed by floating-rate liabilities and fixed-rate assets be primarily financed by fixed-rate liabilities.

The Company's operating results will depend in part on the difference between the interest and related income earned on its assets and the interest expense incurred in connection with its interest-bearing liabilities. Competition from other providers of real estate financing may lead to a decrease in the interest rate earned on the Company's interest-bearing assets, which the Company may not be able to offset by obtaining lower interest costs on its borrowings. Changes in the general level of interest rates prevailing in the financial markets may affect the spread between the Company's interest-earning assets and interest-bearing liabilities. Any significant compression of the spreads between interest-earning assets and interest-bearing liabilities could have a material adverse effect on the Company. In addition, an increase in interest rates could, among other things, reduce the value of the Company's interest-bearing assets and its ability to realize gains from the sale of such assets, and a decrease in interest rates could reduce the average life of the Company's interest-earning assets.

A substantial portion of the Company's loan investments are subject to significant prepayment protection in the form of lock-outs, yield maintenance provisions or other prepayment premiums which provide substantial yield protection to the Company. Those assets generally not subject to prepayment penalties include: (i) variable-rate loans based on LIBOR, originated or acquired at par, which would not result in any gain or loss upon repayment; and (ii) discount loans and loan participations acquired at discounts to face values, which would result in gains upon repayment. Further, while the Company generally seeks to enter into loan investments which provide for substantial prepayment protection, in the event of declining interest rates, the Company could receive such prepayments and may not be able to reinvest such proceeds at favorable returns. Such prepayments could have an adverse effect on the spreads between interest-earning assets and interest-bearing liabilities.

While the Company has not experienced any significant credit losses, delinquencies or defaults, in the event of a significant rising interest rate environment and/or economic downturn, defaults could increase and result in credit losses to the Company which adversely affect its liquidity and operating results. Further, such delinquencies or defaults could have an adverse effect on the spreads between interest-earning assets and interest-bearing liabilities.

Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political conditions, and other factors beyond the control of the Company. As more fully discussed in Note 9 to the Company's Consolidated Financial Statements, the Company employs match funding-based hedging strategies to limit the effects of changes in interest rates on its operations, including engaging in interest rate caps, floors, swaps, futures and other interest rate-related derivative contracts. These strategies are specifically designed to reduce the Company's exposure, on specific transactions or on a portfolio basis, to changes in cash flows as a result of interest rate movements in the market. The Company does not enter into derivative contracts for speculative purposes nor as a hedge against changes in credit risk of its borrowers or of the Company itself.

Each interest rate cap or floor agreement is a legal contract between the Company and a third party (the "counterparty"). When the Company purchases a cap or floor contract, the Company makes an up-front payment to the counterparty and the counterparty agrees to make payments to the Company in the future should the reference rate (typically one- or three-month LIBOR) rise above (cap agreements) or fall below (floor agreements) the "strike" rate specified in the contract. Each contract has a notional face amount. Should the reference rate rise above the contractual strike rate in a cap, the Company will earn cap income. Should the reference rate fall below the contractual strike rate in a floor, the Company will earn floor income. Payments on an annualized basis will equal the contractual notional face amount multiplied by the difference between actual reference rate and the contracted strike rate. The cost of the up-front payment is amortized over the term of the contract.

Interest rate swaps are agreements in which a series of interest rate flows are exchanged over a prescribed period. The notional amount on which swaps are based is not exchanged. In general, the

Company's swaps are "pay fixed" swaps involving the exchange of floating-rate interest payments from the counterparty for fixed interest payments from the Company.

Interest rate futures are contracts, generally settled in cash, in which the seller agrees to deliver on a specified future date the cash equivalent of the difference between the specified price or yield indicated in the contract and the value of that of the specified instrument (e.g., U.S. Treasury securities) upon settlement. The Company generally uses such instruments to hedge forecasted fixed-rate borrowings. Under these agreements, the Company will generally receive additional cash flow at settlement if interest rates rise and pay cash if interest rates fall. The effects of such receipts or payments will be deferred and amortized over the term of the specific related fixed-rate borrowings. In the event that, in the opinion of management, it is no longer probable that a forecasted transaction will occur under terms substantially equivalent to those projected, the Company will cease recognizing such transactions as hedges and immediately recognize related gains or losses based on actual settlement or estimated settlement value. No such gains or losses have been recognized by the Company.

While a REIT may freely utilize the types of derivative instruments discussed above to hedge interest rate risk on its liabilities, the use of derivatives for other purposes, including hedging asset-related risks such as credit, prepayment or interest rate exposure on the Company's loan assets, could generate income which is not qualified income for purposes of maintaining REIT status. As a consequence, the Company may only engage in such instruments to hedge such risks on a limited basis.

There can be no assurance that the Company's profitability will not be adversely affected during any period as a result of changing interest rates. In addition, hedging transactions using derivative instruments involve certain additional risks such as counterparty credit risk, legal enforceability of hedging contracts and the risk that unanticipated and significant changes in interest rates will cause a significant loss of basis in the contract. With regard to loss of basis in a hedging contract, indices upon which contracts are based may be more or less variable than the indices upon which the hedged assets or liabilities are based, thereby making the hedge less effective. The counterparties to these contractual arrangements are major financial institutions with which the Company and its affiliates may also have other financial relationships. The Company is potentially exposed to credit loss in the event of nonperformance by these counterparties. However, because of their high credit ratings, the Company does not anticipate that any of the counterparties will fail to meet their obligations. There can be no assurance that the Company will be able to adequately protect against the foregoing risks and that the Company will ultimately realize an economic benefit from any hedging contract it enters into which exceeds the related costs incurred in connection with engaging in such hedges.

LIQUIDITY AND CAPITAL RESOURCES

The Company requires capital to fund its investment origination and acquisition activities and operating expenses. The Company's capital sources include cash flow from operations, borrowings under lines of credit, additional term borrowings, long-term financing secured by the Company's assets, unsecured financing and the issuance of common, convertible and/or preferred equity securities.

As a result of the Recapitalization Transactions, the Lazard Transaction, the TriNet acquisition, the acquisition of the Company's external advisor, and other transactions completed by the Company, the Company has significant access to capital resources to fund its existing business plan, which includes the expansion of its real estate lending and credit tenant leasing businesses. Further, the Company may acquire other businesses or assets using its capital stock, cash or a combination thereof.

The distribution requirements under the REIT provisions of the Code restrict the Company's ability to retain earnings and thereby replenish capital committed to its operations. However, the Company believes that its significant capital resources and access to financing will provide it with financial flexibility and market responsiveness at levels sufficient to meet current and anticipated capital requirements, including expected new lending and leasing transactions.

The Company's ability to meet its long-term (i.e., beyond one year) liquidity requirements is subject to the renewal of its credit lines and/or obtaining other sources of financing, including issuing additional debt or equity from time to time. Any decision by the Company's lenders and investors to enter into such transactions with the Company will depend upon a number of factors, such as compliance with the terms of its existing credit arrangements, the Company's financial performance, industry or market trends, the general availability of and rates applicable to financing transactions, such lenders' and investors' resources and policies concerning the terms under which they make such capital commitments and the relative attractiveness of alternative investment or lending opportunities.

Based on its monthly interest and other expenses, monthly cash receipts, existing investment commitments and funding plans, the Company believes that its existing sources of funds will be adequate to purposes of meeting its short- and long-term liquidity needs. Material increases in monthly interest expense or material decreases in monthly cash receipts would negatively impact the Company's liquidity. On the other hand, material decreases in monthly interest expense would positively affect the Company's liquidity.

As more fully discussed in Note 7 to the Company's Consolidated Financial Statements, at March 31, 2000, the Company had existing fixed-rate borrowings of approximately $152.7 million secured by real estate under operating leases which mature in 2009, an aggregate of approximately $283.7 million in LIBOR-based, variable-rate loans secured by various senior and subordinate mortgage investments which mature in fiscal 2000, fixed-rate corporate debt obligations aggregating approximately $354.2 million which mature between 2001 and 2017, and other variable- and fixed-rate secured debt obligations aggregating approximately $143.5 million which mature at various dates through 2010.

In addition, the Company has entered into LIBOR-based secured revolving credit facilities of $675.0 and $500.0 million which expire in fiscal 2001 and 2002 respectively. As of March 31, 2000, the Company had drawn approximately $649.2 million and $204.0 million under these facilities. Availability under these facilities is based on collateral provided under a borrowing base calculation. In addition, the Leasing Subsidiary has an agreement with a group of 13 banks led by Bank of America, N.A. which provides it with a $350.0 million unsecured revolving credit facility. This facility matures on May 31, 2001 and has a one-year extension period at the Company's option. Interest incurred on the facility is LIBOR-based with a margin dependent on the Company's credit ratings. Facility fees under the credit facility are also tied to its credit ratings. All of the available commitment under the facility may be borrowed for general corporate and working capital needs of the Leasing Subsidiary, as well as for investments. Under the terms of this facility, the Leasing Subsidiary is generally permitted to make cash distributions to the Company in an amount equal to 85% of cash flow from operations in any rolling four-quarter period. The facility requires interest-only payments until maturity, at which time outstanding borrowings are due and payable. As of March 31, 2000, the Company had $144.6 million drawn and $205.4 million available under this facility.

The Company has entered into LIBOR interest rate caps struck at 9.00%, 7.50% and 7.50% in notional amounts of $300.0 million, $40.4 million and $38.3 million, respectively, which expire in March 2001, January 2001 and June 2001, respectively. In addition, in connection with the TriNet acquisition, the Company acquired LIBOR interest rate caps currently struck at 7.75%, 7.75%, and 7.50% in notional amounts of $75.0 million, $35.0 million, and $75.0 million, respectively, which expire in December 2004, December 2004, and August 2001, respectively. At March 31, 2000, the fair value of the Company's interest rate caps was $1.8 million.

The Company has originated or acquired certain assets using proceeds from LIBOR-based borrowings. In connection with such borrowings, the Company entered into approximately $205.0 million of interest rate swaps to effectively fix the interest rate on such obligations. In addition, in connection with the TriNet acquisition, the Company acquired an interest rate swap which, together with certain existing interest rate cap agreements, effectively fix the interest rate on $75.0 million of the Leasing Subsidiary's LIBOR-based borrowings at 5.58% plus the applicable margin through December 1, 2004. Management

expects that it will have aggregate LIBOR based borrowings at the Leasing Subsidiary in excess of the notional amount for the duration of the swap. The actual borrowing cost to the Company with respect to indebtedness covered by the swap will depend upon the applicable margin over LIBOR for such indebtedness, which will be determined by the terms of the relevant debt instruments. At March 31, 2000, the fair value of the Company's interest rate swaps was $4.1 million.

The Company is currently pursuing or has consummated certain anticipated long-term fixed-rate borrowings and had entered into certain derivative instruments based on U.S. Treasury securities to hedge the potential effects of interest rate movements on these transactions. Under these agreements, the Company would generally receive additional cash flow at settlement if interest rates rise and pay cash if interest rates fall. The effects of such receipts or payments will be deferred and amortized over the term of the specific related fixed-rate borrowings. During the year ended December 31, 1999, the Company settled an aggregate notional amount of approximately $63.0 million that was outstanding under such agreements, resulting in a receipt of approximately $0.6 million to be amortized over the term of the anticipated borrowing.

During the year ended December 31, 1999, the Company refinanced its $125.0 million term loan maturing March 15, 1999 with a $155.4 million term loan maturing March 5, 2009. The new term loan bears interest at 7.44% per annum, payable monthly, and amortizes over an approximately 22-year schedule. The new term loan represented one of the forecasted transactions for which the Company had previously entered into U.S. Treasury-based hedging transactions. The net $3.4 million cost of the settlement of such hedges has been deferred and will be amortized as an increase to the effective financing costs of the new term loan over its 10-year term.

In the event that, in the opinion of management, it is no longer probable that the remaining forecasted transactions will occur under terms substantially equivalent to those projected, the Company will cease recognizing such transactions as hedges and immediately recognize related gains or losses based on actual settlement or estimated settlement value. No such gains or losses have been recognized by the company.

STOCK REPURCHASE PROGRAM: The Board of Directors approved, and the Company has implemented, a stock repurchase program under which the Company is authorized to repurchase up to 5.0 million shares of its Common Stock from time to time, primarily using proceeds from the disposition of assets and excess cash flow from operations, but also using borrowings under its credit facilities if the Company determines that it is advantageous to do so. As of March 31, 2000 and December 31, 1999, the Company had repurchased approximately 2.3 million shares, at an aggregate cost of approximately $40.5 and $40.4 million, respectively.

NEW ACCOUNTING STANDARDS

In June 1997, the FASB issued Statement of Financial Accounting Standards No. 131, "Disclosure about Segments of an Enterprise and Related Information" ("SFAS No. 131") effective for financial statements issued for periods beginning after December 15, 1997. SFAS No. 131 requires disclosures about segments of an enterprise and related information regarding the different types of business activities in which an enterprise engages and the different economic environments in which it operates. The Company adopted the requirements of this pronouncement in its financial statements beginning with its reporting for fiscal 1999. As of December 31, 1999, the Company is currently segmented between its lending and credit tenant lease businesses.

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). On June 23, 1999 the FASB voted to defer the effectiveness of SFAS 133 for one year. SFAS 133 is now effective for fiscal years beginning after June 15, 2000, but earlier application is permitted as of the beginning of any fiscal quarter subsequent to June 15, 1998. SFAS No. 133 establishes accounting and reporting standards for derivative financial

instruments and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as: (i) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment; (ii) a hedge of the exposure to variable cash flows of a forecasted transaction; or (iii) in certain circumstances a hedge of a foreign currency exposure. The Company currently plans to adopt this pronouncement as required effective January 1, 2001. The adoption of SFAS 133 is not expected to have a material financial impact on the financial position or results of operations of the Company.

OTHER MATTERS

1940 ACT EXEMPTION

The Company at all times intends to conduct its business so as to not become regulated as an investment company under the Investment Company Act of 1940. If the Company were to become regulated as an investment company, then the Company's ability to use leverage would be substantially reduced. The Investment Company Act exempts entities that are "primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate" (i.e., "Qualifying Interests"). Under the current interpretation of the staff of the SEC, in order to qualify for this exemption, the Company must maintain at least 55% of its assets directly in Qualifying Interests. As of March 31, 2000, the Company calculates that it is in and has maintained compliance with this requirement.

FORWARD LOOKING STATEMENTS

When used in this Form 10-Q, in future SEC filings or in press releases or other written or oral communications, the words or phrases "will likely result", "are expected to", "will continue", "is anticipated", "estimate", "project" or similar expressions are intended to identify "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The Company cautions that such forward looking statements speak only as of the date made and that various factors including regional and national economic conditions, changes in levels of market interest rates, credit and other risks of lending and investment activities, and competitive and regulatory factors could affect the Company's financial performance and could cause actual results for future periods to differ materially from those anticipated or projected.

The Company does not undertake and specifically disclaims any obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements except as required by law.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM-8-K

A. EXHIBITS

3.1 Amended and Restated Charter of the Company (including the Articles Supplementary for the Series A, B, C and D Preferred Stock).

3.2 Bylaws of the Company.

27.1 Financial Data Schedule.

B. REPORTS ON FORM 8-K

None.

SIGNATURES

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

ISTAR FINANCIAL INC.

REGISTRANT

Date: May 15, 2000

/s/ JAY SUGARMAN

Jay Sugarman
CHAIRMAN OF THE BOARD OF DIRECTORS,
CHIEF EXECUTIVE OFFICER AND PRESIDENT

Date: May 15, 2000

/s/ SPENCER B. HABER

Spencer B. Haber
EXECUTIVE VICE PRESIDENT--FINANCE,
CHIEF FINANCIAL OFFICER, DIRECTOR AND SECRETARY

Exhibit 3.1

iSTAR FINANCIAL INC.

AMENDED AND RESTATED CHARTER

ARTICLE I

INCORPORATION

The undersigned, Michael E. McTiernan, whose address is c/o Rogers & Wells LLP, 200 Park Avenue, New York, New York 10166, being at least 18 years of age, does hereby form a corporation under the general laws of the State of Maryland.

ARTICLE II

NAME

The name of the corporation (the "Corporation") is: iStar Financial Inc.

ARTICLE III

PURPOSE

(a) The purposes for which the Corporation is formed and the business and objects to be carried on and promoted by it are to engage in any lawful act or activity (including, without limitation or obligation, engaging in business as a REIT) for which corporations may be organized under the General Laws of the State of Maryland as now or hereafter in force. In addition, the Corporation shall have such further powers as are not inconsistent with, and are appropriate to promote and attain, the purposes of the Corporation as set forth in this Charter. For purposes of this Charter, "REIT" means a real estate investment trust under Sections 856 through 860 of the Code.

(b) The primary purposes of the Corporation include to acquire a diversified portfolio of debt and/or debt like interests in real estate and/or real estate related assets, including (i) originating mortgage loans and/or acquiring mortgage loans or acquiring securities collateralized, in whole or in part, by such mortgage loans, as well as making equity investments in real estate and real estate-related assets, (ii) acquiring direct or indirect interests in short term, medium and long-term real estate-related debt securities and mortgage interests, which may include warrants, equity participations or similar rights incidental to a debt investment by the Corporation, (iii) making, holding and disposing of purchase money loans with respect to assets sold by the Corporation, and (iv) acquiring positions in non-performing and sub-performing debt for the purpose of either restructuring it as performing debt or if such efforts are unsuccessful, of obtaining shortly thereafter primary management rights over or equity interests in the underlying assets securing such debt (the "Diversified Portfolio"). Such investments may incorporate a variety of real property equity and financing techniques, including, without limitation, partnerships, joint ventures, purchase and leasebacks, land purchase-leases, net lease financings, purchase and installment salebacks, and Mortgages. The Corporation's authority with respect to the Diversified Portfolio includes the power to acquire, hold, own, develop, redevelop, construct, improve, maintain, operate, manage, sell, lease, rent, transfer, encumber, mortgage, convey, exchange and otherwise dispose of all or part of the Diversified Portfolio and the Diversified Portfolio may be held by the Corporation directly or indirectly.

(c) Without the amendment, termination or waiver of provisions of certain non-competition agreements between Starwood Capital Group, L.P. and Starwood Hotels & Resorts, Inc., a publicly traded hotel corporation and Starwood Hotels & Resorts Worldwide, Inc., the Corporation is prohibited from: (i) making investments in loans collateralized by hotel assets where it is anticipated that the underlying equity will be acquired by the debt holder within one (1) year from the acquisition of such debt, (ii) acquiring equity interests in hotels (other than acquisitions of warrants, equity participations or similar rights incidental to a debt investment by the Corporation or that are acquired as a result of the exercise of remedies in respect of a loan in which the Corporation has an interest) or (iii) selling or contributing to or acquiring any interests in Starwood Hotels & Resorts, Inc., including debt positions or equity interests obtained by the Corporation under, pursuant to or by reason of the holding of debt positions.

(d) The foregoing enumerated purposes and objects shall be in no way limited or restricted by reference to, or inference from, the terms of any other clause of this or any other Article of this Charter, and each shall be regarded as independent; and they are intended to be and shall be construed as powers as well as purposes and objects of the Corporation and shall be in addition to and not in limitation of the general powers of corporations under the General Laws of the State of Maryland.

ARTICLE IV

PRINCIPAL OFFICE IN STATE AND RESIDENT AGENT

The present address of the principal office of the Corporation in the State of Maryland is c/o The Corporation Trust Incorporated, 32 South Street, Baltimore, Maryland 21202. The name and present address of the resident agent of the Corporation in the State of Maryland are The Corporation Trust Incorporated, 32 South Street, Baltimore, Maryland 21202. The resident agent is a corporation of and resident of the State of Maryland. The Corporation may have such other offices or places of business within or without the State of Maryland as the Board may from time to time determine.

ARTICLE V

CAPITAL STOCK

(a) The total number of shares of stock of all classes which the Corporation has authority to issue is 230,000,000 shares of Capital Stock (par value $0.001 per share), amounting in aggregate par value to $230,000. Of these shares, 200,000,000 are initially classified as "Common Stock" and 30,000,000 are initially classified as "Preferred Stock." Of the shares of Preferred Stock, 4,400,000 shares are initially classified as 9.5% Series A Cumulative Redeemable Preferred Stock ("Series A Preferred Stock"), 2,300,000 shares are initially classified as 9 3/8% Series B Cumulative Redeemable Preferred Stock ("Series B Preferred Stock"), 1,495,000 shares are initially classified as 9.20% Series C Cumulative Redeemable Preferred Stock ("Series C Preferred Stock"), and 4,600,000 shares are initially classified as 8% Series D Cumulative Redeemable Preferred Stock ("Series D Preferred Stock"). Subject to the other provisions of this Article V, the Board may: (i) classify and reclassify any unissued shares of Capital Stock by setting or changing in any one or more respects the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications or terms or conditions of redemption of such shares of Capital Stock and (ii) to the extent permitted by Maryland law from time to time, without any action by the Shareholders, amend the Charter from time to

time to increase or decrease the aggregate number of shares of Capital Stock or the number of shares of Capital Stock of any class or series that the Corporation has authority to issue.

(b) The following is a description of the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends, qualifications and terms and conditions of redemption of the Common Stock of the Corporation:

(i) Each share of Common Stock shall have one vote, and, except as otherwise provided in respect of the Preferred Stock and in respect of any other class of stock hereafter classified or reclassified, the exclusive voting power for all purposes shall be vested in the holders of the Common Stock. Shares of Common Stock shall not have cumulative voting rights.

(ii) Subject to the provisions of law and any preferences of the Preferred Stock or any other class of stock hereafter classified or reclassified, dividends, including dividends payable in shares of another class of the Corporation's stock, may be paid ratably on the Common Stock at such time and in such amounts as the Board may deem advisable.

(iii) In the event of any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, the holders of the Common Stock shall be entitled, together with the holders of any other class of stock hereafter classified or reclassified not having a preference on distributions in the liquidation, dissolution or winding up of the Corporation, to share ratably in the net assets of the Corporation remaining, after payment or provision for payment of the debts and other liabilities of the Corporation and the amount to which the holders of any class of stock hereafter classified or reclassified having a preference on distributions in the liquidation, dissolution or winding up of the Corporation shall be entitled.

(c) The description of the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends, qualifications and terms and conditions of redemption of the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock and the Series D Preferred Stock of the Corporation are set forth in Annex A, Annex B, Annex C and Annex D to this Charter, respectively.

(d) Subject to the foregoing, the power of the Board to classify and reclassify any of the shares of Capital Stock shall include, without limitation, subject to the provisions of this Charter, authority to classify or reclassify any unissued shares of Capital Stock into a class or classes of preferred stock, preference stock, special stock or other stock, and to divide and classify shares of any class into one or more series of such class by determining, fixing, or altering one or more of the following:

(i) The distinctive designation of such class or series and the number of shares to constitute such class or series; provided that, unless otherwise prohibited by the terms of such or any other class or series, the number of shares of any class or series may be decreased by the Board in connection with any classification or reclassification of unissued shares and the number of shares of such class or series may be increased by the Board in connection with any such classification or reclassification, and any shares of any class or series which have been redeemed, purchased, otherwise acquired or converted into shares of Common Stock or any other class or series shall no longer be deemed to be outstanding and shall become part of the authorized Capital Stock and be subject to classification and reclassification as provided in this sub-paragraph.

(ii) Whether or not and, if so, the rates, amounts and times at which, and the terms and conditions under which, dividends shall be payable on shares of such class or series, whether any such dividends shall rank senior or junior to or on a parity with the dividends payable on any other class or series of stock, and the status of any such dividends as cumulative, cumulative to a limited extent or non-cumulative and as participating or non-participating.

(iii) Whether or not shares of such class or series shall have limitations on voting rights or voting rights in addition to any voting rights provided by law, and, if so, the terms of such voting rights.

(iv) Whether or not shares of such class or series shall have conversion or exchange privileges and, if so, the terms and conditions thereof, including provision for adjustment of the conversion or exchange rate in such events or at such times as the Board shall determine.

(v) Whether or not shares of such class or series shall be subject to redemption and, if so, the terms and conditions of such redemption, including the date or dates upon or after which they shall be redeemable and the amount per share payable in case of redemption, which amount may vary under different conditions and at different redemption dates; and whether or not there shall be any sinking fund or purchase account in respect thereof, and if so, the terms thereof.

(vi) The rights of the holders of shares of such class or series upon the liquidation, dissolution or winding up of the affairs of, or upon any distribution of the assets of, the Corporation, which rights may vary depending upon whether such liquidation, dissolution or winding up is voluntary or involuntary and, if voluntary, may vary at different dates, and whether such rights shall rank senior or junior to or on a parity with such rights of any other class or series of stock.

(vii) Whether or not there shall be any limitations applicable, while shares of such class or series are outstanding, upon the payment of dividends or making of distributions on, or the acquisition of, or the use of moneys for purchase or redemption of, any stock of the Corporation, or upon any other action of the Corporation, including action under this sub-paragraph, and, if so, the terms and conditions thereof.

(viii) Any other preferences, rights, restrictions, including restrictions on transferability, and qualifications of shares of such class or series, not inconsistent with law and the Charter.

(e) For the purposes hereof and of any articles supplementary to the Charter providing for the classification or reclassification of any shares of Capital Stock or of any other Charter document of the Corporation (unless otherwise provided in any such articles or document), any class or series of stock of the Corporation shall be deemed to rank:

(i) prior to another class or series either as to dividends or upon liquidation, if the holders of such class or series shall be entitled to the receipt of dividends or of amounts distributable on liquidation, dissolution or winding up, as the case may be, in preference or priority to holders of such other class or series;

(ii) on a parity with another class or series either as to dividends or upon liquidation, whether or not the dividend rates, dividend payment dates or redemption or liquidation price per share thereof be different from those of such others, if the holders of such class or series of stock shall be entitled to receipt of dividends or amounts distributable upon liquidation, dissolution or winding up, as the case may be, in proportion to their respective dividend rates or redemption or liquidation prices, without preference or priority over the holders of such other class or series; and

(iii) junior to another class or series either as to dividends or upon liquidation, if the rights of the holders of such class or series shall be subject or subordinate to the rights of the holders of such other class or series in respect of the receipt of dividends or the amounts distributable upon liquidation, dissolution or winding up, as the case may be.

(f) All persons who shall acquire stock in the Corporation shall acquire such stock subject to the provisions of this Charter and the Bylaws of the Corporation. The Directors shall have the exclusive power to make, adopt, amend, or repeal the Bylaws of the Corporation to the extent not inconsistent with law or with this Charter.

ARTICLE VI

BOARD OF DIRECTORS

(a) The initial number of Directors of the Corporation shall be 10, which number may be increased or decreased, from time to time, by resolution of the Board approved by at least a majority of the Directors then in office pursuant to the Bylaws of the Corporation, or by the affirmative vote of the holders of a majority of the combined voting power of all shares of Capital Stock entitled to vote thereon, voting together as a single class, provided that the number of Directors so fixed shall not be less than seven nor more than 18, and shall never be less than the minimum number permitted by the MGCL now or hereafter in force.

(b) Subject to the rights of the holders of any class separately entitled to elect one or more Directors, newly created Directorships resulting from any increase in the authorized number of Directors or any vacancies on the Board resulting from death, resignation, retirement, disqualification, removal from office, or other cause shall be filled by resolution of the Board approved by at least a majority of the Directors then in office, pursuant to the Bylaws or by the affirmative vote of the holders of a majority of the votes cast at a meeting at which a quorum is present. A Director so elected by the shareholders shall hold office for the balance of the term then remaining. No decrease in the number of Directors shall affect the tenure of office of any Director. Until vacancies are filled, the remaining Directors (even though less than seven) may exercise the powers of the Board hereunder.

(c) Whenever the holders of any one or more series of Capital Stock of the Corporation shall have the right, voting separately as a class, to elect one or more Directors of the Corporation, the Board shall consist of said Directors so elected in addition to the number of Directors fixed as provided in paragraph (a) of this Article VI. Notwithstanding the foregoing, and except as otherwise may be required by law or by this Charter, whenever the holders of any one or more series of Capital Stock of the Corporation shall have the right, voting separately as a series, to elect one or more Directors of the Corporation, the terms of the Director or Directors elected by such holders shall expire at the next succeeding annual meeting of Shareholders.

(d) Subject to the rights of the holders of any series separately entitled to elect one or more Directors, any Director, or the entire Board of Directors, may be removed from office at any time, with or without cause, at a special meeting of the Shareholders by the affirmative vote of a majority of the holders of the combined voting power of all classes of shares of Capital Stock entitled to vote in the election for Directors voting together as a single class. For purposes of the foregoing, "cause" shall mean a Director's willful violations of this Charter or the Bylaws which violations are materially adverse to the interests of the Shareholders, or gross negligence in the performance of his or her duties.

(e) The Directors shall be divided into two classes as follows:

(i) the term of office of Class I Directors shall be until the annual meeting of Shareholders held in the year 2000 and until their successors shall be elected and have qualified and thereafter shall be for two years and until their successors shall be elected and have qualified; and

(ii) the term of office of Class II Directors shall be until the annual meeting of Shareholders held in the year 2001 and until their successors shall be elected and have qualified and thereafter shall be for two years and until their successors shall be elected, and have qualified.

If the number of Directors is changed, any increase or decrease shall be apportioned among the classes so as to maintain or attain, if possible, the equality of the number of Directors in each class.

(f) The names of the individuals who now serve as Directors of the Corporation and until their successors are elected and qualify are as follows:

(i) The following person shall serve as Class I Directors:

Jeffrey G. Dishner

Jonathan Eilian

Robin Josephs

Merrick R. Kleeman

Madison F. Grose

(ii) The following persons shall serve as Class II Directors:

Barry S. Sternlicht

Jay Sugarman

William M. Mathes

Kneeland C. Youngblood

Spencer B. Haber

(g) A minimum of the greater of (i) 33-1/3% of the total number of Directors or (ii) three (3) members of the Board and the Executive Committee (as established in the Bylaws) of the Board shall be Persons who are not Affiliates of Starwood Capital Group, L.L.C.; provided, however, that if at any time the number of Directors or members of the Executive Committee who are not Affiliates of such

Person becomes less than the minimum number set forth above, whether because of the death, resignation, removal, or change in affiliation of one or more Directors or members of the Executive Committee or otherwise, then such requirement shall not be applicable for a period of ninety (90) days after such event occurs, during which period the continuing Directors or Director then in office shall appoint, pursuant to paragraph (b) of Article VI, a sufficient number of other individuals as Directors or as members of the Executive Committee so that again a minimum of the greater of (i) 33-1/3% of the total number of Directors or (ii) three (3) members of the Board and the Executive Committee then in office are not Affiliates of such Person. The Directors shall at all times endeavor to comply with the requirement of this paragraph (i) of Article VI as to independence, but failure so to comply with such requirement shall not affect the validity or effectiveness of any action of the Directors or of the Executive Committee.

ARTICLE VII

PROVISIONS FOR DEFINING, LIMITING AND REGULATING CERTAIN POWERS OF THE CORPORATION AND OF THE SHAREHOLDERS AND DIRECTORS

(a) The Board is empowered to authorize the issuance from time to time of shares of Capital Stock of the Corporation of any class or series, whether now or hereafter authorized, or Securities or rights convertible into shares of its stock of any class or series, whether now or hereafter authorized, for such consideration as the Board may deem advisable and without any action by the Shareholders.

(b) No holder of any stock or any other Securities of the Corporation, whether now or hereafter authorized, shall have any preemptive right to subscribe for or purchase any stock or any other Securities of the Corporation other than such, if any, as the Board, in its sole discretion, may determine and at such price or prices and upon such other terms as the Board, in its sole discretion, may fix; and any stock or other Securities which the Board may determine to offer for subscription may, as the Board in its sole discretion shall determine, be offered to the holders of any class or series of stock or other Securities at the time outstanding to the exclusion of the holders of any or all other classes or series of stock or other securities at the time outstanding.

(c) The Corporation shall indemnify (i) its Directors and officers, whether serving the Corporation or, at its request, any other entity, to the full extent required or permitted by the General Laws of the State of Maryland now or hereafter in force, including the advance or reimbursement of reasonable expenses as incurred (including reasonable attorneys fees) under the procedures and to the full extent permitted by law and (ii) other employees and agents to such extent as shall be authorized by the Board or the Corporation's Bylaws and be permitted by law. The foregoing rights of indemnification shall not be exclusive of any other rights to which those seeking indemnification may be entitled. The Board may take such action as is necessary to carry out these indemnification provisions and is expressly empowered to adopt, approve and amend from time to time such Bylaws, resolutions or contracts implementing such provisions or such further indemnification arrangements as may be permitted by law. No amendment of the Charter or repeal of any of its provisions shall limit or eliminate the right to indemnification provided hereunder with respect to acts or omissions occurring prior to such amendment or repeal.

(d) To the fullest extent permitted by Maryland statutory or decisional law, as amended or interpreted, no Director or officer of the Corporation shall be personally liable to the Corporation or its Shareholders for money damages. No amendment of the Charter of the Corporation or

repeal of any of its provisions shall limit or eliminate the limitation on liability provided to Directors and officers hereunder with respect to any act or omission occurring prior to such amendment or repeal. In addition to any Maryland statute limiting the liability of directors or officers of a Maryland corporation, no Director or officer of the Corporation shall be liable to the Corporation or to any Director for any act or omission of any other Director, Stockholder, officer, or agent of the Corporation or be held to any personal liability whatsoever in tort, contract, or otherwise in connection with the affairs of this Corporation except only that arising from his own willful violation of the provisions of this Charter or of the Bylaws which violation is materially against the interests of the Shareholders and results in material harm to such interests, or gross negligence in the performance of his or her duties.

(e) The determination as to any of the following matters, made in good faith by or pursuant to the direction of the Board consistent with the Charter and the Bylaws and in the absence of actual receipt of an improper benefit in money, property or services or active and deliberate dishonesty established by a court, shall be final and conclusive and shall be binding upon the Corporation and every holder of shares of its Capital Stock: the amount of the net income of the Corporation for any period and the amount of assets at any time legally available for the payment of dividends, redemption of its Capital Stock or the payment of other distributions on its Capital Stock; the amount of paid-in surplus, net assets, other surplus, annual or other net profit, net assets in excess of capital, undivided profits or excess of profits over losses on sales of assets; the amount, purpose, time of creation, increase or decrease, alteration or cancellation of any reserves or charges and the propriety thereof (whether or not any obligation or liability for which such reserves or charges shall have been created shall have been paid or discharged); the fair value, or any sale, bid or asked price to be applied in determining the fair value, of any asset owned or held by the Corporation; any matters relating to the acquisition, holding and disposition of any assets by the Corporation; and to determine whether and to what extent and at what times and places and under what conditions and regulations the books, accounts and documents of the Corporation, or any of them, shall be open to the inspection of shareholders, except as otherwise provided by the MGCL or by the Bylaws, and, except as so provided, no stockholder shall have any right to inspect any book, account or document of the Corporation unless authorized to do so by resolution of the Board.

(f) The Board shall use its reasonable best efforts to take such actions as are necessary or appropriate to preserve the status of the Corporation as a REIT; however, if the Board determines that it is no longer in the best interests of the Corporation to continue to be qualified as a REIT, the Board may revoke or otherwise terminate the Corporation's REIT election pursuant to Section 856(g) of the Code.

(g) The Board shall, in connection with the exercise of its business judgment involving a Business Combination (as defined in Section 3-601 of the MGCL) or any actual or proposed transaction which would or may involve a change in control of the Corporation (whether by purchases of shares of stock or any other Securities of the Corporation in the open market, or otherwise, tender offer, merger, consolidation, dissolution, liquidation, sale of all or substantially all of the assets of the Corporation, proxy solicitation or otherwise) in determining what is in the best interest of the Corporation and its Shareholders and in making any recommendation to its Shareholders, give due consideration to all relevant factors, including, but not limited to (i) the economic effect, both immediate and long-term, upon the Corporation's Shareholders, including Shareholders, if any, who do not participate in the transaction; (ii) whether the proposal is acceptable based on the historical and current operating results or financial condition of the Corporation; (iii) whether a more favorable price could be obtained for the Corporation's stock or other Securities in the future; (iv) the reputation and business practices of the offeror and its management and affiliates as they would affect the employees of the Corporation and its subsidiaries; (v) the future value of the stock or any other Securities of the Corporation; (vi) any antitrust or other legal and regulatory issues that are raised by the proposal; and (vii) the business and financial condition and

earnings prospects of the acquiring person or entity, including, but not limited to, debt service and other existing financial obligations, financial obligations to be incurred in connection with the acquisition, and other likely financial obligations of the acquiring person or entity. If the Board determines that any proposed Business Combination (as defined in Section 3-601 of the MGCL) or actual or proposed transaction which would or may involve a change in control of the Corporation should be rejected, it may take any lawful action to defeat such transaction, including, but not limited to, any or all of the following: advising Shareholders not to accept the proposal; instituting litigation against the party making the proposal; filing complaints with governmental and regulatory authorities; acquiring the stock or any of the Securities of the Corporation; selling or otherwise issuing authorized but unissued stock, other Securities, or granting options or rights with respect thereto; acquiring a Corporation to create an antitrust or other regulatory problem for the party making the proposal; and obtaining a more favorable offer from another individual or entity. Nothing in this section shall preclude the Board of Directors from specifically or generally approving or exempting business combinations with the Corporation.

(h) Notwithstanding any provision of law permitting or requiring any action to be taken or approved by the affirmative vote of the holders of shares of Capital Stock entitled to cast a greater number of votes, any such action shall be effective and valid if taken or approved by the affirmative vote of holders of shares of Capital Stock entitled to cast a majority of all the votes entitled to be cast on the matter, except as otherwise specifically provided in the Charter.

(i) The Bylaws of the Corporation may be altered, amended or repealed, and new Bylaws may be adopted, at any meeting of the Board by a majority vote of the Directors.

(j) In the event that any provision or portion of a provision of this Article VII is determined to be in conflict with any applicable statute, such provision or portion thereof shall be inapplicable to the extent of such conflict. In the event that any provision or portion of a provision of this Article VII is determined to be invalid, void, illegal or unenforceable, the remainder of the provisions of this Article VII shall continue to be valid and enforceable and shall in no way be affected, impaired or invalidated. Nothing in this Article VII shall be construed to diminish, limit or impair any rights or defenses afforded to officers or Directors by common law, statute, other provisions of this Charter, the Bylaws or otherwise, and the provisions of this Article VII shall be deemed to be cumulative thereto. References in this Article VII to Directors or officers shall be deemed to refer to any person who is or was a Director or officer of the Corporation and any person who, while a Director or officer of the Corporation, is or was serving at the request of the Corporation as a director, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of another corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan or other enterprise.

ARTICLE VIII

INVESTMENT POLICY

(a) GENERAL STATEMENT OF POLICY. While the Directors are authorized, pursuant to Article VI, to invest the Corporation Assets in a wide variety of investments, it is the present intention of the Corporation that it shall be a principal investment objective and policy of the Corporation to invest the Corporation Assets in the Diversified Portfolio.

Investments of the Corporation may be made in various combinations and may involve participations with other Persons, including Affiliates of the Directors. Such investments may incorporate a variety of real property equity and financing techniques, including, without limitation, partnerships,

joint ventures, purchase and leasebacks, land purchase-leases, net lease financings, purchase and installment salebacks, and Mortgages, and include investments through subsidiary corporations and other entities.

The general purpose of the Corporation is to seek qualifying real estate investment trust gross income as defined in the REIT Provisions of the Code consistent with the investment objective and policy of the Corporation as set forth above. The Directors intend to make investments in such a manner as to comply with the requirements of the REIT Provisions of the Code with respect to the composition of the Corporation's investments and the derivation of its income; provided, however, that no Director, officer, employee, or agent of the Corporation shall be liable to any Person, including any Stockholder, for any act or omission resulting in the loss of tax benefits, or in the incurrence of tax detriments, under the Code or for the Corporation not being treated for tax purposes as a "real estate investment trust" under the REIT Provisions of the Code. Subject to paragraph (c) of this Article VIII hereof and subject to such restrictions as may be necessary to qualify the Corporation as a "real estate investment trust" as defined in the REIT Provisions of the Code, the Directors may alter the above-declared investment policy in light of changes in economic circumstances and other relevant factors, and the methods of implementing the Corporation's investment policies may change, in the discretion of the Directors as economic and other conditions change.

(b) OTHER PERMISSIBLE INVESTMENTS. To the extent that the Corporation has assets not invested in accordance with paragraph (a) of this Article VIII, the Corporation may invest them in, subject to such restrictions as may be necessary to qualify the Corporation as a "real estate investment trust" as defined in the REIT Provisions of the Code:

(i) Obligations of, or guaranteed or insured by, the United States Government or any agency or political subdivision thereof;

(ii) Obligations of, or guarantees by, any state, territory, or possession of the United States of America or any agency or political subdivision thereof;

(iii) Evidences of deposits in, or obligations of, banking institutions, savings and loan associations, and savings institutions;

(iv) Real and personal property and interests therein; and

(v) Other Securities, liquid short-term investments, and property.

(c) PROHIBITED INVESTMENTS AND ACTIVITIES. The Corporation shall not invest in commodities, foreign currencies, or bullion except in connection with investments in other property.

ARTICLE IX

RESTRICTION ON TRANSFER, ACQUISITION AND REDEMPTION OF SHARES OF CAPITAL STOCK

(a) OWNERSHIP LIMITATION.

(i) Except as provided in paragraphs (k) and (u) of Article IX, and subject to sub-paragraph (iv) of this paragraph (a) of Article IX, from the Restriction Commencement Date until the Restriction Termination Date, no Person (other than an Excepted Holder) shall Beneficially or Constructively Own shares of Capital Stock in excess of the Ownership Limit and no Excepted Holder shall Beneficially or Constructively Own shares of Capital Stock in excess of the Excepted Holder Limit for such Excepted Holder.

(ii) Subject to sub-paragraph (iv) of this paragraph (a) of Article IX, from the Restriction Commencement Date until the Restriction Termination Date, any Transfer that, if effective, would result in (1) the Corporation being "closely held" within the meaning of Section 856(h) of the Code (without regard to whether the ownership interest is held during the last half of a taxable year), or (2) the Corporation otherwise failing to qualify as a REIT (including, but not limited to, Beneficial or Constructive Ownership that would result in the Corporation owning (actually or Constructively) an interest in a tenant that is described in Section 856(d)(2)(B) of the Code if the income derived by the Corporation from such tenant would cause the Corporation to fail to satisfy any of the gross income requirements of Section 856(c) of the Code) shall be void and the intended transferee shall acquire no rights in such shares of Capital Stock.

(iii) Subject to sub-paragraph (iv) of this paragraph (a) of Article IX, from the Restriction Commencement Date until the Restriction Termination Date, any Transfer that, if effective, would result in the shares of Capital Stock being beneficially owned by less than 100 Persons (determined without reference to any rules of attribution) shall be void AB INITIO as to the Transfer of shares of Capital Stock which would be otherwise beneficially owned (as provided in Section 856(a) of the Code) by the transferee and the intended transferee shall acquire no rights in such shares of Capital Stock.

(iv) Nothing contained in this Article IX shall preclude the settlement of any transaction entered into through the facilities of the principal securities exchange on which the shares of Capital Stock are currently traded. The fact that the settlement of any transaction is permitted shall not negate the effect of any other provision of this Article IX and any transferee in such a transaction shall be subject to all of the provisions and limitations set forth in this Article IX.

(b) TRANSFER IN TRUST. If, notwithstanding the other provisions contained in this Article IX, at any time from the Restriction Commencement Date until the Restriction Termination Date, there is a purported Transfer such that any Person would Beneficially or Constructively Own shares of Capital Stock in violation of sub-paragraph (a)(i) or (ii),

(i) then that number of shares of Capital Stock the Beneficial or Constructive Ownership of which otherwise would cause such Person to violate paragraph (a)(i) or (ii) (rounded to the higher whole share) shall be automatically transferred to a Charitable Trust for the benefit of a Charitable Beneficiary, as described in paragraph (n), effective as of the close of business on the Business Day prior to the date of such Transfer, and such Person shall acquire no rights in such shares of Capital Stock; or

(ii) if the transfer to the Charitable Trust described in clause (i) of this sentence would not be effective for any reason to prevent the violation of paragraph (a)(i) or (ii), then the Transfer of that number of shares of Capital Stock that otherwise would cause any

Person to violate paragraph (a)(i) or (ii) shall be void AB INITIO, and the intended transferee shall acquire no rights in such shares of Capital Stock.

(c) REMEDIES FOR BREACH. If the Board or its designee shall at any time determine in good faith that a Transfer has taken place in violation of paragraph (a) of Article IX or that a Person intends to acquire or has attempted to acquire Beneficial or Constructive Ownership of any shares of Capital Stock in violation of paragraph (a) of Article IX, the Board or its designee shall take such action as it deems advisable to refuse to give effect to or to prevent such transfer, including, but not limited to, refusing to give effect to such Transfer on the books of the Corporation or instituting proceedings to enjoin such Transfer; PROVIDED, HOWEVER, that any Transfers or attempted Transfers in violation of paragraph (a) of Article IX shall automatically result in the transfer to the Charitable Trust described above and, where applicable, such Transfer (or other event) shall be void AB INITIO as provided above irrespective of any action (or non-action) by the Board.

(d) NOTICE TO TRUST. Any Person who acquires or attempts to acquire Beneficial or Constructive Ownership of Capital Stock in violation of paragraph (a) of Article IX, or any Person who would be a transferee of such Capital Stock but for the Transfer to the Charitable Trust under paragraph (b) of Article IX, shall immediately give written notice or, in the event of a proposed or attempted Transfer, shall give at least fifteen (15) days prior written notice to the Corporation of such event and shall provide to the Corporation such other information as the Corporation may request in order to determine the effect, if any, of such Transfer or attempted Transfer on the Corporation's status as a REIT.

(e) INFORMATION FOR CORPORATION. From the Restriction Commencement Date and until the Restriction Termination Date:

(i) every owner of more than 5% (or such other percentage, between 1/2 of 1% and 5%, as provided under the REIT Provisions of the Code) of the number or value of outstanding shares of Capital Stock of the Corporation shall upon the Corporation's written request, within thirty (30) days after January 1 of each year, give written notice to the Corporation stating the name and address of such owner, the number of shares of Capital Stock Beneficially or Constructively Owned, and a description of how such shares of Capital Stock are held. Each such Beneficial Owner shall provide to the Corporation such additional information as the Corporation may reasonably request in order to determine the effect, if any, of such Beneficial or Constructive Ownership on the Corporation's status as a REIT.

(ii) each Person who is a Beneficial or Constructive Owner of shares of Capital Stock and each Person (including the stockholder of record) who is holding shares of Capital Stock for a Beneficial or Constructive Owner shall provide to the Corporation in writing such information with respect to direct, indirect and constructive ownership of shares of Capital Stock as the Board deems reasonably necessary to comply with the provisions of the Code applicable to a REIT, to determine the Corporation's status as a REIT, to comply with the requirements of any taxing authority or governmental agency or to determine any such compliance.

(f) OTHER ACTION BY BOARD. Subject to sub-paragraph (iv) of paragraph (a) of Article IX, nothing contained in this Article IX shall limit the authority of the Board to take such other action as it deems necessary or advisable to protect the Corporation and the interests of its Shareholders by preservation of the Corporation's status as a REIT.

(g) AMBIGUITIES. In the case of an ambiguity in the application of any of the provisions of this Article IX, including any definition contained in Article XI, the Board shall have the power to determine the application of the provisions of this Article IX with respect to any situation based on the facts known to it and the Board's determination shall be conclusive for all purposes.

(h) MODIFICATION OF EXCEPTED HOLDER AND EXISTING HOLDER LIMITS. The Excepted Holder and Existing Holder Limits may be modified as follows:

(i) Subject to the limitations provided in paragraph (j) of Article IX, the Board may grant options which result in Beneficial or Constructive Ownership of shares of Capital Stock by an Existing Holder pursuant to an option plan approved by the Board and/or the Shareholders. Any such grant shall increase the Existing Holder Limit for the affected Existing Holder to the maximum extent possible under paragraph (j) of Article IX to permit the Beneficial or Constructive Ownership of the shares of Capital Stock issuable upon the exercise of such option.

(ii) Subject to the limitations provided in paragraph (j) of Article IX, an Existing Holder may elect to participate in a dividend reinvestment plan approved by the Board which results in Beneficial or Constructive Ownership of shares of Capital Stock by such participating Existing Holder. Any such participation shall increase the Existing Holder Limit for the affected Existing Holder to the maximum extent possible under paragraph (j) of Article IX to permit Beneficial or Constructive Ownership of the shares of Capital Stock acquired as a result of such participation.

(iii) The Board shall reduce the Excepted Holder Limit for any Excepted Holder after any Transfer permitted in this Article IX by such Excepted Holder by the percentage of the outstanding shares of Capital Stock so Transferred or after the lapse (without exercise) of an option described in sub-paragraph (i) of this paragraph (h) of Article IX by the percentage of the shares of Capital Stock that the option, if exercised, would have represented, but in either case no Excepted Holder Limit shall be reduced to a percentage which is less than the Ownership Limit.

(iv) Subject to the limitations provided in paragraph (j) of Article IX, the Board may otherwise modify an Excepted Holder Limit from time to time.

(i) INCREASE OR DECREASE IN OWNERSHIP LIMIT. Subject to the limitations provided in paragraph (j) of Article IX, the Board may from time to time increase or decrease the Ownership Limit; PROVIDED, HOWEVER, that any decrease may only be made prospectively as to subsequent holders (other than a decrease as a result of a retroactive change in existing law that would require a decrease to retain REIT status, in which case such decrease shall be effective immediately).

(j) LIMITATIONS ON CHANGES IN EXCEPTED HOLDER AND OWNERSHIP LIMITS.

(i) Neither the Ownership Limit nor any Excepted Holder Limit may be increased (nor may any additional Excepted Holder Limit be created) if, after giving effect to such increase (or creation), five Beneficial Owners of shares of Capital Stock (including all of the then Excepted Holders) could Beneficially Own, in the aggregate, more than 49.9% in number or value of the outstanding shares of Capital Stock.

(ii) Prior to the modification of any Excepted Holder Limit or Ownership Limit pursuant to paragraphs (h) or (i) of Article IX, the Board may require (but shall not be obligated to obtain) such opinions of counsel, affidavits, undertakings or agreements as it may deem necessary or advisable in order to determine or ensure the Corporation's status as a REIT.

(iii) The Board may only reduce the Excepted Holder Limit for an Excepted Holder: (1) with the written consent of such Excepted Holder at any time, or (2) pursuant to the terms and conditions of the agreements and undertakings entered into with such Excepted Holder in connection with the establishment of the Excepted Holder Limit for that Excepted Holder. No Excepted Holder Limit shall be reduced to a percentage which is less than the Ownership Limit.

(k) EXCEPTIONS BY BOARD.

(i) The Board, upon receipt of a ruling from the Internal Revenue Service or an opinion of counsel or other evidence satisfactory to the Board and upon at least fifteen (15) days written notice from a transferee prior to the proposed Transfer which, if consummated, would result in the intended transferee owning shares of Capital Stock in excess of the Ownership Limit or the Excepted Holder Limit, as the case may be, and upon such other conditions as the Board may direct, may grant an exception to the Ownership Limit or the Excepted Holder Limit, as the case may be, with respect to such transferee.

(ii) In addition to exceptions permitted under sub-paragraph (i) above, the Board may grant an exception to the Ownership Limit with respect to a Person if: (a) such Person submits to the Board information satisfactory to the Board, in its reasonable discretion, demonstrating that such Person is not an individual for purposes of Section 542(a)(2) of the Code (determined taking into account Section 856(h)(3)(A) of the Code); (b) such Person submits to the Board information satisfactory to the Board, in its reasonable discretion, demonstrating that no Person who is an individual for purposes of Section 542(a)(2) of the Code (determined taking into account Section 856(h)(3)(A) of the Code) would be considered to Beneficially Own shares of Capital Stock in excess of the Ownership Limit by reason of the ownership of shares of Capital Stock in excess of the Ownership Limit by the Person receiving the exception granted under this sub-paragraph (ii); (c) such Person submits to the Board information satisfactory to the Board, in its reasonable discretion, demonstrating that the ownership of shares of Capital Stock in excess of the Ownership Limit by the Person receiving the exception granted under this sub-paragraph (ii) will not result in the Corporation failing to qualify as a REIT; and (d) such Person provides to the Board such representations and undertakings, if any, as the Board may, in its reasonable discretion, require to ensure that the conditions in clauses (a), (b) and (c) above are satisfied and will continue to be satisfied throughout the period during which such Person owns shares of Capital Stock in excess of the Ownership Limit pursuant to any exception granted under this sub-paragraph (ii), and such Person agrees that any violation of such representations and undertakings or any attempted violation thereof will result in the application of the remedies set forth in paragraph (c) of Article IX with respect to shares of Capital Stock held in excess of the Ownership Limit by such Person (determined without regard to the exception granted such Person under this sub-paragraph (ii)).

(l) LEGEND. Each certificate for shares of Capital Stock shall bear substantially the following legend:

The securities represented by this certificate are subject to restrictions on Beneficial and Constructive Ownership and Transfer for the purpose of the Corporation's maintenance of its status as a REIT under the Internal Revenue Code of 1986, as amended. Except as otherwise provided pursuant to the Charter, (i) no Person may Beneficially or Constructively Own shares of Capital Stock in excess of 9.8% (or such greater percentage as may be determined by the Board of Directors of the Corporation) of the number or value of the outstanding shares of Capital Stock of the Corporation unless such Person is an Excepted Holder (in which case the Excepted Holder Limit shall be applicable), (ii) no Person may Beneficially or Constructively Own shares of Capital Stock that would result in the Corporation being "closely held" under Section 856(h) of the Code or otherwise cause the Corporation to fail to qualify as a REIT; and (iii) no Person may Transfer shares of Capital Stock if such Transfer would result in Capital Stock of the Corporation being owned by fewer than 100 Persons. Any Person who attempts or proposes to Beneficially or Constructively Own shares of Capital Stock in excess of the above limitations must notify the Corporation in writing at least 15 days prior to such proposed or attempted Transfer. If the restrictions on transfer are violated, the securities represented hereby will be automatically transferred to a Charitable Trustee of a Charitable Trust for the benefit of one or more Charitable Beneficiaries. In addition, upon the occurrence of certain events, attempted Transfers in violation of the restrictions described above may be void AB INITIO. A Person who attempts to Beneficially or Constructively Own Capital Stock in violation of the ownership limitations described above shall have no claim, cause of action, or any recourse whatsoever against a transferor of such Capital Stock. All capitalized terms in this legend have the meanings defined in the Charter, a copy of which, including the restrictions on transfer, will be sent without charge to each Stockholder who so requests.

Instead of the foregoing legend, the certificate may state that the Corporation will furnish a full statement about certain restrictions on transferability to a Stockholder on request and without charge.

(m) SEVERABILITY. If any provision of this Article IX or any application of any such provision is determined to be void, invalid or unenforceable by any court having jurisdiction over the issue, the validity and enforceability of the remaining provisions shall be affected only to the extent necessary to comply with the determination of such court.

(n) TRUST FOR SHARES TRANSFERRED TO CHARITABLE TRUST. Upon any purported Transfer or other event that would result in a transfer of Capital Stock to a Charitable Trust pursuant to paragraph (b) of Article IX, such Capital Stock shall be deemed to have been transferred to the Charitable Trustee as trustee of a Charitable Trust for the exclusive benefit of the Charitable Beneficiary. Such transfer to the Charitable Trustee shall be deemed to be effective as of the close of business on the Business Day prior to the purported Transfer or other event that results in the transfer to the Charitable Trust pursuant to paragraph (b). The Charitable Trustee shall be appointed by the Corporation and shall be a Person unaffiliated with the Corporation and any Purported Beneficial Transferee. Each Charitable Beneficiary shall be designated by the Corporation as provided in paragraph (t). Such Capital Stock so held in trust shall be issued and outstanding shares of Capital Stock of the Corporation. The Purported Beneficial Transferee shall have no rights in such Capital Stock held by the Charitable Trustee except as provided in paragraph (b) of Article IX. The Purported Beneficial Transferee shall not benefit economically from ownership of any Capital Stock held in trust by the Charitable Trustee, shall have no rights to dividends or other distributions and shall not possess any rights to vote or other rights attributable to the Capital Stock held in the Charitable Trust. The Purported Beneficial Transferee shall have no claim, cause of action, or any other recourse whatsoever against the purported transferor of such Capital Stock.

(o) DISTRIBUTIONS ON SHARES HELD BY CHARITABLE TRUST. Any distributions (whether as dividends, distributions upon liquidation, dissolution or winding up or otherwise) on Capital Stock held by the Charitable Trustee shall be paid to the Charitable Trust for the benefit of the Charitable Beneficiary. Upon liquidation, dissolution or winding up, the Purported Record Transferee shall receive the lesser of (i) the amount of any distribution made upon liquidation, dissolution or winding up or (ii) the price paid by the Purported Record Transferee for the shares of Capital Stock, or if the Purported Record Transferee did not give value for the shares of Capital Stock, the Market Price of the shares of Capital Stock on the day of the event causing the shares of Capital Stock to be held in trust. Any such dividend paid or distribution paid to the Purported Record Transferee in excess of the amount provided in the preceding sentence prior to the discovery by the Corporation that the Capital Stock with respect to which the dividend or distribution was made had been transferred to the Charitable Trust pursuant to paragraph (b) shall be repaid to the Charitable Trust for the benefit of the Charitable Beneficiary.

(p) VOTING OF SHARES HELD BY CHARITABLE TRUST. The Charitable Trustee shall be entitled to all voting rights with respect to the Capital Stock held in the Charitable Trust for the benefit of the Charitable Beneficiary on any matter. Any vote taken by a Purported Record Transferee prior to the discovery by the Corporation that the shares of Capital Stock were held in trust shall, subject to Maryland Law, be rescinded and recast in accordance with the desires of the Charitable Trustee acting for the benefit of the Charitable Beneficiary; PROVIDED, HOWEVER, that if the Corporation has already taken irreversible action, then the Charitable Trustee shall not have the power to rescind and recast such vote. The owner of the Capital Stock held by the Charitable Trustee shall be deemed to have given an irrevocable proxy to the Charitable Trustee to vote the Capital Stock held by the Charitable Trustee for the benefit of the Charitable Beneficiary.

(q) SALE OF SHARES HELD BY CHARITABLE TRUST. Shares held by the Charitable Trust shall be transferable only as provided in this paragraph (q) of Article IX. At the direction of the Corporation, the Charitable Trustee shall sell the shares of Capital Stock held in the Charitable Trust to a person whose ownership of the shares of Capital Stock will not violate paragraph (a). Such transfer shall be made within 60 days after the latest of (i) the date of the Transfer which resulted in such Transfer to the Charitable Trust and (ii) the date the Board determines in good faith that a Transfer resulting in the Transfer to the Charitable Trust has occurred, if the Corporation does not receive a notice of such Transfer pursuant to paragraph (d) of Article IX. If such a transfer is made, the interest of the Charitable Beneficiary shall terminate and proceeds of the sale shall be payable to the Purported Record Transferee and to the Charitable Beneficiary. The Purported Record Transferee shall receive the lesser of (x) the price paid by the Purported Record Transferee for the shares of Capital Stock or, if the Purported Record Transferee did not give value for the shares of Capital Stock, the Market Price of the shares of Capital Stock on the day of the event causing the shares of Capital Stock to be held in the Charitable Trust, and (y) the price received by the Charitable Trust from the sale or other disposition of the shares of Capital Stock. Any proceeds in excess of the amount payable to the Purported Record Transferee shall be paid to the Charitable Beneficiary. Prior to any transfer of any shares of Capital Stock held by the Charitable Trust by the Charitable Trustee, the Corporation must have waived in writing its purchase rights under paragraph (r) of Article IX. It is expressly understood that the Purported Record Transferee may enforce the provisions of this paragraph (q) of Article IX against the Charitable Beneficiary.

(r) If any of the foregoing restrictions on transfer of shares held by the Charitable Trust is determined to be void, invalid or unenforceable by any court of competent jurisdiction, then the Purported Record Transferee may be deemed, at the option of the Corporation, to have acted as an agent of the Corporation in acquiring such shares and to hold such shares on behalf of the Corporation.

(s) CALL BY CORPORATION ON SHARES HELD BY THE CHARITABLE TRUST. Shares of Capital Stock held by the Charitable Trust shall be deemed to have been offered for sale to the Corporation, or its designee, at a price per share equal to the lesser of (i) the price per share in the transaction that created such shares held by the Charitable Trust (or, in the case of a devise, gift or other transaction in which no value was given for such shares held by the Charitable Trust, the Market Price at the time of such devise, gift or other transaction) and (ii) the Market Price of the shares of Capital Stock to which such shares held by the Charitable Trust relates on the date the Corporation, or its designee, accepts such offer (the "Redemption Price"). The Corporation shall have the right to accept such offer until the Charitable Trustee has sold the shares of Capital Stock held in the Charitable Trust pursuant to paragraph (q). Upon such a sale to the Corporation, the interest of the Charitable Beneficiary in the shares of Capital Stock sold shall terminate and the Charitable Trustee shall distribute the net proceeds of the sale to the Purported Record Transferee.

(t) DESIGNATION OF CHARITABLE BENEFICIARIES. By written notice to the Charitable Trustee, the Corporation shall designate one or more nonprofit organizations to be the Charitable Beneficiary of the interest in the Charitable Trust such that (i) Capital Stock held in the Charitable Trust would not violate the restrictions set forth in paragraph (a) in the hands of such Charitable Beneficiary and (ii) each such organization must be described in Section 501(c)(3), 170(b)(1)(A) or 170(c)(2) of the Code.

(u) UNDERWRITTEN OFFERINGS. The Ownership Limit shall not apply to the acquisition of shares of Capital Stock or rights, options or warrants for, or securities convertible into, shares of Capital Stock by an underwriter in a public offering, provided that the underwriter makes a timely distribution of such shares of Capital Stock or rights, options or warrants for, or securities convertible into, shares of Capital Stock.

ARTICLE X

AMENDMENTS

The Corporation reserves the right from time to time to make any amendments of the Charter which may now or hereafter be authorized by law, including any amendments changing the terms or contract rights, as expressly set forth in the Charter, of any of its outstanding stock by classification, reclassification or otherwise. Except as otherwise provided in the Charter, any amendment to the Charter shall be valid only if approved by the affirmative vote of a majority of all the votes entitled to be cast on the matter.

ARTICLE XI

DEFINITIONS

(a) The following terms shall, whenever used in this Charter, unless the context otherwise requires, have the meanings specified in this Article XI. The singular shall refer to the plural, and the masculine gender shall be deemed to refer to the feminine and neuter, and vice versa, as the context requires.

"AFFILIATE" shall mean with respect to a Stockholder or Director (i) any Person directly or indirectly owning, controlling, or holding, with power to vote, 20% or more of the outstanding voting securities of such Stockholder, (ii) any Person 20% or more of whose outstanding voting securities are

directly or indirectly owned, controlled, or held, with power to vote, by such Director, or such Stockholder, and (iii) any officer, director, or partner of such Stockholder.

"BENEFICIAL OWNERSHIP" shall mean ownership of shares of Capital Stock by a Person who would be treated as an owner of such shares of Capital Stock either directly or constructively through the application of Section 544 of the Code, as modified by Section 856(h) of the Code. The terms "BENEFICIAL Owner," "BENEFICIALLY OWNS," "BENEFICIALLY OWN" and "BENEFICIALLY OWNED" shall have correlative meanings.

"BOARD" shall mean the Board of Directors of the Corporation.

"BUSINESS DAY" shall mean any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which banking institutions in New York City are authorized or required by law, regulation or executive order to close.

"BYLAWS" shall mean the Bylaws of the Corporation and all amendments thereto.

"CAPITAL STOCK" shall mean all classes and series of stock which the Corporation shall have authority to issue. The term "CAPITAL STOCK" shall include Common Stock, preferred stock, preference stock, special stock or other stock.

"CHARITABLE BENEFICIARY" shall mean one or more beneficiaries of the Charitable Trust as determined pursuant to paragraph (t) of Article IX, provided that each such organization must be described in Sections 501(c)(3), 170(b)(1)(A) and 170(c)(2) of the Code.

"CHARITABLE TRUST" shall mean any trust provided for in paragraph (b)(i) and paragraph (n) of Article IX.

"CHARITABLE TRUSTEE" shall mean the Person unaffiliated with the Corporation and a Purported Beneficial Transferee, that is appointed by the Corporation to serve as trustee of the Charitable Trust.

"CHARTER" shall mean these Articles of Amendment and Restatement of the Corporation, as amended, supplemented or modified from time to time. References in this Charter to "herein" and "hereunder" shall be deemed to refer to this Charter in its entirety and shall not be limited to the particular text, article, or section in which such words appear.

"CODE" shall mean the Internal Revenue Code of 1986, as amended from time to time, including successor statutes thereto.

"CONSTRUCTIVE OWNERSHIP" shall mean ownership of Capital Stock by a Person, whether the interest in Capital Stock is held directly or indirectly (including by a nominee), and shall include interests that would be treated as owned through the application of Section 318(a) of the Code, as modified by Section 856(d)(5) of the Code. The terms "CONSTRUCTIVE OWNER," "CONSTRUCTIVELY OWNS" and "CONSTRUCTIVELY OWNED" shall have the correlative meanings.

"CORPORATION ASSETS" shall mean, as of any particular time, any and all property, real, personal, or otherwise, tangible or intangible, which is held, transferred, conveyed, or paid to the Corporation and all rents, income, profits, and gains therefrom.

"DEBT" shall mean indebtedness of the Corporation.

"DIRECTOR" shall mean the Person that is elected pursuant to Article VI to serve as Director of the Corporation, and any successor thereto.

"EXCEPTED HOLDER" shall mean (i) a stockholder of the Corporation for whom an Excepted Holder Limit is created by the Board pursuant to paragraph (k) of Article IX and (ii) an Existing Holder.

"EXCEPTED HOLDER LIMIT" shall mean (i) provided that the affected Excepted Holder agrees to comply with the requirements established by the Board pursuant to paragraph (k) of Article IX and subject to adjustment pursuant to paragraph (h) of Article IX, the percentage limit established by the Board for such Excepted Holder pursuant to paragraph (k) of Article IX and (ii) with respect to an Existing Holder, the Existing Holder Limit.

"EXISTING HOLDER" shall mean (i) any Person who is, or would be upon the exchange of Debt or any Security of the Corporation, the Beneficial or Constructive Owner of shares of Capital Stock in excess of the Ownership Limit immediately after the Restriction Commencement Date, so long as, but only so long as, such Person Beneficially or Constructively Owns or would, upon exchange of Debt or any Security of the Corporation, Beneficially or Constructively Own shares of Capital Stock in excess of the Ownership Limit and (ii) any Person to whom an Existing Holder Transfers, subject to the limitations provided in this Article IX, Beneficial or Constructive Ownership of shares causing such transferee to Beneficially or Constructively Own shares of Capital Stock in excess of the Ownership Limit.

"EXISTING HOLDER LIMIT" (i) for any Existing Holder who is an Existing Holder by virtue of clause (i) of the definition thereof, shall mean, initially, the percentage of the outstanding shares of Capital Stock Beneficially or Constructively Owned (with such percentage for each class determined separately) or which would be Beneficially or Constructively Owned upon the exchange of Debt or any Security of the Corporation, by such Existing Holder upon and immediately after the Restriction Commencement Date, and, after any adjustment pursuant to paragraph (h) of Article IX, shall mean such percentage of the outstanding shares of Capital Stock as so adjusted, and (ii) for any Existing Holder who becomes an Existing Holder by virtue of clause (ii) of the definition thereof, shall mean, initially, the percentage of the outstanding shares of Capital Stock Beneficially or Constructively Owned (with such percentage for each class determined separately) by such Existing Holder at the time that such Existing Holder becomes an Existing Holder, but in no event shall such percentage be greater than the lesser of (a) the Existing Holder Limit for the Existing Holder who Transferred Beneficial or Constructive Ownership of such shares of Capital Stock or, in the case of more than one transferor, in no event shall such percentage be greater than the smallest Existing Holder Limit of any transferring Existing Holder, or (b) the Ownership Limit if the Existing Holder is a person other than a trust qualified under Section 401(a) of the Code and exempt from tax under Section 501(a) of the Code, and, after any adjustment pursuant to paragraph (h) of Article IX, shall mean such percentage of the outstanding shares of Capital Stock as so adjusted. From the Restriction Commencement Date until the Restriction Termination Date, the Corporation shall maintain and, upon request, make available to each Existing Holder, a schedule which sets forth the then current Existing Holder Limit for each Existing Holder.

"MARKET PRICE" shall mean the last reported sales price reported on the NYSE for a particular class of shares of Capital Stock on the trading day immediately preceding the relevant date, or if not then traded on such exchange, the last reported sales price for such class of shares of Capital Stock on the trading day immediately preceding the relevant date as reported on any exchange or quotation system over or through which such class of shares of Capital Stock may be traded, or if not then traded over or through any exchange or quotation system, then the market price of such class of shares of Capital Stock on the relevant date as determined in good faith by the Board.

"MGCL" shall mean the Maryland General Corporation Law, as amended from time to time, including successor statutes thereto.

"MORTGAGES" shall mean mortgages, deeds of trust, or other security instruments on real property or rights or interests in real property or entities owning or controlling real property.

"OWNERSHIP LIMIT" shall initially mean 9.8%, in number of shares of Capital Stock, or value of the aggregate outstanding shares of Capital Stock, whichever is more restrictive, of the Corporation, and after any adjustment as set forth in paragraph (i) of Article IX, shall mean such percentage in number of

shares of Capital Stock, or value of the aggregate outstanding shares of Capital Stock, as so adjusted. Such number and/or value shall be determined by the Board in good faith, which determination shall be conclusive for all purposes hereof.

"PERSON" shall mean an individual, corporation, partnership, estate, trust (including a trust qualified under Section 401(a) or 501(c)(17) of the Code), a portion of a trust permanently set aside for or to be used exclusively for the purposes described in Section 642(c) of the Code, association, private foundation within the meaning of Section 509(a) of the Code, joint stock company or other entity.

"PURPORTED BENEFICIAL TRANSFEREE" shall mean, with respect to any purported Transfer, any Person who, but for the provisions of paragraph (b) of Article IX, would Beneficially or Constructively Own shares of Capital Stock.

"PURPORTED RECORD TRANSFEREE" shall mean, with respect to any purported Transfer, any Person who, but for the provisions of paragraph (b) of Article IX, would be the record owner of shares of Capital Stock.

"REIT" shall mean a real estate investment trust under Sections 856 through 860 of the Code.

"REIT PROVISIONS OF THE CODE" shall mean Part II, Subchapter M of Chapter 1 of Subtitle A of the Code, as now enacted or hereafter amended, including successor statutes and regulations promulgated thereunder.

"RESTRICTION COMMENCEMENT DATE" shall mean the date upon which the Charter containing this Article IX is accepted for record with the State Department of Assessments and Taxation of Maryland.

"RESTRICTION TERMINATION DATE" shall mean the first day after the Restriction Commencement Date on which the Board determines that it is no longer in the best interests of the Corporation to attempt to, or continue to, qualify as a REIT.

"SECURITIES" shall mean common and preferred stock in a corporation, shares of beneficial interest in a trust or other unincorporated association, general partner interests in a general partnership, interests in a joint venture, general or limited partnership interests in a limited partnership, membership interests or non-member manager interests in a limited liability company, notes, debentures, bonds, and other evidences of indebtedness, including Mortgages, whether secured or unsecured, and includes any options, warrants, and rights to subscribe to or convert into any of the foregoing.

"SHAREHOLDERS" shall mean, at any particular time, those Persons who are shown as the holders of record of all shares of Capital Stock on the records of the Corporation at such time.

"TRANSFER" shall mean any issuance, sale, transfer, gift, assignment, devise or other disposition, as well as any other event that causes any Person to acquire Beneficial or Constructive Ownership, of shares of Capital Stock (including (a) a change in the capital structure of the Corporation, (b) a change in the relationship between two or more Persons which causes a change in Beneficial or Constructive Ownership of shares of Capital Stock, (c) Transfers of interests in other entities that result in changes in Beneficial or Constructive Ownership of shares of Capital Stock, (d) the granting of any option, warrant or similar agreement, or entering into any agreement for the sale, transfer or other disposition of shares of Capital Stock, (e) the sale, transfer, assignment or other disposition of any Securities or rights convertible into or exchangeable for shares of Capital Stock, but excluding the exchange of Debt or any Security of the Corporation for shares of Capital Stock and (f) any transfer or other disposition of any interest in shares of Capital Stock as a result of a change in the marital status of the holder thereof), whether voluntary or involuntary, whether of record, constructively or beneficially and whether by operation of law or otherwise. The terms "TRANSFERS" and "TRANSFERRED" shall have correlative meanings.

ANNEX A

SERIES A PREFERRED STOCK

1. DESIGNATION AND NUMER OF SHARES.

A series of Preferred Stock, designated the "9.5% Series A Cumulative Redeemable Preferred Stock" (the "Series A Preferred Stock"), is hereby established. The Series A Preferred Stock shall consist of 4,400,000 shares, which number may be increased or decreased (but not below the number of Series A Preferred Stock then issued and outstanding) from time to time by a resolution or resolutions of the Board of Directors. Series A Preferred Stock repurchased by the Corporation shall be canceled and shall revert to authorized but unissued shares of Preferred Stock, undesignated as to class or series, subject to reissuance by the Corporation as shares of Preferred Stock of any one or more series.

2. RANK.

The distinctive name and designation of this series of preferred stock is Series A Preferred Stock. Each share of Series A Preferred Stock shall rank senior to any "Junior Securities" (herein defined) in the payment of dividends and in the liquidation, dissolution or winding up of the Corporation. No Series of Preferred Stock hereafter issued shall rank senior to or on a parity with the Series A Preferred Stock unless the issuance thereof is in compliance with the terms of the Investor Rights Agreement among the Corporation, certain holders of the Series A Preferred Stock and certain other parties thereto relating among other things to the Series A Preferred Stock.

3. DIVIDENDS.

(a) Each share of Series A Preferred Stock shall entitle the holder thereof to receive dividends out of any assets legally available therefor, prior to and in preference to any declaration or payment of any dividend (payable other than in Junior Securities) payable on any Junior Securities and pari passu with any securities ranking on parity with the Series A Preferred Stock and junior to any Senior Preferred Stock (herein defined). Dividends shall be payable when and as authorized by the Board of Directors and declared by the Corporation. Dividends on each share of Series A Preferred Stock shall accrue at the rate determined pursuant to Section 3(c) (the "Dividend Rate") on the Liquidation Value. The dividend on the Series A Preferred Stock shall be cumulative and shall be payable in cash in arrears on April 15, July 15, October 15 and January 15 of each year (each a "Dividend Payment Date"), to holders of record on the last day of the month immediately preceding such Dividend Payment Date (i.e., March 31, June 30, September 30 and December 31). Dividends shall accrue whether or not they have been declared and whether or not there are profits, surplus or other funds of the Corporation legally available for the payment of dividends. To the extent that any dividend on the Series A Preferred Stock is not paid on the Dividend Payment Date, such dividend shall accumulate and compound quarterly from that date at the then applicable Dividend Rate until such dividend is paid in full. The date on which the Corporation initially issues a Series A Preferred Stock shall be referred to as the Original Issue Date regardless of the number of transfers of such shares made on the stock records maintained by or for the Corporation and regardless of the number of certificates that may be issued to evidence such share.

(b) The Corporation shall not (i) pay or set aside for payment any dividends (payable other than in Junior Securities), on Junior Securities or (ii) redeem, repurchase or otherwise acquire any Junior Securities (except as required by Article IX of the Amended and Restated Charter of the Corporation (the "Charter") or the real estate investment trust qualification provisions of applicable law)

until all accumulated, accrued and unpaid dividends (including any compounded dividends thereon) have been paid on the Series A Preferred Stock through the last preceding Dividend Payment Date.

(c) The Dividend Rate shall initially be 9.5% per annum. On each of December 15, 2005, 2006 and 2007, the Dividend Rate shall increase by 0.25% per annum. If the Corporation fails to pay on any four (4) or more consecutive Dividend Payment Date the full amount of unpaid dividends accrued or accumulated as of each such Dividend Payment Date on the Series A Preferred Stock (whether or not such payments are legally permissible or are prohibited by an agreement to which the Corporation is subject), any of which dividends remain unpaid on the day after the fourth such Dividend Payment Date, the Dividend Rate on the Series A Preferred Stock then in effect shall be increased by 0.50% per annum with such increase being effective retroactive to the immediately prior Dividend Payment Date with respect to which all accrued or accumulated but unpaid dividends have been paid. Such increased Dividend Rate shall remain in effect until the close of business on the date that all accrued or accumulated dividends (including any compounded dividends thereon) in arrears on the Series A Preferred Stock are paid in full at which time the Dividend Rate increase shall be of no further force and effect, the Dividend Rate shall be reset to that Dividend Rate that would have been in effect at such time pursuant to the first and second sentences of this Section 3(c) but for the effect of the third sentence of this Section 3(c) (subject to subsequent increases pursuant to this section) and the calculation of the periods dividends are in arrears shall be reset to zero (0). Subject to subsequent increases after reset pursuant to the preceding sentence, no additional dividend rate increases shall be made for defaults in the payment of dividends in excess of such four (4) consecutive Dividend Payment Dates, but the aforesaid increase shall remain in effect in accordance with the immediately preceding sentence until the time specified therein.

(d) The amount of dividends payable for each quarterly dividend period for the Series A Preferred Stock shall be computed by dividing the Dividend Rate by four. The amount of dividends payable for the initial dividend period or any other period shorter or longer than a full quarterly period shall be computed on the basis of twelve 30-day months and a 360-day year.

(e) Dividend payments shall be made by wire transfer to an account designated by each holder of Series A Preferred Stock or, if no account information is provided to the Corporation by a holder of Series A Preferred Stock, dividend payments shall be made by check delivered by first class mail to the address of such holder as set forth in the stock records of the Corporation.

4. LIQUIDATION, DISSOLUTION OR WINDING UP; CERTAIN MERGERS, CONSOLIDATIONS AND ASSET SALES.

(a) In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, the holders of Series A Preferred Stock then outstanding shall be entitled to be paid out of the assets of the Corporation available for distribution to its stockholders after and subject to the payment in full of all amounts required to be distributed to the holders of any other class or series of Shares of the Corporation that specifically state that on liquidation they rank prior and in preference to the Series A Preferred Stock, whether or not convertible into Junior Securities (collectively referred to as "Senior Preferred Stock"), but before any payment shall be made to the holders of Common Stock or any other class or series of stock ranking on liquidation junior to the Series A Preferred Stock (the Common Stock and any other class or series of stocks ranking in payment of dividends or on liquidation junior to the Series A Preferred Stock, or options, warrants or rights to purchase or that are convertible into any such stock but in no event including any Senior Preferred Stock being collectively referred to as "Junior Securities") by reason of their ownership thereof, an amount equal to $50.00 per share (such amount being the "Liquidation Value"), plus any dividends declared, accumulated or accrued (including any compounded dividends thereon) but unpaid thereon. If, upon any such liquidation, dissolution or winding up of the Corporation, the remaining assets of the Corporation available for distribution to its

stockholders shall be insufficient to pay the holders of Series A Preferred Stock and all other classes or series of stock ranking on liquidation on a parity with the Series A Preferred Stock the full amount to which they shall be entitled, the holders of Series A Preferred Stock and any class or series of stock ranking on liquidation on a parity with the Series A Preferred Stock shall share ratably in any distribution of the remaining assets and funds of the Corporation in proportion to the respective amounts which would otherwise be payable in respect of the stock held by them upon such distribution if all amounts payable on or with respect to such stock were paid in full.

(b) After the payment of all preferential amounts required to be paid to the holders of Senior Preferred Stock, Series A Preferred Stock and any other class or series of stock of the Corporation ranking on liquidation on a parity with the Series A Preferred Stock, upon the dissolution, liquidation or winding up of the Corporation, the holders of shares of Junior Securities then outstanding shall be entitled to receive the remaining assets and funds of the Corporation available for distribution to its shareholders.

(c) The voluntary consolidation or merger of the Corporation into or with any other entity or entities which results in the exchange of outstanding stock of the Corporation for securities or other consideration issued or paid or caused to be issued or paid by any such entity or affiliate thereof, and the voluntary sale or transfer by the Corporation of all or substantially all its assets, shall not be deemed to be a liquidation, dissolution or winding up of the Corporation within the meaning of the provisions of this Section 4 unless such sale, conveyance, exchange or transfer is in connection with a dissolution or winding up of the business of the Corporation, provided, however, that any consolidation or merger of the Corporation in which the Corporation is not the surviving entity shall be deemed to be a liquidation, dissolution or winding up of the affairs of the Corporation within the meaning of this Section 4 if, (i) in connection therewith, any holders of Junior Securities receive as consideration, whether in whole or in part, for such: (1) cash (other than as payment for fractional shares), (2) notes, debentures or other evidences of indebtedness or obligations to pay cash (other than as payment for fractional shares) or (3) preferred stock of the surviving entity (whether or not the surviving entity is the Corporation) which ranks on a parity with or senior to the preferred stock received by holders of the Series A Preferred Stock with respect to liquidation or dividends or (ii) the holders of the Series A Preferred Stock do not receive preferred stock of the surviving entity with rights, powers and preferences equal to (or more favorable to the holders than) the rights, powers and preferences of the Series A Preferred Stock.

5. VOTING.

(a) Except as otherwise provided in Section 8 hereof or by the provisions of Subsection 5(b) below, holders of Series A Preferred Stock shall not be entitled to vote.

(b) Without the written consent or affirmative vote of the holders of a majority of the then outstanding Series A Preferred Stock, given in writing or by vote at a meeting, consenting or voting (as the case may be) separately as a class, the Corporation shall not amend, alter or repeal the preferences, special rights or other powers of the Series A Preferred Stock as set forth in these terms of the Series A Preferred Stock.

6. OPTIONAL REPURCHASE BY THE CORPORATION.

(a) From and after December 15, 2003, the Corporation shall have the right to repurchase and redeem (the "Repurchase") all, or any part of the Series A Preferred Stock outstanding on the date of notice of Repurchase (the "Repurchase Date"), for a price per share equal to the Liquidation Value thereof plus all unpaid dividends that have been declared, accumulated or accrued (including any compounded dividends thereon) to the Repurchase Date; provided that after the Corporation has redeemed 74% of the total number of Series A Preferred Stock issued on the Original Issue Date, the

Corporation must redeem all remaining outstanding Series A Preferred Stock if any are redeemed. Any Repurchase of Series A Preferred Stock shall be made pro rata among all holders of Series A Preferred Stock and shall be in minimum amounts equal to the lesser of (i) $10 million in Liquidation Value or (ii) the remaining amount of Series A Preferred Stock then outstanding.

(b) All holders of record of Series A Preferred Stock will be given written notice of the Repurchase not less than 30 days nor more than 60 days prior to the Repurchase Date, which notice shall set forth the Repurchase Date and place designated for Repurchase of the Series A Preferred Stock pursuant to this Section 6. Such notice shall be sent by overnight courier or first class or registered mail, postage prepaid, to each record holder of Series A Preferred Stock at such holder's address last shown on the records of the transfer agent for the Series A Preferred Stock (or the records of the Corporation, if it serves as its own transfer agent). On or before the Repurchase Date, the Corporation shall irrevocably deposit, for the benefit of the holders of the Series A Preferred Stock, the funds necessary to effect the Repurchase in full with a bank or trust company in the Borough of Manhattan, The City of New York having a capital and surplus of not less than $500 million. The Corporation shall have the right to revoke the notice of the Repurchase at any time prior to the designated Repurchase Date. On or before the Repurchase Date, each holder of Series A Preferred Stock shall surrender his, her or its certificate or certificates for all such Series A Preferred Stock to the Corporation at the place designated in such notice, and on the later of the Repurchase Date and the date such certificates are surrendered, shall receive the payment to which such holder is entitled pursuant to this Section 6. On the Repurchase Date, provided that the Corporation has so deposited the funds necessary to effect the Repurchase in full as provided in this Section 6, all rights with respect to the Series A Preferred Stock, including the rights, if any, to receive notices and vote, will terminate, except only the rights of the holders thereof, upon surrender of their certificate or certificates therefor, to receive payment for the Series A Preferred Stock. If so required by the Corporation, certificates surrendered shall be endorsed or accompanied by written instrument or instruments of transfer, in form reasonably satisfactory to the Corporation, duly executed by the registered holder or by his or its attorney duly authorized in writing. (c) All certificates evidencing Series A Preferred Stock that are required to be surrendered for repurchase in accordance with the provisions hereof shall, if the Corporation has deposited the funds necessary to effect the Repurchase in full as provided in Section 6(b) above, from and after the Repurchase Date, be deemed to have been retired and canceled and the Series A Preferred Stock represented thereby converted into the right to receive payment for such Series A Preferred Stock, notwithstanding the failure of the holder or holders thereof to surrender such certificates on or prior to such date. The Corporation may thereafter take such appropriate action (without the need for shareholder action) as may be necessary to reduce the authorized Series A Preferred Stock accordingly.

7. OPTIONAL REDEMPTION BY THE HOLDERS.

(a) In the event of a Change of Control, as defined below, each holder of Series A Preferred Stock shall have the right to elect to have the Corporation repurchase (the "Redemption") all, but not less than all, of the Series A Preferred Stock held by such holder on the date of the Change of Control (the "Change of Control Date") for a price per share equal to the Liquidation Value thereof plus all unpaid dividends that have been declared, accumulated or accrued (including any compounded dividends thereon) to the Redemption Date. The procedure for electing the Redemption is set forth in Section (b) and (c) below. The Corporation shall not be required to redeem any Series A Preferred Stock unless holders of not less than a majority of the Series A Preferred Stock outstanding have elected to have their Series A Preferred Stock redeemed in which case the Corporation shall redeem all outstanding Series A Preferred Stock including those owned by holders who have not so elected.

(b) If a Change of Control (as defined below) has occurred, the Corporation shall give prompt written notice of such Change of Control (the "Change of Control Notice"), describing in

reasonable detail the definitive terms and date of consummation thereof, to each holder of Series A Preferred Stock, but in any event, such notice shall be given no later than five business days after the Change of Control Date. Such notice shall be sent by overnight courier or first class or registered mail, postage prepaid, to each record holder of Series A Preferred Stock at such holder's address last shown on the records of the transfer agent for the Series A Preferred Stock (or the records of the Corporation, if it serves as its own transfer agent) and shall set forth the date of the closing of the Redemption (the "Redemption Date"), which Redemption Date shall be the later of the Change of Control Date or 30 days after the date the Change of Control Notice was first mailed by the Corporation to the holders of Series A Preferred Stock, and place designated for the redemption of the Series A Preferred Stock pursuant to this Section 7. Upon receipt of such notice, each holder of Series A Preferred Stock will have 20 days to elect to exercise the Redemption by delivering written notice thereof to the Corporation. If the Corporation does not receive from the holders of at least a majority the Series A Preferred Stock outstanding notice of their election to exercise the Redemption within the 20 day period, no Series A Preferred Stock shall be repurchased by the Corporation and all rights under this Section 7 shall terminate with respect to the Change of Control identified in the Change of Control Notice but not with respect to any future Change of Control. If the holders of at least a majority of the Series A Preferred Stock outstanding give notice of election to exercise the Redemption within the required time period then on or before the Redemption Date, the Corporation shall irrevocably deposit, for the benefit of the holders of all of the Series A Preferred Stock, the funds necessary to effect the Redemption in full with a bank or trust company in the Borough of Manhattan, The City of New York with capital and surplus of not less than $500 million. On or before the Redemption Date, each holder of Series A Preferred Stock shall surrender his, her or its certificate for all such Series A Preferred Stock to the Corporation at the place designated in the notice, and on the Redemption Date shall receive the payment to which such holder is entitled pursuant to this Section 7. On the Redemption Date, the Corporation will redeem all of the Series A Preferred Stock for the consideration such holder is entitled pursuant to this Section 7; provided that no holder of Series A Preferred Stock shall be entitled to receive such consideration until the certificates representing his, her or its Shares have been delivered to the Corporation at the place designated in such notice. On the Redemption Date, provided that the Corporation has so deposited the funds necessary to effect the Redemption in full as provided in this Section 7, all rights with respect to the Series A Preferred Stock, including the rights, if any, to receive notices and vote, will terminate, except only the rights of the holders thereof, upon surrender of their certificate or certificates therefor, to receive payment for the Series A Preferred Stock. If so required by the Corporation, certificates surrendered shall be endorsed or accompanied by written instrument or instruments of transfer, in form reasonably satisfactory to the Corporation, duly executed by the registered holder or by his or its attorney duly authorized in writing. On the later of the Redemption Date and the surrender of the certificate or certificates for Series A Preferred Stock, the Corporation shall cause to be delivered to such holder, a cash payment for such redeemed Series A Preferred Stock. If a proposed Change of Control is not consummated, all elections to redeem in connection therewith shall automatically be rescinded.

(c) All certificates evidencing Series A Preferred Stock that are required to be surrendered for repurchase in accordance with the provisions hereof shall, if the Corporation has deposited the funds necessary to effect the Redemption in full as provided in Section 7(b) above, from and after the Redemption Date, be deemed to have been retired and canceled and the Series A Preferred Stock represented thereby converted into the right to receive payment for such shares, notwithstanding the failure of the holder or holders thereof to surrender such certificates on or prior to such date. The Corporation may thereafter take such appropriate action (without the need for shareholder action) as may be necessary to reduce the authorized Series A Preferred Stock accordingly.

(d) "Change of Control" means the occurrence of one or more of the following events that is not approved by the Board of Directors of the Corporation prior to the occurrence of such event: (i) any Person or "Group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange

Act), other than the Permitted Holders, is or becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act, except that a Person shall be deemed to have beneficial ownership of all shares that such Person has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of a number of shares of the voting stock of the Corporation which would entitle the holder thereof to cast a majority of the votes entitled to be cast on matters generally to be voted on by the stockholders of the Corporation; provided that if the Permitted Holders have the right or ability by voting power, contract or otherwise to elect or designate for election a majority of the Board of Directors of the Corporation a Change of Control shall not be deemed to occur even if the Permitted Holders "beneficially own" (as so defined) a lesser percentage of such voting stock than such other person; or (ii) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all of the assets of the Corporation to any Person or Group, together with any affiliates thereof other than the Permitted Holders. "Permitted Holders" shall mean B. Holdings, L.L.C., Starwood Mezzanine Investors, L.P., Starwood Opportunity Fund IV, L.P., SOFI-IV SMT HOLDINGS, L.L.C., the direct the indirect general partners thereof and their respective affiliates.

8. BOARD REPRESENTATION.

(a) If the Corporation fails to pay within 30 days of any single Dividend Payment Date the full dividend then accrued or accumulated but unpaid on the Series A Preferred Stock, whether or not such payment is legally permissible or is prohibited by any agreement to which the Corporation is subject (a "Single Dividend Deficiency Period"), then the number of directors constituting the Board of Directors of the Corporation shall be increased to permit the holders of a majority of the Series A Preferred Stock (the "Majority Holders") voting separately as one class, to elect one director. If the Corporation fails to pay the full dividends then accrued or accumulated but unpaid (including compounded dividends) on the Series A Preferred Stock for any six consecutive Dividend Payment Dates (including the initial Single Dividend Deficiency Period) so that six consecutive dividend payments are not paid in full as of the day after the sixth such Divided Payment Date, whether or not such payment is legally permissible or is prohibited by any agreement to which the Corporation is subject (a "Multiple Dividend Deficiency Period" and together with a Single Dividend Deficiency Period an "Election Period"), then the number of Directors of the Corporation shall be increased to permit the Majority Holders, voting separately as one class, to elect one more director. Any director elected pursuant to this Section 8 is referred to as a Preferred Director. Upon the payment in full of all accrued or accumulated but unpaid dividends (including compounded dividends) on the Series A Preferred Stock, the calculation of the periods dividends are in arrears shall reset to zero (0).

(b) The right of the Majority Holders voting separately as one class to elect Preferred Directors shall continue until such time as all accrued or accumulated dividends (including compounded dividends) that are in arrears on the Series A Preferred Stock are paid in full, at which time the term of any Preferred Director shall terminate and the number of Directors constituting the Board of Directors shall be reduced to the number necessary to reflect the termination of the right of the Majority Holders to elect Preferred Directors; subject to the right of the holders of Series A Preferred Stock to elect the appropriate number of Preferred Directors if a subsequent Election Period should occur. Any Preferred Directors shall continue in office until the earlier of (A) such time as his or her successor shall have been elected by Majority Holders and (B) the termination of his or her term in accordance with the immediately preceding sentence. Notwithstanding any other sections of the Charter, during any Election Period, the Majority Holders shall be entitled to (A) remove from the Board any Preferred Director elected under the foregoing subsection (i), and (B) elect each successor to any such Preferred Director removed in accordance herewith or who otherwise vacates such office.

(c) The right of the Majority Holders to elect Preferred Directors may be exercised at the special meeting called pursuant to this Section, at any annual or other special meeting of stockholders

and, to the extent and in the manner permitted by applicable law, pursuant to a written consent in lieu of a stockholders meeting. A proper officer of the Corporation shall, upon the written request of the Majority Holders, addressed to any officer of the Corporation, call a special meeting of the stockholders for the purpose of electing trustees pursuant to this Section. Such meeting shall be held at the earliest legally permissible date at the principal office of the Corporation, or at such other place designated by the Majority Holders. If such meeting has not been called by a proper officer of the Corporation within 15 days after personal delivery, by hand or by a nationally recognized, overnight courier guaranteeing next business day delivery, of such written request upon any officer of the Corporation or within 20 days after mailing the same to the Secretary of the Corporation at its principal office, then the Majority Holders may call such meeting at the expense of the Corporation, and such meeting may be called upon the notice required for annual meetings of stockholders and shall be held at the Corporation's principal office, or at such other place designated by the Majority Holders. In the event that the Corporation is then subject to the proxy solicitation rules of the Securities Exchange Act of 1934, as amended, the 15 day and 20 day periods referenced above shall be increased to 120 days and 125 days, respectively. The Majority Holders shall be given access to the stock record books of the Corporation for the purpose of causing a meeting of stockholders to be called pursuant to this Section.

(d) At any meeting or at any adjournment thereof at which the holder of the Series A Preferred Stock have the right to elect directors, the presence, in person or by proxy, of the holders of a majority of the Series A Preferred Stock shall be required to constitute a quorum for the election or removal of any director by the Majority Holders. The affirmative vote of the holders of a majority of the Series A Preferred Stock represented in person or proxy at such meeting shall be required to elect or remove any Preferred Director.

9. RESTRICTION ON TRANSFER, ACQUISITION AND REDEMPTION OF SERIES A PREFERRED STOCK

The Series A Preferred Stock are subject to the provisions of Article IX of the Charter, including, without limitation, the provision for the redemption of shares transferred to the Charitable Trust. For this purpose, the Market Price of the Series A Preferred Stock shall equal $50.00 per share, plus all accrued and unpaid dividends on the Series A Preferred Stock.

10. THE CORPORATION.

Each of the parties hereto acknowledges and agrees that the name Starwood Financial Inc. is a designation of the Corporation under the Corporation's Charter, and all persons dealing with the Corporation shall look solely to the Corporation's assets for the enforcement of any claims against the Corporation, and the Directors, officers, agents and security holders of the Corporation assume no personal liability for obligations entered into on behalf of the Corporation, and their respective individual assets shall not be subject to the claims of any person relating to such obligations.

ANNEX B

SERIES B PREFERRED STOCK

(1) DESIGNATION AND NUMBER. A series of Preferred Stock, designated the "9-3/8% Series B Cumulative Redeemable Preferred Stock" (the "Series B Preferred Stock"), is hereby established. The number of shares of the Series B Preferred Stock shall be 2,300,000.

(2) RANK. The Series B Preferred Stock shall, with respect to dividend rights and rights upon liquidation, dissolution or winding up of the Corporation, rank (a) senior to all classes or series of Common Stock of the Corporation, and to all equity securities ranking junior to such Series B Preferred Stock; (b) on a parity with the Corporation's 9.5% Series A Cumulative Redeemable Preferred Stock (the "Series A Preferred Stock"), 9.2% Series C Cumulative Redeemable Preferred Stock (the "Series C Preferred Stock") and 8% Series D Cumulative Redeemable Preferred Stock (the "Series D Preferred Stock"); and all equity securities issued by the Corporation the terms of which specifically provide that such equity securities rank on a parity with the Series B Preferred Stock and (c) junior to all equity securities issued by the Corporation the terms of which specifically provide that such equity securities rank senior to the Series B Preferred Stock. The term "equity securities" shall not include convertible debt securities.

(3) DIVIDENDS.

(a) Holders of the then outstanding shares of Series B Preferred Stock shall be entitled to receive, when and as declared by the Board of Directors, out of funds legally available for the payment of dividends, cumulative preferential cash dividends at the rate of 9-3/8% of the $25.00 liquidation preference per annum (equivalent to a fixed annual amount of $2.34375 per share). Such dividends shall be cumulative from the first date on which any Series B Preferred Stock is issued and shall be payable quarterly in arrears on or before March 15, June 15, September 15 and December 15 of each year or, if not a business day, the next succeeding business day (each, a "Dividend Payment Date"). Any dividend payable on the Series B Preferred Stock for any partial dividend period will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends will be payable to holders of record as they appear in the stock records of the Corporation at the close of business on the applicable record date, which shall be the first day of the calendar month on which the applicable Dividend Payment Date falls or on such other date designated by the Board of Directors of the Corporation for the payment of dividends that is not more than 30 nor less than 10 days prior to such Dividend Payment Date (each, a "Dividend Record Date").

(b) No dividends on shares of Series B Preferred Stock shall be declared by the Board of Directors of the Corporation or paid or set apart for payment by the Corporation at such time as the terms and provisions of any agreement of the Corporation, including any agreement relating to its indebtedness, prohibits such declaration, payment or setting apart for payment or provides that such declaration, payment or setting apart for payment would constitute a breach thereof or a default thereunder, or if such declaration or payment shall be restricted or prohibited by law.

(c) Notwithstanding the foregoing, dividends on the Series B Preferred Stock shall accrue whether or not the terms and provisions set forth in Section 3(b) hereof at any time prohibit the current payment of dividends, whether or not the Corporation has earnings, whether or not there are funds legally available for the payment of such dividends and whether or not such dividends are declared. Accrued but unpaid dividends on the Series B Preferred Stock will accumulate as of the Dividend Payment Date on which they first become payable.

(d) Except as provided in Section 3(e) below, no dividends will be declared or paid or set apart for payment on any capital stock of the Corporation or any other series of preferred stock ranking, as to dividends, on a parity with or junior to the Series B Preferred Stock (other than a dividend in shares of the Corporation's Common Stock or in any other class of stock ranking junior to the Series B Preferred Stock as to dividends and upon liquidation) for any period unless (i) full cumulative dividends have been or contemporaneously are declared and paid or declared and (ii) a sum sufficient for the payment thereof is set apart for such payment on the Series B Preferred Stock for all past dividend periods and the then current dividend period.

(e) When dividends are not paid in full (or a sum sufficient for such full payment is not so set apart) upon the Series B Preferred Stock and the shares of any other series of Preferred Stock ranking on a parity as to dividends with the Series B Preferred Stock, all dividends declared upon the Series B Preferred Stock and any other series of Preferred Stock ranking on a parity as to dividends with the Series B Preferred Stock shall be declared pro rata so that the amount of dividends declared per share of Series B Preferred Stock and such other series of Preferred Stock shall in all cases bear to each other the same ratio that accrued dividends per share on the Series B Preferred Stock and such other series of Preferred Stock (which shall not include any accrual in respect of unpaid dividends for prior dividend periods if such Preferred Stock does not have a cumulative dividend) bear to each other. No interest, or sum of money in lieu of interest, shall be payable in respect of any dividend payment or payments on Series B Preferred Stock which may be in arrears.

(f) Except as provided in the immediately preceding paragraph, unless full cumulative dividends on the Series B Preferred Stock have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for payment for all past dividend periods and the then current dividend period, no dividends (other than in shares of Common Stock or other shares of capital stock ranking junior to the Series B Preferred Stock as to dividends and upon liquidation) shall be declared or paid or set aside for payment nor shall any other distribution be declared or made upon the Common Stock, or any other capital stock of the Corporation ranking junior to or on a parity with the Series B Preferred Stock as to dividends or upon liquidation, nor shall any shares of Common Stock, or any other shares of capital stock of the Corporation ranking junior to or on a parity with the Series B Preferred Stock as to dividends or upon liquidation be redeemed, purchased or otherwise acquired for any consideration (or any moneys be paid to or made available for a sinking fund for the redemption of any such shares) by the Corporation (except by conversion into or exchange for other capital stock of the Corporation ranking junior to the Series B Preferred Stock as to dividends and upon liquidation).

(g) Any dividend payment made on shares of the Series B Preferred Stock shall first be credited against the earliest accrued but unpaid dividend due, with respect to such shares, which remains payable. Holders of the Series B Preferred Stock shall not be entitled to any dividend, whether payable in cash, property or stock in excess of full cumulative dividends on the Series B Preferred Stock as described above.

(4) LIQUIDATION PREFERENCE.

(a) Upon any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation, the holders of shares of Series B Preferred Stock then outstanding are entitled to be paid out of the assets of the Corporation, legally available for distribution to its stockholders, a liquidation preference of $25.00 per share, plus an amount equal to any accrued and unpaid dividends to the date of payment, before any distribution of assets is made to holders of Common Stock or any other class or series of capital stock of the Corporation that ranks junior to the Series B Preferred Stock as to liquidation rights.

(b) In the event that, upon any such voluntary or involuntary liquidation, dissolution or winding up, the available assets of the Corporation are insufficient to pay the amount of the liquidating distributions on all outstanding shares of Series B Preferred Stock and the corresponding amounts payable on all shares of other classes or series of capital stock of the Corporation ranking on a parity with the Series B Preferred Stock in the distribution of assets, then the holders of the Series B Preferred Stock and all other such classes or series of capital stock shall share ratably in any such distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled.

(c) After payment of the full amount of the liquidating distributions to which they are entitled, the holders of Series B Preferred Stock will have no right or claim to any of the remaining assets of the Corporation.

(d) Written notice of any such liquidation, dissolution or winding up of the Corporation, stating the payment date or dates when, and the place or places where, the amounts distributable in such circumstances shall be payable, shall be given by first class mail, postage pre-paid, not less than 30 nor more than 60 days prior to the payment date stated therein, to each record holder of the Series B Preferred Stock at the respective addresses of such holders as the same shall appear on the stock transfer records of the Corporation.

(e) The consolidation or merger of the Corporation with or into any other corporation, trust or entity or of any other corporation with or into the Corporation, or the sale, lease or conveyance of all or substantially all of the property or business of the Corporation, shall not be deemed to constitute a liquidation, dissolution or winding up of the Corporation.

(5) REDEMPTION.

(a) RIGHT OF OPTIONAL REDEMPTION. The Series B Preferred Stock is not redeemable prior to June 15, 2001. However, in order to ensure that the Corporation remains a qualified real estate investment trust ("REIT") for Federal income tax purposes, the Series B Preferred Stock will be subject to the provisions of Article IX of the Charter. Pursuant to Article IX, Series B Preferred Stock, together with other equity stock of the Corporation, owned by a stockholder in excess of the Ownership Limit will automatically be transferred to a Charitable Trust for the benefit of a Charitable Beneficiary and the Corporation will have the right to purchase such transferred shares from the Charitable Trust. On and after June 15, 2001, the Corporation, at its option and upon not less than 30 nor more than 60-days' written notice, may redeem shares of the Series B Preferred Stock, in whole or in part, at any time or from time to time, for cash at a redemption price of $25.00 per share, plus all accrued and unpaid dividends thereon to the date fixed for redemption (except as provided in Section 5(c) below), without interest. If less than all of the outstanding Series B Preferred Stock is to be redeemed, the Series B Preferred Stock to be redeemed shall be selected pro rata (as nearly as may be practicable without creating fractional shares) or by any other equitable method determined by the Corporation.

(b) LIMITATIONS ON REDEMPTION.

(i) The redemption price of the Series B Preferred Stock (other than the portion thereof consisting of accrued and unpaid dividends) is payable solely out of the sale proceeds of other capital stock of the Corporation, which may include other series of Preferred Stock, and from no other source. For purposes of the preceding sentence, "capital stock" means any equity securities (including Common Stock and Preferred Stock), shares, interest, participation or other ownership interests (however designated) and any rights (other than debt securities convertible into or exchangeable for equity securities) or options to purchase any of the foregoing.

(ii) Unless full cumulative dividends on all shares of Series B Preferred Stock shall have been, or contemporaneously are, declared and paid or declared and a sum

sufficient for the payment thereof set apart for payment for all past dividend periods and the then current dividend period, no shares of Series B Preferred Stock shall be redeemed unless all outstanding shares of Series B Preferred Stock are simultaneously redeemed, and the Corporation shall not purchase or otherwise acquire directly or indirectly any shares of Series B Preferred Stock (except by exchange for capital stock of the Corporation ranking junior to the Series B Preferred Stock as to dividends and upon liquidation); provided, however, that the foregoing shall not prevent the purchase by the Corporation of shares transferred to a Charitable Trust pursuant to Article IX in order to ensure that the Corporation remains qualified as a REIT for Federal income tax purposes or the purchase or acquisition of shares of Series B Preferred Stock pursuant to a purchase or exchange offer made on the same terms to holders of all outstanding shares of Series B Preferred Stock.

(c) RIGHTS TO DIVIDENDS ON SHARES CALLED FOR REDEMPTION. Immediately prior to any redemption of Series B Preferred Stock, the Corporation shall pay, in cash, any accumulated and unpaid dividends through the redemption date, unless a redemption date falls after a Dividend Record Date and prior to the corresponding Dividend Payment Date, in which case each holder of Series B Preferred Stock at the close of business on such Dividend Record Date shall be entitled to the dividend payable on such shares on the corresponding Dividend Payment Date notwithstanding the redemption of such shares before such Dividend Payment Date. Except as provided above, the Corporation will make no payment or allowance for unpaid dividends, whether or not in arrears, on Series B Preferred Stock which is redeemed.

(d) PROCEDURES FOR REDEMPTION.

(i) Notice of redemption will be (A) given by publication in a newspaper of general circulation in the City of New York, such publication to be made once a week for two successive weeks commencing not less than 30 nor more than 60 days prior to the redemption date, and (B) mailed by the Corporation, postage prepaid, not less than 30 nor more than 60 days prior to the redemption date, addressed to the respective holders of record of the Series B Preferred Stock to be redeemed at their respective addresses as they appear on the stock transfer records of the Corporation. No failure to give such notice or any defect thereto or in the mailing thereof shall affect the validity of the proceedings for the redemption of any shares of Series B Preferred Stock except as to the holder to whom notice was defective or not given.

(ii) In addition to any information required by law or by the applicable rules of any exchange upon which Series B Preferred Stock may be listed or admitted to trading, such notice shall state: (A) the redemption date; (B) the redemption price; (C) the number of shares of Series B Preferred Stock to be redeemed; (D) the place or places where the Series B Preferred Stock is to be surrendered for payment of the redemption price; and (E) that dividends on the shares to be redeemed will cease to accrue on such redemption date. If less than all of the Series B Preferred Stock held by any holder is to be redeemed, the notice mailed to such holder shall also specify the number of shares of Series B Preferred Stock held by such holder to be redeemed.

(iii) If notice of redemption of any shares of Series B Preferred Stock has been given and if the funds necessary for such redemption have been set aside by the Corporation in trust for the benefit of the holders of any shares of Series B Preferred Stock so called for redemption, then, from and after the redemption date, dividends will cease to accrue on such shares of Series B Preferred Stock, such shares of Series B Preferred Stock shall no longer be deemed outstanding and all rights of the holders of such shares will terminate, except the right to receive the redemption price. Holders of Series B Preferred Stock to be redeemed shall surrender such Series B Preferred Stock at the place designated in such notice and, upon surrender in accordance with said notice of the certificates for shares of Series B Preferred Stock so redeemed (properly endorsed or assigned for transfer, if the Corporation shall so require and the notice shall

so state), such shares of Series B Preferred Stock shall be redeemed by the Corporation at the redemption price plus any accrued and unpaid dividends payable upon such redemption. In case less than all the shares of Series B Preferred Stock represented by any such certificate are redeemed, a new certificate or certificates shall be issued representing the unredeemed shares of Series B Preferred Stock without cost to the holder thereof.

(iv) The deposit of funds with a bank or trust corporation for the purpose of redeeming Series B Preferred Stock shall be irrevocable except that:

(A) the Corporation shall be entitled to receive from such bank or trust corporation the interest or other earnings, if any, earned on any money so deposited in trust, and the holders of any shares redeemed shall have no claim to such interest or other earnings; and

(B) any balance of monies so deposited by the Corporation and unclaimed by the holders of the Series B Preferred Stock entitled thereto at the expiration of two years from the applicable redemption dates shall be repaid, together with any interest or other earnings thereon, to the Corporation, and after any such repayment, the holders of the shares entitled to the funds so repaid to the Corporation shall look only to the Corporation for payment without interest or other earnings.

(e) APPLICATION OF ARTICLE IX. The shares of Series B Preferred Stock are subject to the provisions of Article IX of the Charter, including, without limitation, the provision for the redemption of shares transferred to the Charitable Trust (as defined in such Article). For this purpose, the Market Price of the Series B Preferred Stock shall equal $25.00 per share, plus all accrued and unpaid dividends on the shares of Series B Preferred Stock.

(f) STATUS OF REDEEMED SHARES. Any shares of Series B Preferred Stock that shall at any time have been redeemed shall, after such redemption, have the status of authorized but unissued preferred stock, without designation as to series until such shares are once more designated as part of a particular series by the Board of Directors.

(6) VOTING RIGHTS.

(a) Holders of the Series B Preferred Stock will not have any voting rights, except as set forth below or as otherwise from time to time required by law.

(b) Whenever dividends on any shares of Series B Preferred Stock shall be in arrears for six or more quarterly periods (a "Preferred Dividend Default"), the holders of such shares of Series B Preferred Stock (voting separately as a class with the Series C Preferred Stock, the Series D Preferred Stock and all other series of Preferred Stock, other than the Series A Preferred Stock, ranking on a parity with the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, and the Series D Preferred Stock as to dividends or upon liquidation ("Parity Preferred") upon which like voting rights have been conferred and are exercisable) will be entitled to vote for the election of a total of two additional directors of the Corporation (the "Preferred Stock Directors") at a special meeting called by the holders of record of at least 20% of the Series B Preferred Stock or the holders of any other series of Parity Preferred, other than the Series A Preferred Stock, so in arrears (unless such request is received less than 90 days before the date fixed for the next annual or special meeting of stockholders) or at the next annual meeting of stockholders, and at each subsequent annual meeting until all dividends accumulated on such shares of Series B Preferred Stock for the past dividend periods and the dividend for the then current dividend period shall have been fully paid or declared and a sum sufficient for the payment thereof set aside for payment.

(c) If and when all accumulated dividends and the dividend for the then current dividend period on the Series B Preferred Stock shall have been paid in full or set aside for payment in full, the holders of shares of Series B Preferred Stock shall be divested of the voting rights set forth in Section 6(b) hereof (subject to revesting in the event of each and every Preferred Dividend Default) and, if all accumulated dividends and the dividend for the current dividend period have been paid in full or set aside for payment in full on all other series of Parity Preferred, other than the Series A Preferred Stock, upon which like voting rights have been conferred and are exercisable, the term of office of each Preferred Stock Director so elected shall terminate. Any Preferred Stock Director may be removed at any time with or without cause by the vote of, and shall not be removed otherwise than by the vote of, the holders of record of a majority of the outstanding shares of the Series B Preferred Stock when they have the voting rights set forth in Section 6(b) (voting separately as a class with all other series of Parity Preferred, other than the Series A Preferred Stock, upon which like voting rights have been conferred and are exercisable). So long as a Preferred Dividend Default shall continue, any vacancy in the office of a Preferred Stock Director may be filled by written consent of the Preferred Stock Director remaining in office, or, if none remains in office, by a vote of the holders of record of a majority of the outstanding shares of Series B Preferred Stock when they have the voting rights set forth in Section 6(b) (voting separately as a class with all other series of Parity Preferred, other than the Series A Preferred Stock, upon which like voting rights have been conferred and are exercisable). The Preferred Stock Directors shall each be entitled to one vote per director on any matter.

(d) So long as any shares of Series B Preferred Stock remain outstanding, the Corporation shall not, without the affirmative vote of the holders of at least two thirds of the shares of the Series B Preferred Stock outstanding at the time, given in person or by proxy, either in writing or at a meeting (voting separately as a class), (i) authorize or create, or increase the authorized or issued amount of, any class or series of capital stock ranking prior to the Series B Preferred Stock with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up, or reclassify any authorized capital stock of the Corporation into any such shares, or create, authorize or issue any obligation or security convertible into or evidencing the right to purchase any such shares or (ii) amend, alter or repeal the provisions of the Charter, whether by merger, consolidation or otherwise, so as to materially and adversely affect any right, preference, privilege or voting power of the Series B Preferred Stock or the holders thereof; provided, however, that with respect to the occurrence of any event set forth in (ii) above, so long as the Series B Preferred Stock remains outstanding with the terms thereof materially unchanged, the occurrence of any such event shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers of the holders of the Series B Preferred Stock and; provided, further, that any increase in the amount of the authorized Preferred Stock or the creation or issuance of any other series of Preferred Stock, or any increase in the amount of authorized shares of such series, in each case ranking on a parity with or junior to the Series B Preferred Stock with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up, shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers.

(e) Each share of Series B Preferred Stock (voting together with all common stock of the Corporation and all other series of Preferred Stock of the Corporation entitled to vote) will be entitled to cast twenty-five one-hundredths of one vote with respect to all matters on which the holders of common stock are entitled to vote at each meeting of stockholders of the Corporation.

(f) The foregoing voting provisions will not apply if, at or prior to the time when the act with respect to which such vote would otherwise be required shall be effected, all outstanding shares of Series B Preferred Stock shall have been redeemed or called for redemption upon proper notice and sufficient funds shall have been deposited in trust to effect such redemption.

(7) CONVERSION. The Series B Preferred Stock is not convertible into or exchangeable for any other property or securities of the Corporation.

ANNEX C

SERIES C PREFERRED STOCK

(1) DESIGNATION AND NUMBER. A series of Preferred Stock, designated the "9.20% Series C Cumulative Redeemable Preferred Stock" (the "Series C Preferred Stock"), is hereby established. The number of shares of the Series C Preferred Stock shall be 1,495,000.

(2) RANK. The Series C Preferred Stock shall, with respect to dividend rights and rights upon liquidation, dissolution or winding up of the Corporation, rank (a) senior to all classes or series of Common Stock of the Corporation, and to all equity securities ranking junior to such Series C Preferred Stock; (b) on a parity with and the Corporation's 9.5% Series A Cumulative Redeemable Preferred Stock (the "Series A Preferred Stock"), 9-3/8% Series B Cumulative Redeemable Preferred Stock (the "Series B Preferred Stock") and 8% Series D Cumulative Redeemable Preferred Stock (the "Series D Preferred Stock") and all equity securities issued by the Corporation the terms of which specifically provide that such equity securities rank on a parity with the Series C Preferred Stock; and (c) junior to all equity securities issued by the Corporation the terms of which specifically provide that such equity securities rank senior to the Series C Preferred Stock. The term "equity securities" shall not include convertible debt securities.

(3) DIVIDENDS.

(a) Holders of the then outstanding shares of Series C Preferred Stock shall be entitled to receive, when and as declared by the Board of Directors, out of funds legally available for the payment of dividends, cumulative preferential cash dividends at the rate of 9.20% of the $25.00 liquidation preference per annum (equivalent to a fixed annual amount of $2.30 per share). Such dividends shall be cumulative from the first date on which any Series C Preferred Stock is issued and shall be payable quarterly in arrears on or before March 15, June 15, September 15 and December 15 of each year or, if not a business day, the next succeeding business day (each, a "Dividend Payment Date"). Any dividend payable on the Series C Preferred Stock for any partial dividend period will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends will be payable to holders of record as they appear in the stock records of the Corporation at the close of business on the applicable record date, which shall be the first day of the calendar month on which the applicable Dividend Payment Date falls or on such other date designated by the Board of Directors of the Corporation for the payment of dividends that is not more than 30 nor less than 10 days prior to such Dividend Payment Date (each, a "Dividend Record Date").

(b) No dividends on shares of Series C Preferred Stock shall be declared by the Board of Directors of the Corporation or paid or set apart for payment by the Corporation at such time as the terms and provisions of any agreement of the Corporation, including any agreement relating to its indebtedness, prohibits such declaration, payment or setting apart for payment or provides that such declaration, payment or setting apart for payment would constitute a breach thereof or a default thereunder, or if such declaration or payment shall be restricted or prohibited by law.

(c) Notwithstanding the foregoing, dividends on the Series C Preferred Stock shall accrue whether or not the terms and provisions set forth in Section 3(b) hereof at any time prohibit the current payment of dividends, whether or not the Corporation has earnings, whether or not there are funds

legally available for the payment of such dividends and whether or not such dividends are declared. Accrued but unpaid dividends on the Series C Preferred Stock will accumulate as of the Dividend Payment Date on which they first become payable.

(d) Except as provided in Section 3(e) below, no dividends will be declared or paid or set apart for payment on any capital stock of the Corporation or any other series of preferred stock ranking, as to dividends, on a parity with or junior to the Series C Preferred Stock (other than a dividend in shares of the Corporation's Common Stock or in any other class of stock ranking junior to the Series C Preferred Stock as to dividends and upon liquidation) for any period unless full cumulative dividends have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for such payment on the Series C Preferred Stock for all past dividend periods and the then current dividend period.

(e) When dividends are not paid in full (or a sum sufficient for such full payment is not so set apart) upon the Series C Preferred Stock and the shares of any other series of Preferred Stock ranking on a parity as to dividends with the Series C Preferred Stock, all dividends declared upon the Series C Preferred Stock and any other series of Preferred Stock ranking on a parity as to dividends with the Series C Preferred Stock shall be declared pro rata so that the amount of dividends declared per share of Series C Preferred Stock and such other series of Preferred Stock shall in all cases bear to each other the same ratio that accrued dividends per share on the Series C Preferred Stock and such other series of Preferred Stock (which shall not include any accrual in respect of unpaid dividends for prior dividend periods if such Preferred Stock does not have a cumulative dividend) bear to each other. No interest, or sum of money in lieu of interest, shall be payable in respect of any dividend payment or payments on Series C Preferred Stock which may be in arrears.

(f) Except as provided in the immediately preceding paragraph, unless full cumulative dividends on the Series C Preferred Stock have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for payment for all past dividend periods and the then current dividend period, no dividends (other than in shares of Common Stock or other shares of capital stock ranking junior to the Series C Preferred Stock as to dividends and upon liquidation) shall be declared or paid or set aside for payment nor shall any other distribution be declared or made upon the Common Stock, or any other capital stock of the Corporation ranking junior to or on a parity with the Series C Preferred Stock as to dividends or upon liquidation, nor shall any shares of Common Stock, or any other shares of capital stock of the Corporation ranking junior to or on a parity with the Series C Preferred Stock as to dividends or upon liquidation be redeemed, purchased or otherwise acquired for any consideration (or any moneys be paid to or made available for a sinking fund for the redemption of any such shares) by the Corporation (except by conversion into or exchange for other capital stock of the Corporation ranking junior to the Series C Preferred Stock as to dividends and upon liquidation).

(g) Any dividend payment made on shares of the Series C Preferred Stock shall first be credited against the earliest accrued but unpaid dividend due, with respect to such shares, which remains payable. Holders of the Series C Preferred Stock shall not be entitled to any dividend, whether payable in cash, property or stock in excess of full cumulative dividends on the Series C Preferred Stock as described above.

(4) LIQUIDATION PREFERENCE.

(a) Upon any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation, the holders of shares of Series C Preferred Stock then outstanding are entitled to be paid out of the assets of the Corporation legally available for distribution to its stockholders a

liquidation preference of $25.00 per share, plus an amount equal to any accrued and unpaid dividends to the date of payment, before any distribution of assets is made to holders of Common Stock or any other class or series of capital stock of the Corporation that ranks junior to the Series C Preferred Stock as to liquidation rights.

(b) In the event that, upon any such voluntary or involuntary liquidation, dissolution or winding up, the available assets of the Corporation are insufficient to pay the amount of the liquidating distributions on all outstanding shares of Series C Preferred Stock and the corresponding amounts payable on all shares of other classes or series of capital stock of the Corporation ranking on a parity with the Series C Preferred Stock in the distribution of assets, then the holders of the Series C Preferred Stock and all other such classes or series of capital stock shall share ratably in any such distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled.

(c) After payment of the full amount of the liquidating distributions to which they are entitled, the holders of Series C Preferred Stock will have no right or claim to any of the remaining assets of the Corporation.

(d) Written notice of any such liquidation, dissolution or winding up of the Corporation, stating the payment date or dates when, and the place or places where, the amounts distributable in such circumstances shall be payable, shall be given by first class mail, postage pre-paid, not less than 30 nor more than 60 days prior to the payment date stated therein, to each record holder of the Series C Preferred Stock at the respective addresses of such holders as the same shall appear on the stock transfer records of the Corporation.

(e) The consolidation or merger of the Corporation with or into any other
corporation, trust or entity or of any other corporation with or into the Corporation, or the sale, lease or conveyance of all or substantially all of the property or business of the Corporation, shall not be deemed to constitute a liquidation, dissolution or winding up of the Corporation.

(5) REDEMPTION.

(a) RIGHT OF OPTIONAL REDEMPTION. The Series C Preferred Stock is not redeemable prior to August 15, 2001. However, in order to ensure that the Corporation remains a qualified real estate investment trust ("REIT") for Federal income tax purposes, the Series C Preferred Stock will be subject to the provisions of Article IX of the Charter. Pursuant to Article IX, Series C Preferred Stock, together with other equity stock of the Corporation, owned by a stockholder in excess of the Ownership Limit will automatically be transferred to a Charitable Trust for the benefit of a Charitable Beneficiary and the Corporation will have the right to purchase such transferred shares from the Charitable Trust. On and after August 15, 2001, the Corporation, at its option and upon not less than 30 nor more than 60 days' written notice, may redeem shares of the Series C Preferred Stock, in whole or in part, at any time or from time to time, for cash at a redemption price of $25.00 per share, plus all accrued and unpaid dividends thereon to the date fixed for redemption (except as provided in Section 5(c) below), without interest. If less than all of the outstanding Series C Preferred Stock is to be redeemed, the Series C Preferred Stock to be redeemed shall be selected pro rata (as nearly as may be practicable without creating fractional shares) or by any other equitable method determined by the Corporation.

(b) LIMITATIONS ON REDEMPTION.

(i) The redemption price of the Series C Preferred Stock (other than the portion thereof consisting of accrued and unpaid dividends) is payable solely out of the sale proceeds of other capital stock of the Corporation, which may include other series of Preferred

Stock, and from no other source. For purposes of the preceding sentence, "capital stock" means any equity securities (including Common Stock and Preferred Stock), shares, interest, participation or other ownership interests (however designated) and any rights (other than debt securities convertible into or exchangeable for equity securities) or options to purchase any of the foregoing.

(ii) Unless full cumulative dividends on all shares of Series C Preferred Stock shall have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof set apart for payment for all past dividend periods and the then current dividend period, no shares of Series C Preferred Stock shall be redeemed unless all outstanding shares of Series C Preferred Stock are simultaneously redeemed, and the Corporation shall not purchase or otherwise acquire directly or indirectly any shares of Series C Preferred Stock (except by exchange for capital stock of the Corporation ranking junior to the Series C Preferred Stock as to dividends and upon liquidation); provided, however, that the foregoing shall not prevent the purchase by the Corporation of shares of transferred to a Charitable Trust pursuant to Article IX in order to ensure that the Corporation remains qualified as a REIT for Federal income tax purposes or the purchase or acquisition of shares of Series C Preferred Stock pursuant to a purchase or exchange offer made on the same terms to holders of all outstanding shares of Series C Preferred Stock.

(c) Rights to Dividends on Shares Called for Redemption. Immediately prior to any redemption of Series C Preferred Stock, the Corporation shall pay, in cash, any accumulated and unpaid dividends through the redemption date, unless a redemption date falls after a Dividend Record Date and prior to the corresponding Dividend Payment Date, in which case each holder of Series C Preferred Stock at the close of business on such Dividend Record Date shall be entitled to the dividend payable on such shares on the corresponding Dividend Payment Date notwithstanding the redemption of such shares before such Dividend Payment Date. Except as provided above, the Corporation will make no payment or allowance for unpaid dividends, whether or not in arrears, on Series C Preferred Stock which is redeemed.

(d) PROCEDURES FOR REDEMPTION.

(i) Notice of redemption will be (A) given by publication in a newspaper of general circulation in the City of New York, such publication to be made once a week for two successive weeks commencing not less than 30 nor more than 60 days prior to the redemption date, and (B) mailed by the Corporation, postage prepaid, not less than 30 nor more than 60 days prior to the redemption date, addressed to the respective holders of record of the Series C Preferred Stock to be redeemed at their respective addresses as they appear on the stock transfer records of the Corporation. No failure to give such notice or any defect thereto or in the mailing thereof shall affect the validity of the proceedings for the redemption of any shares of Series C Preferred Stock except as to the holder to whom notice was defective or not given.

(ii) In addition to any information required by law or by the applicable rules of any exchange upon which Series C Preferred Stock may be listed or admitted to trading, such notice shall state: (A) the redemption date; (B) the redemption price; (C) the number of shares of Series C Preferred Stock to be redeemed; (D) the place or places where the Series C Preferred Stock is to be surrendered for payment of the redemption price; and (E) that dividends on the shares to be redeemed will cease to accrue on such redemption date. If less than all of the Series C Preferred Stock held by any holder is to be redeemed, the notice mailed to such holder shall also specify the number of shares of Series C Preferred Stock held by such holder to be redeemed.

(iii) If notice of redemption of any shares of Series C Preferred Stock has been given and if the funds necessary for such redemption have been set aside by the Corporation in trust for the benefit of the holders of any shares of Series C Preferred Stock so called for redemption, then, from and after the redemption date, dividends will cease to accrue on such shares of Series C Preferred Stock, such shares of Series C Preferred Stock shall no longer be deemed outstanding and all rights of the holders of such shares will terminate, except the right to receive the redemption price. Holders of Series C Preferred Stock to be redeemed shall surrender such Series C Preferred Stock at the place designated in such notice and, upon surrender in accordance with said notice of the certificates for shares of Series C Preferred Stock so redeemed (properly endorsed or assigned for transfer, if the Corporation shall so require and the notice shall so state), such shares of Series C Preferred Stock shall be redeemed by the Corporation at the redemption price plus any accrued and unpaid dividends payable upon such redemption. In case less than all the shares of Series C Preferred Stock represented by any such certificate are redeemed, a new certificate or certificates shall be issued representing the unredeemed shares of Series C Preferred Stock without cost to the holder thereof.

(iv) The deposit of funds with a bank or trust corporation for the purpose of redeeming Series C Preferred Stock shall be irrevocable except that:

(A) the Corporation shall be entitled to receive from such bank or trust corporation the interest or other earnings, if any, earned on any money so deposited in trust, and the holders of any shares redeemed shall have no claim to such interest or other earnings; and

(B) any balance of monies so deposited by the Corporation and unclaimed by the holders of the Series C Preferred Stock entitled thereto at the expiration of two years from the applicable redemption dates shall be repaid, together with any interest or other earnings thereon, to the Corporation, and after any such repayment, the holders of the shares entitled to the funds so repaid to the Corporation shall look only to the Corporation for payment without interest or other earnings.

(e) APPLICATION OF ARTICLE IX. The shares of Series C Preferred Stock are subject to the provisions of Article IX of the Charter, including, without limitation, the provision for the redemption of shares transferred to the Charitable Trust (as defined in such Article). For this purpose, the Market Price of the Series B Preferred Stock shall equal $25.00 per share, plus all accrued and unpaid dividends on the shares of Series C Preferred Stock.

(f) STATUS OF REDEEMED SHARES. Any shares of Series C Preferred Stock that shall at any time have been redeemed shall, after such redemption, have the status of authorized but unissued preferred stock, without designation as to series until such shares are once more designated as part of a particular series by the Board of Directors.

(6) VOTING RIGHTS.

(a) Holders of the Series C Preferred Stock will not have any voting rights, except as set forth below or as otherwise from time to time required by law.

(b) Whenever dividends on any shares of Series C Preferred Stock shall be in arrears for six or more quarterly periods (a "Preferred Dividend Default"), the holders of such shares of Series C Preferred Stock (voting separately as a class with the holders of Series B Preferred Stock and Series D Preferred Stock and all other series of Preferred Stock, other than the Series A Preferred Stock, ranking

on a parity with the Series A Preferred Stock, the Series B Preferred Stock, Series C Preferred Stock and Series D Preferred Stock as to dividends or upon liquidation ("Parity Preferred") upon which like voting rights have been conferred and are exercisable) will be entitled to vote for the election of a total of two additional directors of the Corporation (the "Preferred Stock Directors") at a special meeting called by the holders of record of at least 20% of the Series C Preferred Stock or the holders of any other series of Parity Preferred, other than the Series A Preferred Stock, so in arrears (unless such request is received less than 90 days before the date fixed for the next annual or special meeting of stockholders) or at the next annual meeting of stockholders, and at each subsequent annual meeting until all dividends accumulated on such shares of Series C Preferred Stock for the past dividend periods and the dividend for the then current dividend period shall have been fully paid or declared and a sum sufficient for the payment thereof set aside for payment.

(c) If and when all accumulated dividends and the dividend for the then current dividend period on the Series C Preferred Stock shall have been paid in full or set aside for payment in full, the holders of shares of Series C Preferred Stock shall be divested of the voting rights set forth in Section 6(b) hereof (subject to revesting in the event of each and every Preferred Dividend Default) and, if all accumulated dividends and the dividend for the current dividend period have been paid in full or set aside for payment in full on all other series of Parity Preferred, other than the Series A Preferred Stock, upon which like voting rights have been conferred and are exercisable, the term of office of each Preferred Stock Director so elected shall terminate. Any Preferred Stock Director may be removed at any time with or without cause by the vote of, and shall not be removed otherwise than by the vote of, the holders of record of a majority of the outstanding shares of the Series C Preferred Stock when they have the voting rights set forth in Section 6(b) (voting separately as a class with the Series B Preferred Stock, the Series D Preferred Stock and all other series of Parity Preferred, other than the Series A Preferred Stock, upon which like voting rights have been conferred and are exercisable). So long as a Preferred Dividend Default shall continue, any vacancy in the office of a Preferred Stock Director may be filled by written consent of the Preferred Stock Director remaining in office, or, if none remains in office, by a vote of the holders of record of a majority of the outstanding shares of Series C Preferred Stock when they have the voting rights set forth in Section 6(b) (voting separately as a class with all other series of Parity Preferred, other than the Series A Preferred Stock, upon which like voting rights have been conferred and are exercisable). The Preferred Stock Directors shall each be entitled to one vote per director on any matter.

(d) So long as any shares of Series C Preferred Stock remain outstanding, the Corporation shall not, without the affirmative vote of the holders of at least two thirds of the shares of the Series C Preferred Stock outstanding at the time, given in person or by proxy, either in writing or at a meeting (voting separately as a class), (i) authorize or create, or increase the authorized or issued amount of, any class or series of capital stock ranking prior to the Series C Preferred Stock with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up, or reclassify any authorized capital stock of the Corporation into any such shares, or create, authorize or issue any obligation or security convertible into or evidencing the right to purchase any such shares or (ii) amend, alter or repeal the provisions of the Charter, whether by merger, consolidation or otherwise, so as to materially and adversely affect any right, preference, privilege or voting power of the Series C Preferred Stock or the holders thereof; PROVIDED, HOWEVER, that with respect to the occurrence of any event set forth in (ii) above, so long as the Series C Preferred Stock remains outstanding with the terms thereof materially unchanged, the occurrence of any such event shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers of the holders of the Series C Preferred Stock and; PROVIDED, FURTHER, that any increase in the amount of the authorized Preferred Stock or the creation or issuance of any other series of Preferred Stock, or any increase in the amount of authorized shares of such series, in each case ranking on a parity with or junior to the Series C Preferred Stock with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or

winding up, shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers.

(e) Each share of Series C Preferred Stock (voting together with all common stock of the Corporation and all other series of Preferred Stock of the Corporation entitled to vote) will be entitled to cast twenty-five one-hundredths of one vote with respect to all matters on which the holders of common stock are entitled to vote at each meeting of stockholders of the Corporation.

(f) The foregoing voting provisions will not apply if, at or prior to the time when the act with respect to which such vote would otherwise be required shall be effected, all outstanding shares of Series C Preferred Stock shall have been redeemed or called for redemption upon proper notice and sufficient funds shall have been deposited in trust to effect such redemption.

(7) CONVERSION. The Series C Preferred Stock is not convertible into or exchangeable for any other property or securities of the Corporation.

ANNEX D

SERIES D PREFERRED STOCK

(1) DESIGNATION AND NUMBER. A series of Preferred Stock, designated the "8% Series D Cumulative Redeemable Preferred Stock" (the "Series D Preferred Stock"), is hereby established. The number of shares of the Series D Preferred Stock shall be 4,600,000.

(2) RANK. The Series D Preferred Stock shall, with respect to dividend rights and rights upon liquidation, dissolution or winding up of the Corporation, rank (a) senior to all classes or series of Common Stock of the Corporation, and to all equity securities the terms of which specifically provide that such equity securities rank junior to such Series D Preferred Stock; (b) on a parity with and the Corporation's 9.5% Series A Cumulative Redeemable Preferred Stock (the "Series A Preferred Stock"), 9-3/8% Series B Cumulative Redeemable Preferred Stock (the "Series B Preferred Stock") and 9.2% Series C Cumulative Redeemable Preferred Stock (the "Series C Preferred Stock"); and all equity securities issued by the Corporation the terms of which specifically provide that such equity securities rank on a parity with the Series D Preferred Stock; and (c) junior to all equity securities issued by the Corporation the terms of which specifically provide that such equity securities rank senior to the Series D Preferred Stock. The term "equity securities" shall not include convertible debt securities.

(3) DIVIDENDS.

(a) Holders of the then outstanding shares of Series D Preferred Stock shall be entitled to receive, when and as declared by the Board of Directors, out of funds legally available for the payment of dividends, cumulative preferential cash dividends at the rate of 8% of the $25.00 liquidation preference per annum (equivalent to a fixed annual amount of $2.00 per share). Such dividends shall be cumulative from the first date on which any Series D Preferred Stock is issued and shall be payable quarterly in arrears on or before March 15, June 15, September 15 and December 15 of each year or, if not a business day, the next succeeding business day (each, a "Dividend Payment Date"). Any dividend payable on the Series D Preferred Stock for any partial dividend period will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends will be payable to holders of record as they appear in the stock records of the Corporation at the close of business on the applicable record date, which shall be the first day of the calendar month on which the applicable Dividend Payment Date falls or on such other date designated by the Board of Directors of the Corporation for the payment of dividends that is not more than 30 nor less than 10 days prior to such Dividend Payment Date (each, a "Dividend Record Date").

(b) No dividends on shares of Series D Preferred Stock shall be declared by the Board of Directors of the Corporation or paid or set apart for payment by the Corporation at such time as the terms and provisions of any agreement of the Corporation, including any agreement relating to its indebtedness, prohibit such declaration, payment or setting apart for payment or provide that such declaration, payment or setting apart for payment would constitute a breach thereof or a default thereunder, or if such declaration or payment shall be restricted or prohibited by law.

(c) Notwithstanding the foregoing, dividends on the Series D Preferred Stock shall accrue whether or not the terms and provisions set forth in Section 3(b) hereof at any time prohibit the current payment of dividends, whether or not the Corporation has earnings, whether or not there are funds legally available for the payment of such dividends and whether or not such dividends are declared.

Accrued but unpaid dividends on the Series D Preferred Stock will accumulate as of the Dividend Payment Date on which they first become payable.

(d) Except as provided in Section 3(e) below, no dividends will be declared or paid or set apart for payment on any Common Stock of the Corporation or any series of Preferred Stock ranking, as to dividends, on a parity with or junior to the Series D Preferred Stock (other than a dividend in shares of the Corporation's Common Stock or in shares of any series of Preferred Stock ranking junior to the Series D Preferred Stock as to dividends and upon liquidation) for any period unless full cumulative dividends have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for such payment on the Series D Preferred Stock for all past dividend periods and the then current dividend period.

(e) When dividends are not paid in full (or a sum sufficient for such full payment is not so set apart) upon the Series D Preferred Stock and the shares of any other series of Preferred Stock ranking on a parity as to dividends with the Series D Preferred Stock, all dividends declared upon the Series D Preferred Stock and any other series of Preferred Stock ranking on a parity as to dividends with the Series D Preferred Stock shall be declared pro rata so that the amount of dividends declared per share of Series D Preferred Stock and such other series of Preferred Stock shall in all cases bear to each other the same ratio that accrued dividends per share on the Series D Preferred Stock and such other series of Preferred Stock (which shall not include any accrual in respect of unpaid dividends for prior dividend periods if such Preferred Stock does not have a cumulative dividend) bear to each other. No interest, or sum of money in lieu of interest, shall be payable in respect of any dividend payment or payments on Series D Preferred Stock which may be in arrears.

(f) Except as provided in the immediately preceding paragraph, unless full cumulative dividends on the Series D Preferred Stock have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for payment for all past dividend periods and the then current dividend period, no dividends (other than in shares of Common Stock or in shares of any series of Preferred Stock ranking junior to the Series D Preferred Stock as to dividends and upon liquidation) shall be declared or paid or set aside for payment nor shall any other distribution be declared or made upon the Common Stock, or any Preferred Stock of the Corporation ranking junior to or on a parity with the Series D Preferred Stock as to dividends or upon liquidation, nor shall any shares of Common Stock, or any shares of Preferred Stock of the Corporation ranking junior to or on a parity with the Series D Preferred Stock as to dividends or upon liquidation be redeemed, purchased or otherwise acquired for any consideration (or any moneys be paid to or made available for a sinking fund for the redemption of any such shares) by the Corporation (except by conversion into or exchange for other capital stock of the Corporation ranking junior to the Series D Preferred Stock as to dividends and upon liquidation).

(g) Any dividend payment made on shares of the Series D Preferred Stock shall first be credited against the earliest accrued but unpaid dividend due, with respect to such shares, which remains payable. Holders of the Series D Preferred Stock shall not be entitled to any dividend, whether payable in cash, property or stock in excess of full cumulative dividends on the Series D Preferred Stock as described above.

(4) LIQUIDATION PREFERENCE.

(a) Upon any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation, the holders of shares of Series D Preferred Stock then outstanding are entitled to be paid out of the assets of the Corporation, legally available for distribution to its stockholders, a liquidation preference of $25.00 per share, plus an amount equal to any accrued and unpaid dividends to

the date of payment, before any distribution of assets is made to holders of Common Stock or any series of Preferred Stock of the Corporation that ranks junior to the Series D Preferred Stock as to liquidation rights.

(b) In the event that, upon any such voluntary or involuntary liquidation, dissolution or winding up, the available assets of the Corporation are insufficient to pay the amount of the liquidating distributions on all outstanding shares of Series D Preferred Stock and the corresponding amounts payable on all shares of other classes or series of capital stock of the Corporation ranking on a parity with the Series D Preferred Stock in the distribution of assets, then the holders of the Series D Preferred Stock and all other such classes or series of capital stock shall share ratably in any such distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled.

(c) After payment of the full amount of the liquidating distributions to which they are entitled, the holders of Series D Preferred Stock will have no right or claim to any of the remaining assets of the Corporation.

(d) Written notice of any such liquidation, dissolution or winding up of the Corporation, stating the payment date or dates when, and the place or places where, the amounts distributable in such circumstances shall be payable, shall be given by first class mail, postage pre-paid, not less than 30 nor more than 60 days prior to the payment date stated therein, to each record holder of the Series D Preferred Stock at the respective addresses of such holders as the same shall appear on the stock transfer records of the Corporation.

(e) The consolidation or merger of the Corporation with or into any other corporation, trust or entity or of any other corporation with or into the Corporation, or the sale, lease or conveyance of all or substantially all of the property or business of the Corporation, shall not be deemed to constitute a liquidation, dissolution or winding up of the Corporation.

(5) REDEMPTION.

(a) RIGHT OF OPTIONAL REDEMPTION. The Series D Preferred Stock is not redeemable prior to October 8, 2002. However, in order to ensure that the Corporation remains a qualified real estate investment trust ("REIT") for Federal income tax purposes, the Series D Preferred Stock will be subject to the provisions of Article IX of the Charter. Pursuant to Article IX, Series D Preferred Stock, together with other equity stock of the Corporation, owned by a stockholder in excess of the Ownership Limit will automatically be transferred to a Charitable Trust for the benefit of a Charitable Beneficiary and the Corporation will have the right to purchase such transferred shares from the Charitable Trust. On and after October 8, 2002, the Corporation, at its option and upon not less than 30 nor more than 60 days' written notice, may redeem shares of the Series D Preferred Stock, in whole or in part, at any time or from time to time, for cash at a redemption price of $25.00 per share, plus all accrued and unpaid dividends thereon to the date fixed for redemption (except as provided in Section 5(c) below), without interest. If less than all of the outstanding Series D Preferred Stock is to be redeemed, the Series D Preferred Stock to be redeemed shall be selected pro rata (as nearly as may be practicable without creating fractional shares) or by any other equitable method determined by the Corporation.

(b) LIMITATIONS ON REDEMPTION.

(i) The redemption price of the Series D Preferred Stock (other than the portion thereof consisting of accrued and unpaid dividends) is payable solely out of the sale proceeds of other capital stock of the Corporation, which may include other series of Preferred Stock, and from no other source. For purposes of the preceding sentence, "capital stock" means

any equity securities (including Common Stock and Preferred Stock), shares, interest, participation or other ownership interests (however designated) and any rights (other than debt securities convertible into or exchangeable for equity securities) or options to purchase any of the foregoing.

(ii) Unless full cumulative dividends on all shares of Series D Preferred Stock shall have been, or contemporaneously are, declared and paid or declared and a sum sufficient for the payment thereof set apart for payment for all past dividend periods and the then current dividend period, no shares of Series D Preferred Stock shall be redeemed unless all outstanding shares of Series D Preferred Stock are simultaneously redeemed, and the Corporation shall not purchase or otherwise acquire directly or indirectly any shares of Series D Preferred Stock (except by exchange for capital stock of the Corporation ranking junior to the Series D Preferred Stock as to dividends and upon liquidation); provided, however, that the foregoing shall not prevent the purchase by the Corporation of shares transferred to a Charitable Trust pursuant to Article IX in order to ensure that the Corporation remains qualified as a REIT for Federal income tax purposes or the purchase or acquisition of shares of Series D Preferred Stock pursuant to a purchase or exchange offer made on the same terms to holders of all outstanding shares of Series D Preferred Stock.

(c) RIGHTS TO DIVIDENDS ON SHARES CALLED FOR REDEMPTION. Immediately prior to any redemption of Series D Preferred Stock, the Corporation shall pay, in cash, any accumulated and unpaid dividends through the redemption date, unless a redemption date falls after a Dividend Record Date and prior to the corresponding Dividend Payment Date, in which case each holder of Series D Preferred Stock at the close of business on such Dividend Record Date shall be entitled to the dividend payable on such shares on the corresponding Dividend Payment Date notwithstanding the redemption of such shares before such Dividend Payment Date. Except as provided above, the Corporation will make no payment or allowance for unpaid dividends, whether or not in arrears, on Series D Preferred Stock which is redeemed.

(d) PROCEDURES FOR REDEMPTION.

(i) Notice of redemption will be (A) given by publication in a newspaper of general circulation in the City of New York, such publication to be made once a week for two successive weeks commencing not less than 30 nor more than 60 days prior to the redemption date, and (B) mailed by the Corporation, postage prepaid, not less than 30 nor more than 60 days prior to the redemption date, addressed to the respective holders of record of the Series D Preferred Stock to be redeemed at their respective addresses as they appear on the stock transfer records of the Corporation. No failure to give such notice or any defect thereto or in the mailing thereof shall affect the validity of the proceedings for the redemption of any shares of Series D Preferred Stock except as to the holder to whom notice was defective or not given.

(ii) In addition to any information required by law or by the applicable rules of any exchange upon which Series D Preferred Stock may be listed or admitted to trading, such notice shall state: (A) the redemption date; (B) the redemption price; (C) the number of shares of Series D Preferred Stock to be redeemed; (D) the place or places where the Series D Preferred Stock is to be surrendered for payment of the redemption price; and (E) that dividends on the shares to be redeemed will cease to accrue on such redemption date. If less than all of the Series D Preferred Stock held by any holder is to be redeemed, the notice mailed to such holder shall also specify the number of shares of Series D Preferred Stock held by such holder to be redeemed.

(iii) If notice of redemption of any shares of Series D Preferred Stock has been given and if the funds necessary for such redemption have been set aside by the Corporation in trust for the benefit of the holders of any shares of Series D Preferred Stock so called for redemption, then, from and after the redemption date, dividends will cease to accrue on such shares of Series D Preferred Stock, such shares of Series D Preferred Stock shall no longer be deemed outstanding and all rights of the holders of such shares will terminate, except the right to receive the redemption price. Holders of Series D Preferred Stock to be redeemed shall surrender such Series D Preferred Stock at the place designated in such notice and, upon surrender in accordance with said notice of the certificates for shares of Series D Preferred Stock so redeemed (properly endorsed or assigned for transfer, if the Corporation shall so require and the notice shall so state), such shares of Series D Preferred Stock shall be redeemed by the Corporation at the redemption price plus any accrued and unpaid dividends payable upon such redemption. In case less than all the shares of Series D Preferred Stock represented by any such certificate are redeemed, a new certificate or certificates shall be issued representing the unredeemed shares of Series D Preferred Stock without cost to the holder thereof.

(iv) The deposit of funds with a bank or trust corporation for the purpose of redeeming Series D Preferred Stock shall be irrevocable except that:

(A) the Corporation shall be entitled to receive from such bank or trust corporation the interest or other earnings, if any, earned on any money so deposited in trust, and the holders of any shares redeemed shall have no claim to such interest or other earnings; and

(B) any balance of monies so deposited by the Corporation and unclaimed by the holders of the Series D Preferred Stock entitled thereto at the expiration of two years from the applicable redemption dates shall be repaid, together with any interest or other earnings thereon, to the Corporation, and after any such repayment, the holders of the shares entitled to the funds so repaid to the Corporation shall look only to the Corporation for payment without interest or other earnings.

(e) APPLICATION OF ARTICLE IX. The shares of Series D Preferred Stock are subject to the provisions of Article IX of the Charter, including, without limitation, the provision for the redemption of shares transferred to the Charitable Trust (as defined in such Article). For this purpose, the Market Price of the Series D Preferred Stock shall equal $25.00 per share, plus all accrued and unpaid dividends on the shares of Series D Preferred Stock.

(f) STATUS OF REDEEMED SHARES. Any shares of Series D Preferred Stock that shall at any time have been redeemed shall, after such redemption, have the status of authorized but unissued Preferred Stock, without designation as to series until such shares are once more designated as part of a particular series by the Board of Directors.

(6) VOTING RIGHTS.

(a) Holders of the Series D Preferred Stock will not have any voting rights, except as set forth below or as otherwise from time to time required by law.

(b) Whenever dividends on any shares of Series D Preferred Stock shall be in arrears for six or more quarterly periods (a "Preferred Dividend Default"), the holders of such shares of Series D Preferred Stock (voting separately as a class with the holders of Series B Preferred Stock and Series C Preferred Stock and all other series of Preferred Stock, other than the Series A Preferred Stock, ranking

on a parity with the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock and Series D Preferred Stock as to dividends or upon liquidation ("Parity Preferred") upon which like voting rights have been conferred and are exercisable) will be entitled to vote for the election of a total of two additional directors of the Corporation (the "Preferred Stock Directors") at a special meeting called by the holders of record of at least 20% of the Series D Preferred Stock or the holders of any other series of Parity Preferred, other than the Series A Preferred Stock, so in arrears (unless such request is received less than 90 days before the date fixed for the next annual or special meeting of stockholders) or at the next annual meeting of stockholders, and at each subsequent annual meeting until all dividends accumulated on such shares of Series D Preferred Stock for the past dividend periods and the dividend for the then current dividend period shall have been fully paid or declared and a sum sufficient for the payment thereof set aside for payment.

(c) If and when all accumulated dividends and the dividend for the then current dividend period on the Series D Preferred Stock shall have been paid in full or set aside for payment in full, the holders of shares of Series D Preferred Stock shall be divested of the voting rights set forth in Section 6(b) hereof (subject to revesting in the event of each and every subsequent Preferred Dividend Default) and, if all accumulated dividends and the dividend for the current dividend period have been paid in full or set aside for payment in full on all other series of Parity Preferred, other than the Series A Preferred Stock, upon which like voting rights have been conferred and are exercisable, the term of office of each Preferred Stock Director so elected shall terminate. Any Preferred Stock Director may be removed at any time with or without cause by the vote of, and shall not be removed otherwise than by the vote of, the holders of record of a majority of the outstanding shares of the Series D Preferred Stock when they have the voting rights set forth in Section 6(b) (voting separately as a class with the Series B Preferred Stock, the Series C Preferred Stock and all other series of Parity Preferred, other than the Series A Preferred Stock, upon which like voting rights have been conferred and are exercisable). So long as a Preferred Dividend Default shall continue, any vacancy in the office of a Preferred Stock Director may be filled by written consent of the Preferred Stock Director remaining in office, or, if none remains in office, by a vote of the holders of record of a majority of the outstanding shares of Series D Preferred Stock when they have the voting rights set forth in Section 6(b) (voting separately as a class with all other series of Parity Preferred, other than the Series A Preferred Stock, upon which like voting rights have been conferred and are exercisable). The Preferred Stock Directors shall each be entitled to one vote per director on any matter.

(d) So long as any shares of Series D Preferred Stock remain outstanding, the Corporation shall not, without the affirmative vote of the holders of at least two thirds of the shares of the Series D Preferred Stock outstanding at the time, given in person or by proxy, either in writing or at a meeting (voting separately as a class), (i) authorize or create, or increase the authorized or issued amount of, any class or series of capital stock ranking prior to the Series D Preferred Stock with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up, or reclassify any authorized capital stock of the Corporation into any such shares, or create, authorize or issue any obligation or security convertible into or evidencing the right to purchase any such shares or (ii) amend, alter or repeal the provisions of the Charter, whether by merger, consolidation or otherwise, so as to materially and adversely affect any right, preference, privilege or voting power of the Series D Preferred Stock or the holders thereof; provided, however, that with respect to the occurrence of any event set forth in (ii) above, so long as the Series D Preferred Stock remains outstanding with the terms thereof materially unchanged, the occurrence of any such event shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers of the holders of the Series D Preferred Stock and; provided, further, that any increase in the amount of the authorized Preferred Stock or the creation or issuance of any other series of Preferred Stock, or any increase in the amount of authorized shares of such series, in each case ranking on a parity with or junior to the Series D Preferred Stock with respect to

payment of dividends or the distribution of assets upon liquidation, dissolution or winding up, shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers.

(e) Each share of Series D Preferred Stock (voting together with all common stock of the Corporation and all other series of Preferred Stock of the Corporation entitled to vote) will be entitled to cast twenty-five one-hundredths of one vote with respect to all matters on which the holders of common stock are entitled to vote at each meeting of stockholders of the Corporation.

(f) The foregoing voting provisions will not apply if, at or prior to the time when the act with respect to which such vote would otherwise be required shall be effected, all outstanding shares of Series D Preferred Stock shall have been redeemed or called for redemption upon proper notice and sufficient funds shall have been deposited in trust to effect such redemption.

(7) CONVERSION. The Series D Preferred Stock is not convertible into or exchangeable for any other property or securities of the Corporation.

Exhibit 3.2

iSTAR FINANCIAL INC.

BYLAWS

ARTICLE I

OFFICES

Section 1. PRINCIPAL EXECUTIVE OFFICE. The principal executive office of iStar Financial Inc. (the "Company") shall be located at such place or places as the Board of Directors may designate.

Section 2. ADDITIONAL OFFICES. The Company may have additional offices at such places as the Board of Directors may from time to time determine or the business of the Company may require.

ARTICLE II

MEETINGS OF SHAREHOLDERS

Section 1. PLACE. All meetings of shareholders shall be held at the principal office of the Company or at such other place within the United States as shall be stated in the notice of the meeting.

Section 2. ANNUAL MEETING. An annual meeting of the shareholders for the election of directors and the transaction of any business within the powers of the Company shall be held on such date as shall be set by the Board of Directors. Except as the Amended and Restated Charter of the Company, as further amended (the "Charter") or statute provides otherwise, any business may be considered at an annual meeting without the purpose of the meeting having been specified in the notice. Failure to hold an annual meeting does not invalidate the Company's existence or affect any otherwise valid corporate acts.

Section 3. SPECIAL MEETINGS. The president, chief executive officer or Board of Directors may call special meetings of the shareholders. Special meetings of shareholders shall also be called by the secretary of the Company upon the written request of the holders of shares entitled to cast not less than a majority of all the votes entitled to be cast at such meeting. Such request shall state the purpose of such meeting and the matters proposed to be acted on at such meeting. The secretary shall inform such shareholders of the reasonably estimated cost of preparing and mailing notice of the meeting and, upon payment to the Company by such shareholders of such costs, the secretary shall give notice to each shareholder entitled to notice of the meeting.

Section 4. NOTICE OF MEETINGS; WAIVER OF NOTICE. Not less than ten nor more than 90 days before each shareholders' meeting, the Secretary shall give notice of the meeting to each shareholder entitled to vote at the meeting and each other shareholder entitled to notice of the meeting in any manner permitted under Maryland General Corporation

Law now or hereafter enforced. The notice shall state the time and place of the meeting and, if the meeting is a special meeting or notice of the purpose is required by statute, the purpose of the meeting. Notice is given to a shareholder when it is personally delivered to him or her, left at his or her residence or usual place of business, mailed to him or her at his or her address as it appears on the records of the Company, or electronically delivered in accordance with Maryland General Corporation Law now or hereafter enforced. Notwithstanding the foregoing provisions, each person who is entitled to notice waives notice if he or she before or after the meeting signs a waiver of the notice which is filed with the records of shareholders' meetings, or is present at the meeting in person or by proxy.

Section 5. ORGANIZATION. At every meeting of shareholders, the Chairman of the Board, if there be one, shall conduct the meeting or, in the case of vacancy in office or absence of the Chairman of the Board, one of the following officers present shall conduct the meeting in the order stated: the Vice Chairman of the Board, if there be one, the President, the Vice Presidents in their order of rank and seniority, or a Chairman chosen by the shareholders entitled to cast a majority of the votes which all shareholders present in person or by proxy are entitled to cast, shall act as Chairman, and the secretary of the Company, or, in his absence, an assistant secretary of the Company, or in the absence of both the Secretary and assistant secretaries, a person appointed by the Chairman shall act as Secretary.

Section 6. QUORUM; ADJOURNMENTS. At any meeting of shareholders, the presence in person or by proxy of shareholders entitled to cast a majority of all the votes entitled to be cast at such meeting shall constitute a quorum; but this section shall not affect any requirement under any statute or the Charter of the Company for the vote necessary for the adoption of any measure. If, however, such quorum shall not be present at any meeting of the shareholders, the shareholders entitled to vote at such meeting, present in person or by proxy, shall have the power to adjourn the meeting from time to time to a date not more than 120 days after the original record date without notice other than announcement at the meeting. At such adjourned meeting at which a quorum shall be present, any business may be transacted which might have been transacted at the meeting as originally notified.

Section 7. VOTING. A plurality of all the votes cast at a meeting of shareholders duly called and at which a quorum is present shall be sufficient to elect a director. Each share may be voted for as many individuals as there are directors to be elected and for whose election the share is entitled to be voted. A majority of the votes cast at a meeting of shareholders duly called and at which a quorum is present shall be sufficient to approve any other matter which may properly come before the meeting, unless more than a majority of the votes cast is required by statute or by the Charter. Unless otherwise provided in the Charter, each outstanding share, regardless of class, shall be entitled to one vote on each matter submitted to a vote at a meeting of shareholders.

Section 8. PROXIES. A shareholder may authorize another person to act as proxy by transmitting, or authorizing the transmission of, a telegram, cablegram, datagram, or other means of electronic transmission to the person authorized to act as proxy or to a proxy solicitation firm, proxy support service organization, or other person authorized by the person who will act as proxy to receive the transmission. Unless a proxy provides otherwise, it is not valid more than 11 months after its date. A proxy is revocable by a shareholder at any time without condition or qualification unless the proxy states that it is irrevocable and the proxy is

coupled with an interest. A proxy may be made irrevocable for so long as it is coupled with an interest. The interest with which a proxy may be coupled includes an interest in the stock to be voted under the proxy or another general interest in the Company or its assets or liabilities.

Section 9. VOTING OF STOCK BY CERTAIN HOLDERS. Stock of the Company registered in the name of a corporation, partnership, trust or other entity, if entitled to be voted, may be voted by the president or a vice president, a general partner or trustee thereof, as the case may be, or a proxy appointed by any of the foregoing individuals, unless some other person who has been appointed to vote such stock pursuant to a bylaw or a resolution of the governing body of such corporation or other entity or agreement of the partners of a partnership presents a certified copy of such bylaw, resolution or agreement, in which case such person may vote such stock. Any director or other fiduciary may vote stock registered in his name as such fiduciary, either in person or by proxy.

Shares of stock of the Company directly or indirectly owned by it shall not be voted at any meeting and shall not be counted in determining the total number of outstanding shares entitled to be voted at any given time, unless they are held by it in a fiduciary capacity, in which case they may be voted and shall be counted in determining the total number of outstanding shares at any given time.

The Board of Directors may adopt by resolution a procedure by which a shareholder may certify in writing to the Company that any shares of stock registered in the name of the shareholder are held for the account of a specified person other than the shareholder. The resolution shall set forth the class of shareholders who may make the certification, the purpose for which the certification may be made, the form of certification and the information to be contained in it; if the certification is with respect to a record date or closing of the stock transfer books, the time after the record date or closing of the stock transfer books within which the certification must be received by the Company; and any other provisions with respect to the procedure which the Board of Directors considers necessary or desirable. On receipt of such certification, the person specified in the certification shall be regarded as, for the purposes set forth in the certification, the shareholder of record of the specified stock in place of the shareholder who makes the certification.

Section 10. INSPECTORS. At any meeting of shareholders, the chairman of the meeting may, or upon the request of any shareholder shall, appoint one or more persons as inspectors for such meeting. Such inspectors shall ascertain and report the number of shares represented at the meeting based upon their determination of the validity and effect of proxies, count all votes, report the results and perform such other acts as are proper to conduct the election and voting with impartiality and fairness to all the shareholders.

Each report of an inspector shall be in writing and signed by him or by a majority of them if there is more than one inspector acting at such meeting. If there is more than one inspector, the report of a majority shall be the report of the inspectors. The report of the inspector or inspectors on the number of shares represented at the meeting and the results of the voting shall be PRIMA FACIE evidence thereof.

Section 11. NOMINATIONS AND SHAREHOLDER BUSINESS

(a) ANNUAL MEETINGS OF SHAREHOLDERS. Nominations of persons for election to the Board of Directors and the proposal of business to be considered by the shareholders may be made at an annual meeting of shareholders (i) pursuant to the Company's notice of meeting, (ii) by or at the direction of the Board of Directors or (iii) by any shareholder of the Company who was a shareholder of record at the time notice of such meeting was sent.

(b) SPECIAL MEETINGS OF SHAREHOLDERS. Only such business shall be conducted at a special meeting of shareholders as shall have been brought before the meeting pursuant to the Company's notice of meeting. Nominations of persons for election to the Board of Directors may be made at a special meeting of shareholders at which directors are to be elected (i) pursuant to the Company's notice of meeting, (ii) by or at the direction of the Board of Directors or (iii) provided that the Board of Directors has determined that directors shall be elected at such special meeting, by any shareholder of the Company who is a shareholder of record at the time of giving of notice provided for in this Section 11(b), who is entitled to vote at the meeting and who complied with the notice procedures set forth in this Section 11(b). In the event the Company calls a special meeting of shareholders for the purpose of electing one or more directors to the Board of Directors, any such shareholder may nominate a person or persons (as the case may be) for election to such position as specified in the Company's notice of meeting.

(c) GENERAL. (1) Only such persons who are nominated in accordance with the procedures set forth in this Section 11 shall be eligible to serve as directors and only such business shall be conducted at a meeting of shareholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 11. The presiding officer of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made in accordance with the procedures set forth in this Section 11 and, if any proposed nomination or business is not in compliance with this Section 11, to declare that such defective nomination or proposal be disregarded.

(2) Notwithstanding the foregoing provisions of this Section 11, a shareholder shall also comply with all applicable requirements of state law with respect to the matters set forth in this Section 11.

Section 12. VOTING BY BALLOT. Voting on any question or in any election may be VIVA VOCE unless the presiding officer shall order or any shareholder shall demand that voting be by ballot.

Section 13. LIST OF SHAREHOLDERS. At each meeting of shareholders, a full, true and complete list of all shareholders entitled to vote at such meeting, showing the number and class of shares held by each and certified by the transfer agent for such class or by the secretary of the Company, shall be furnished by the secretary of the Company.

Section 14. INFORMAL ACTION BY SHAREHOLDERS. Any action required or permitted to be taken at a meeting of shareholders may be taken without a meeting if there is filed with the records of shareholders meetings a unanimous written consent which sets forth the action and is signed by each shareholder entitled to vote on the matter and a written waiver of any right to dissent signed by each shareholder entitled to notice of the meeting but not entitled to vote at it.

Section 15. MEETING BY CONFERENCE TELEPHONE. Shareholders may participate in a meeting by means of a conference telephone or similar communications equipment if all persons participating in the meeting can hear each other at the same time. Participation in a meeting by these means constitutes presence in person at a meeting.

ARTICLE III

DIRECTORS

Section 1. GENERAL POWERS; QUALIFICATIONS. The business and affairs of the Company shall be managed under the direction of its Board of Directors. All powers of the Company may be exercised by or under authority of the Board of Directors, except as conferred on or reserved to the shareholders by statute or by the Charter or Bylaws.

Section 2. NUMBER, TENURE AND QUALIFICATIONS. At any regular meeting or at any special meeting called for that purpose, a majority of the entire Board of Directors may establish, increase or decrease the number of directors, provided that the number thereof shall never be less than 7 nor more than 18, and shall never be less than the minimum number required by the Maryland General Corporation Law now or hereafter enforced, and further provided that the tenure of office of a director shall not be affected by any decrease in the number of directors. The directors shall be divided into two classes as nearly equal in number as possible. At each successive annual meeting of shareholders, the holders of stock present in person or by proxy at such meeting and entitled to vote thereat shall elect members of such successive class to serve for two year terms and until their successors are elected and qualify. If the number of directors is changed, any increase or decrease shall be apportioned among the classes so as to maintain the number of directors in each class as nearly equal as possible, and any additional director of any class shall, subject to Section 13, hold office for a term that shall coincide with the remaining term of that class, but in no case shall a decrease in the number of directors shorten the term of any incumbent director.

Section 3. RESIGNATION. Any director may resign at any time by sending a written notice of such resignation to the principal executive office of the Company addressed to the Chairman of the Board or the President. Unless otherwise specified therein such resignation shall take effect upon receipt thereof by the Chairman of the Board or the President.

Section 4. REMOVAL OF DIRECTOR. Any director or the entire Board of Directors may be removed only in accordance with the provisions of the Charter.

Section 5. ANNUAL AND REGULAR MEETINGS. An annual meeting of the Board of Directors shall be held immediately after and at the same place as the annual meeting of shareholders, no notice other than this Bylaw being necessary. The Board of Directors may provide, by resolution, the time and place, either within or without the State of Maryland, for the holding of regular meetings of the Board of Directors without other notice than such resolution.

Section 6. SPECIAL MEETINGS. Special meetings of the Board of Directors may be called by or at the request of the chairman of the board (or any co-chairman of the board if more than one), president or by a majority of the directors then in office. The person or persons authorized to call special meetings of the Board of Directors may fix any place, either

within or without the State of Maryland, as the place for holding any special meeting of the Board of Directors called by them.

Section 7. NOTICE. Except as provided in Sections 5 and 6, the Secretary shall give notice to each director of each regular and special meeting of the Board of Directors. The notice shall state the time and place of the meeting. Notice is given to a director when it is delivered personally to him or her, left at his or her residence or usual place of business, or sent by telegraph, facsimile transmission, electronic transmission (in accordance with Maryland General Corporation Law now or hereafter enforced) or telephone, at least 24 hours before the time of the meeting or, in the alternative by mail to his or her address as it shall appear on the records of the Company, at least 72 hours before the time of the meeting. Unless these Bylaws or a resolution of the Board of Directors provides otherwise, the notice need not state the business to be transacted at or the purposes of any regular or special meeting of the Board of Directors. No notice of any meeting of the Board of Directors need be given to any director who attends except where a director attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened, or to any director who, in writing executed and filed with the records of the meeting either before or after the holding thereof, waives such notice. Any meeting of the Board of Directors, regular or special, may adjourn from time to time to reconvene at the same or some other place, and no notice need be given of any such adjourned meeting other than by announcement.

Section 8. QUORUM. A majority of the directors shall constitute a quorum for transaction of business at any meeting of the Board of Directors, provided that, if less than a majority of such directors are present at said meeting, a majority of the directors present may adjourn the meeting from time to time without further notice, and provided further that if, pursuant to the Charter of the Company or these Bylaws, the vote of a majority of a particular group of directors is required for action, a quorum must also include a majority of such group.

The Board of Directors present at a meeting which has been duly called and convened may continue to transact business until adjournment, notwithstanding the withdrawal of enough directors to leave less than a quorum.

Section 9. VOTING. The action of the majority of the directors present at a meeting at which a quorum is present shall be the action of the Board of Directors, unless the concurrence of a greater proportion is required for such action by applicable statute.

Section 10. PRESUMPTION OF ASSENT. A director of the Company who is present at a meeting of the Board of Directors at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless his or her dissent or abstention shall be entered in the minutes of the meeting or unless he or she shall file his or her written dissent to such action with the person acting as the secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to the Secretary of the Company immediately after the adjournment of the meeting. Such right to dissent shall not apply to a director who votes in favor of such action.

Section 11. TELEPHONE MEETINGS. Directors may participate in a meeting by means of a conference telephone or similar communications equipment if all persons participating in the meeting can hear each other at the same time. Participation in a meeting by these means shall constitute presence in person at the meeting.

Section 12. INFORMAL ACTION BY DIRECTORS. Any action required or permitted to be taken at any meeting of the Board of Directors may be taken without a meeting, if a consent in writing to such action is signed by each director and such written consent is filed with the minutes of proceedings of the Board of Directors.

Section 13. VACANCIES. If for any reason any or all the directors cease to be directors, such event shall not terminate the Company or affect these Bylaws or the powers of the remaining directors hereunder (even if fewer than three directors remain). Any vacancy on the Board of Directors for any cause other than an increase in the number of directors shall be filled by a majority of the remaining directors, although such majority is less than a quorum. Any vacancy in the number of directors created by an increase in the number of directors may be filled by a majority vote of the entire Board of Directors. Any individual so elected as director shall hold office for the unexpired term of the director he is replacing.

Section 14. COMPENSATION. Directors shall not receive any stated salary for their services as directors but, by resolution of the Board of Directors, may receive fixed sums per year and/or per meeting and/or per visit to real property owned or to be acquired by the Company and for any service or activity they performed or engaged in as directors. Directors may be reimbursed for expenses of attendance, if any, at each annual, regular or special meeting of the Board of Directors or of any committee thereof and for their expenses, if any, in connection with each property visit and any other service or activity they performed or engaged in as directors; but nothing herein contained shall be construed to preclude any directors from serving the Company in any other capacity and receiving compensation therefor.

Section 15. LOSS OF DEPOSITS. No director shall be liable for any loss which may occur by reason of the failure of the bank, trust company, savings and loan association, or other institution with whom moneys or stock have been deposited.

Section 16. SURETY BONDS. Unless required by law, no director shall be obligated to give any bond or surety or other security for the performance of any of his duties.

Section 17. RELIANCE. Each director, officer, employee and agent of the Company shall, in the performance of his duties with respect to the Company, be fully justified and protected with regard to any act or failure to act in reliance in good faith upon the books of account or other records of the Company, upon an opinion of counsel or upon reports made to the Company by any of its officers or employees or by the adviser, accountants, appraisers or other experts or consultants selected by the Board of Directors or officers of the Company, regardless of whether such counsel or expert may also be a director.

Section 18. CERTAIN RIGHTS OF DIRECTORS, OFFICERS, EMPLOYEES AND AGENTS. The directors shall have no responsibility to devote their full time to the affairs of the Company. Any director or officer, employee or agent of the Company, in his personal capacity or in a capacity as an affiliate, employee, or agent of any other person, or otherwise, may have business interests and engage in business activities similar to or in addition to or in competition with those of or relating to the Company.

ARTICLE IV

COMMITTEES

Section 1. NUMBER, TENURE AND QUALIFICATIONS. The Board of Directors may appoint from among its members an Executive Committee, an Audit Committee, a Compensation Committee and other committees, composed of one or more directors, to serve at the pleasure of the Board of Directors; provided, however, that the Audit Committee, if formed, shall consist only of independent directors and the Compensation Committee, if formed, shall consist of two or more Independent Directors. For purposes of this section, an "Independent Director" shall mean any person if, in the opinion of the Board of Directors such person will exercise independent judgment and will materially assist in the function of the committee, except that such person shall not be an officer or employee of the Company, or a director who represents a close relative of a person who would not qualify as an Independent Director.

Section 2. POWERS. The Board of Directors may delegate to committees appointed under Section 1 of this Article any of the powers of the Board of Directors, except the power to authorize dividends on stock, elect directors, issue stock other than as provided in the next sentence, recommend to the shareholders any action which requires shareholder approval, amend these Bylaws, or approve any merger or share exchange which does not require shareholder approval. If the Board of Directors has given general authorization for the issuance of stock providing for or establishing a method or procedure for determining the maximum number or shares to be issued, a committee of the Board of Directors, in accordance with that general authorization or any stock option or other plan or program adopted by the Board of Directors, may authorize or fix the terms of stock subject to classification or reclassification and the terms on which any stock may be issued, including all terms and conditions required or permitted to be established or authorized by the Board of Directors.

Section 3. MEETINGS. Notice of committee meetings shall be given in the same manner as notice for special meetings of the Board of Directors. A majority of the members of the committee shall constitute a quorum for the transaction of business at any meeting of the committee. The act of a majority of the committee members present at a meeting shall be the act of such committee. The Board of Directors may designate a chairman of any committee, and such chairman or any two members of any committee may fix the time and place of its meeting unless the Board shall otherwise provide. In the absence of any member of any such committee, the members thereof present at any meeting, whether or not they constitute a quorum, may appoint another director to act in the place of such absent member. Each committee shall keep minutes of its proceedings.

Section 4. TELEPHONE MEETINGS. Members of a committee of the Board of Directors may participate in a meeting by means of a conference telephone or similar communications equipment if all persons participating in the meeting can hear each other at the same time. Participation in a meeting by these means shall constitute presence in person at the meeting.

Section 5. INFORMAL ACTION BY COMMITTEES. Any action required or permitted to be taken at any meeting of a committee of the Board of Directors may be taken without a meeting, if a consent in writing to such action is signed by each member of the committee and such written consent is filed with the minutes of proceedings of such committee.

Section 6. VACANCIES. Subject to the provisions hereof, the Board of Directors shall have the power at any time to change the membership of any committee, to fill all

vacancies, to designate alternate members to replace any absent or disqualified member or to dissolve any such committee.

ARTICLE V

OFFICERS

Section 1. GENERAL PROVISIONS. The officers of the Company shall include a chief executive officer, a president, a secretary and a chief financial officer and may include a chairman of the board (or one or more co-chairmen of the board), a vice chairman of the board, one or more executive vice presidents, one or more senior vice presidents, one or more vice presidents, a chief operating officer, a treasurer, one or more assistant secretaries and one or more assistant treasurers. In addition, the Board of Directors may from time to time appoint such other officers with such powers and duties as they shall deem necessary or desirable or authorize any committee or officer to appoint assistant or subordinate officers. The officers of the Company shall be elected annually by the Board of Directors at the first meeting of the Board of Directors held after each annual meeting of shareholders, except that the chief executive officer may appoint one or more vice presidents, assistant secretaries and assistant treasurers. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as may be convenient. Each officer shall hold office at the pleasure of the Board of Directors or until his death, resignation or removal in the manner hereinafter provided. Any two or more offices except president and vice president may be held by the same person. In its discretion, the Board of Directors may leave unfilled any office except that of president, treasurer and secretary. Election of an officer or agent shall not of itself create contract rights between the Company and such officer or agent.

Section 2. REMOVAL AND RESIGNATION. Any officer or agent of the Company may be removed by the Board of Directors if in its judgment the best interests of the Company would be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Any officer of the Company may resign at any time by giving written notice of his resignation to the Board of Directors, the chairman of the board (or any co-chairman of the board if more than one), the president or the secretary. Any resignation shall take effect at any time subsequent to the time specified therein or, if the time when it shall become effective is not specified therein, immediately upon its receipt. The acceptance of a resignation shall not be necessary to make it effective unless otherwise stated in the resignation. Such resignation shall be without prejudice to the contract rights, if any, of the Company.

Section 3. CHIEF EXECUTIVE OFFICER. The Board of Directors may designate a chief executive officer. In the absence of such designation, the chairman of the board (or, if more than one, the co-chairmen of the board in the order designated at the time of their election or, in the absence of any designation, then in the order of their election) shall be the chief executive officer of the Company. The chief executive officer shall have general responsibility for implementation of the policies of the Company, as determined by the Board of Directors, and for the management of the business and affairs of the Company.

Section 4. CHIEF OPERATING OFFICER. The Board of Directors may designate a chief operating officer. The chief operating officer shall have the responsibilities and duties as set forth by the Board of Directors or the chief executive officer.

Section 5. CHIEF FINANCIAL OFFICER. The Board of Directors may designate a chief financial officer. The chief financial officer shall have the responsibilities and duties as set forth by the Board of Directors or the chief executive officer.

Section 6. CHAIRMAN OF THE BOARD. The Board of Directors shall designate a chairman of the board (or one or more co-chairmen of the board). The chairman of the board shall preside over the meetings of the Board of Directors and of the shareholders at which he shall be present. If there be more than one, the co-chairmen designated by the Board of Directors will perform such duties. The chairman of the board shall perform such other duties as may be assigned to him or them by the Board of Directors.

Section 7. CHAIRMAN OF THE BOARD EMERITUS. The directors may elect by a majority vote, from time to time, a chairman of the board emeritus (or one or more co-chairmen of the board emeritus). The chairman of the board emeritus shall be an honorary position and shall have no vote on any matter considered by the directors. The chairman of the board emeritus shall serve for such term as determined by the Board of Directors and may be removed by a majority role of directors with or without cause.

Section 8. PRESIDENT. The president or chief executive officer, as the case may be, shall in general supervise and control all of the business and affairs of the Company. In the absence of a designation of a chief operating officer by the Board of Directors, the president shall be the chief operating officer. He may execute any deed, mortgage, bond, contract or other instrument, except in cases where the execution thereof shall be expressly delegated by the Board of Directors or by these Bylaws to some other officer or agent of the Company or shall be required by law to be otherwise executed; and in general shall perform all duties incident to the office of president and such other duties as may be prescribed by the Board of Directors from time to time.

Section 9. VICE PRESIDENTS. In the absence of the president or in the event of a vacancy in such office, the vice president (or in the event there be more than one vice president, the vice presidents in the order designated at the time of their election or, in the absence of any designation, then in the order of their election) shall perform the duties of the president and when so acting shall have all the powers of and be subject to all the restrictions upon the president; and shall perform such other duties as from time to time may be assigned to him by the president or by the Board of Directors. The Board of Directors may designate one or more vice presidents as executive vice president or as vice president for particular areas of responsibility.

Section 10. SECRETARY. The secretary shall (a) keep the minutes of the proceedings of the shareholders, the Board of Directors and committees of the Board of Directors in one or more books provided for that purpose; (b) see that all notices are duly given in accordance with the provisions of these Bylaws or as required by law; (c) be custodian of the corporate records and of the seal of the Company; (d) keep a register of the post office address of each shareholder which shall be furnished to the secretary by such shareholder; (e) have general charge of the share transfer books of the Company; and (f) in general perform such other duties as from time to time may be assigned to him by the chief executive officer, the president or by the Board of Directors.

Section 11. TREASURER. The treasurer shall have the custody of the funds and securities of the Company and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Company and shall deposit all moneys and other valuable effects in the name and to the credit of the Company in such depositories as may be designated by the Board of Directors. In the absence of a designation of a chief financial officer by the Board of Directors, the treasurer shall be the chief financial officer of the Company.

The treasurer shall disburse the funds of the Company as may be ordered by the Board of Directors, taking proper vouchers for such disbursements, and shall render to the president and Board of Directors, at the regular meetings of the Board of Directors or whenever it may so require, an account of all his transactions as treasurer and of the financial condition of the Company.

If required by the Board of Directors, the treasurer shall give the Company a bond in such sum and with such surety or sureties as shall be satisfactory to the Board of Directors for the faithful performance of the duties of his office and for the restoration to the Company, in case of his death, resignation, retirement or removal from office, of all books, papers, vouchers, moneys and other property of whatever kind in his possession or under his control belonging to the Company.

Section 12. ASSISTANT SECRETARIES AND ASSISTANT TREASURERS. The assistant secretaries and assistant treasurers, in general, shall perform such duties as shall be assigned to them by the secretary or treasurer, respectively, or by the president or the Board of Directors. The assistant treasurers shall, if required by the Board of Directors, give bonds for the faithful performance of their duties in such sums and with such surety or sureties as shall be satisfactory to the Board of Directors.

Section 13. SALARIES. The salaries and other compensation of the officers shall be fixed from time to time by the Board of Directors and no officer shall be prevented from receiving such salary or other compensation by reason of the fact that he is also a director.

ARTICLE VI

CONTRACTS, LOANS, CHECKS AND DEPOSITS

Section 1. CONTRACTS. The Board of Directors may authorize any officer or agent to enter into any contract or to execute and deliver any instrument in the name of and on behalf of the Company and such authority may be general or confined to specific instances. Any agreement, deed, mortgage, lease or other document executed by one or more of the directors or by an authorized person shall be valid and binding upon the Board of Directors and upon the Company when authorized or ratified by action of the Board of Directors.

Section 2. CHECKS AND DRAFTS. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Company shall be signed by such officer or agent of the Company in such manner as shall from time to time be determined by the Board of Directors.

Section 3. DEPOSITS. All funds of the Company not otherwise employed shall be deposited from time to time to the credit of the Company in such banks, trust companies or other depositories as the Board of Directors may designate.

ARTICLE VII

STOCK

Section 1. CERTIFICATES. The Board of Directors may determine to issue certificated or uncertificated shares of capital stock and other securities of the Company.

Section 2. TRANSFERS. Upon surrender to the Company or the transfer agent of the Company of a stock certificate duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, the Company shall issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books.

The Company shall be entitled to treat the holder of record of any share of stock as the holder in fact thereof and, accordingly, shall not be bound to recognize any equitable or other claim to or interest in such share or on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of the State of Maryland.

Notwithstanding the foregoing, transfers of shares of any class of stock will be subject in all respects to the Charter of the Company and all of the terms and conditions contained therein.

Section 3. REPLACEMENT CERTIFICATE. Any officer designated by the Board of Directors may direct a new certificate to be issued in place of any certificate previously issued by the Company alleged to have been lost, stolen or destroyed upon the making of an affidavit of that fact by the person claiming the certificate to be lost, stolen or destroyed. When authorizing the issuance of a new certificate, an officer designated by the Board of Directors may, in his discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or the owner's legal representative to advertise the same in such manner as he shall require and/or to give bond, with sufficient surety, to the Company to indemnify it against any loss or claim which may arise as a result of the issuance of a new certificate.

Section 4. CLOSING OF TRANSFER BOOKS OR FIXING OF RECORD DATE. The Board of Directors may set, in advance, a record date for the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders or determining shareholders entitled to receive payment of any dividend or the allotment of any other rights, or in order to make a determination of shareholders for any other proper purpose. Such date, in any case, shall not be prior to the close of business on the day the record date is fixed and shall be not more than 90 days and, in the case of a meeting of shareholders, not less than ten days, before the date on which the meeting or particular action requiring such determination of shareholders of record is to be held or taken.

In lieu of fixing a record date, the Board of Directors may provide that the stock transfer books shall be closed for a stated period but not longer than 20 days. If the stock

transfer books are closed for the purpose of determining shareholders entitled to notice of or to vote at a meeting of shareholders, such books shall be closed for at least ten days before the date of such meeting.

If no record date is fixed and the stock transfer books are not closed for the determination of shareholders, (a) the record date for the determination of shareholders entitled to notice of or to vote at a meeting of shareholders shall be at the close of business on the day on which the notice of meeting is mailed or transmitted or the 30th day before the meeting, whichever is the closer date to the meeting; and (b) the record date for the determination of shareholders entitled to receive payment of a dividend or an allotment of any other rights shall be the close of business on the day on which the resolution of the directors, declaring the dividend or allotment of rights, is adopted.

When a determination of shareholders entitled to vote at any meeting of shareholders has been made as provided in this section, such determination shall apply to any adjournment thereof, except when (i) the determination has been made through the closing of the transfer books and the stated period of closing has expired or (ii) the meeting is adjourned to a date more than 120 days after the record date fixed for the original meeting, in either of which case a new record date shall be determined as set forth herein.

Section 5. STOCK LEDGER. The Company shall maintain at its principal executive office or at the office of its counsel, accountants or transfer agent, an original or duplicate share ledger containing the name and address of each shareholder and the number of shares of each class held by such shareholder.

Section 6. CERTIFICATION OF BENEFICIAL OWNERS. The Board of Directors may adopt by resolution a procedure by which a shareholder of the Company may certify in writing to the Company that any shares of stock registered in the name of the shareholder are held for the account of a specified person other than the shareholder. The resolution shall set forth the class of shareholders who may certify; the purpose for which the certification may be made; the form of certification and the information to be contained in it; if the certification is with respect to a record date or closing of the stock transfer books, the time after the record date or closing of the stock transfer books within which the certification must be received by the Company; and any other provisions with respect to the procedure which the Board of Directors considers necessary or desirable. On receipt of a certification which complies with the procedure adopted by the Board of Directors in accordance with this Section, the person specified in the certification is, for the purpose set forth in the certification, the holder of record of the specified stock in place of the shareholder who makes the certification.

Section 7. FRACTIONAL STOCK; ISSUANCE OF UNITS. The Board of Directors may issue fractional stock or provide for the issuance of scrip, all on such terms and under such conditions as they may determine. Notwithstanding any other provision of the Charter or these Bylaws, the Board of Directors may issue units consisting of different securities of the Company. Any security issued in a unit shall have the same characteristics as any identical securities issued by the Company, except that the Board of Directors may provide that for a specified period securities of the Company issued in such unit may be transferred on the books of the Company only in such unit.

ARTICLE VIII

ACCOUNTING YEAR

The Board of Directors shall have the power, from time to time, to fix the fiscal year of the Company by a duly adopted resolution.

ARTICLE IX

DISTRIBUTIONS

Section 1. AUTHORIZATION. Dividends and other distributions upon the stock of the Company may be authorized and declared by the Board of Directors, subject to the provisions of law and the Charter of the Company. Dividends and other distributions may be paid in cash, property or stock of the Company, subject to the provisions of law and the Charter.

Section 2. CONTINGENCIES. Before payment of any dividends or other distributions, there may be set aside out of any assets of the Company available for dividends or other distributions such sum or sums as the Board of Directors may from time to time, in its absolute discretion, think proper as a reserve fund for contingencies, for equalizing dividends or other distributions, for repairing or maintaining any property of the Company or for such other purpose as the Board of Directors shall determine to be in the best interest of the Company, and the Board of Directors may modify or abolish any such reserve in the manner in which it was created.

ARTICLE X

INVESTMENT POLICY

Subject to the provisions of the Charter of the Company, the Board of Directors may from time to time adopt, amend, revise or terminate any policy or policies with respect to investments by the Company as it shall deem appropriate in its sole discretion.

ARTICLE XI

SEAL

Section 1. SEAL. The Board of Directors may authorize the adoption of a seal by the Company. The seal shall contain the name of the Company and the year of its incorporation. The Board of Directors may authorize one or more duplicate seals and provide for the custody thereof.

Section 2. AFFIXING SEAL. Whenever the Company is permitted or required to affix its seal to a document, it shall be sufficient to meet the requirements of any law, rule or regulation relating to a seal to place the word "(SEAL)" adjacent to the signature of the person authorized to execute the document on behalf of the Company.

ARTICLE XII

INDEMNIFICATION AND ADVANCES FOR EXPENSES

Section 1. PROCEDURE. Any indemnification, or payment of expenses in advance of the final disposition of any proceeding, shall be made promptly, and in any event within 60 days, upon the written request of the director or officer entitled to seek indemnification (the "Indemnified Party"). The right to indemnification and advances hereunder shall be enforceable by the Indemnified Party in any court of competent jurisdiction, if (i) the Company denies such request, in whole or in part, or (ii) no disposition thereof is made within 60 days. The Indemnified Party's costs and expenses incurred in connection with successfully establishing his or her right to indemnification, in whole or in part, in any such action shall also be reimbursed by the Company. It shall be a defense to any action for advance for expenses that (a) a determination has been made that the facts then known to those making the determination would preclude indemnification or (b) the Company has not received both (i) an undertaking as required by law to repay such advance sin the event it shall ultimately be determined that the standard of conduct has not been met and (ii) a written affirmation by the Indemnified Party of such Indemnified Party's good faith belief that the standard of conduct necessary for indemnification by the Company has been met.

Section 2. EXCLUSIVITY, ETC. The indemnification and advance of expenses provided by the Charter and these Bylaws shall not be deemed exclusive of any other rights to which a person seeking indemnification or advance of expenses may be entitled under any law (common or statutory), or any agreement, vote of shareholders or disinterested directors or other provision that is consistent with law, both as to action in his or her official capacity and as to action in another capacity while holding office or while employed by or acting as agent for the Company, shall continue in respect of all events occurring while a person was as director or officer after such person has ceased to be a director or officer, and shall inure to the benefit of the estate, heirs, executors and administrators of such person. The Company shall not be liable for any payment under this Bylaw in connection with a claim made by a director or officer to the extent such director or officer has otherwise actually received payment under insurance policy, agreement, vote or otherwise, of the amounts otherwise indemnifiable hereunder. All rights to indemnification and advance of expenses under the Charter of the Company and hereunder shall be deemed to be a contract between the Company and each director or officer of the Company who serves or served in such capacity at any time while this Bylaw is in effect. Nothing herein shall prevent the amendment of this Bylaw, provided that no such amendment shall diminish the rights of any person hereunder with respect to events occurring or claims made before its adoption or as to claims made after its adoption in respect of events occurring before its adoption. Any repeal or modification of this Bylaw shall not in any way diminish any rights to indemnification or advance of expenses of such director or officer or the obligations of the Company arising hereunder with respect to events occurring, or claims made, while this Bylaw or any provision hereof is in force.

Section 3. SEVERABILITY; DEFINITIONS. The invalidity or unenforceability of any provision of this Article XII shall not affect the validity or enforceability of any other provision hereof. The phrase "this Bylaw" in this Article XII means this Article XII in its entirety.

ARTICLE XIII

WAIVER OF NOTICE

Whenever any notice is required to be given pursuant to the Charter of the Company or these Bylaws or pursuant to applicable law, a waiver thereof in writing, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice. Neither the business to be transacted at nor the purpose of any meeting need be set forth in the waiver of notice, unless specifically required by statute. The attendance of any person at any meeting shall constitute a waiver of notice of such meeting, except where such person attends a meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

ARTICLE XIV

AMENDMENT OF BYLAWS

In accordance with the Charter, these Bylaws may be repealed, altered, amended or rescinded (a) by the shareholders of the Company but only by the affirmative vote of not less than 80% of all the votes entitled to be cast by the outstanding shares of capital stock of the Company entitled to vote generally in the election of directors (considered for this purpose as one class) cast at a meeting of the shareholders called for that purpose (provided that notice of such proposed repeal, alteration, amendment or rescission is included in the notice of such meeting) or (b) by affirmative vote of not less than two-thirds of the Board of Directors at a meeting held in accordance with the provisions of these Bylaws.

ARTICLE XV

MISCELLANEOUS

Section 1. BOOKS AND RECORDS. The Company shall keep correct and complete books and records of its accounts and transactions and minutes of the proceedings of its shareholders and Board of Directors and of any executive or other committee when exercising any of the powers of the Board of Directors. The books and records of the Company may be in written form or in any other form which can be converted within a reasonable time into written form for visual inspection. Minutes shall be recorded in written form but may be maintained in the form of a reproduction. The original or a certified copy of these Bylaws shall be kept at the principal office of the Company.

Section 2. VOTING STOCK IN OTHER COMPANIES. Stock of other corporations or associations, registered in the name of the Company, may be voted by the President, a Vice-President, or a proxy appointed by either of them. The Board of Directors, however, may by resolution appoint some other person to vote such shares, in which case such person shall be entitled to vote such shares upon the production of a certified copy of such resolution.

Section 3. MAIL. Any notice or other document which is required by these Bylaws to be mailed shall be deposited in the United States mails, postage prepaid.

Section 4. ELECTRONIC NOTICES. Any notice provided by the Company as required by these Bylaws may be delivered electronically when permitted under, and in accordance with, Maryland General Corporation Law now or hereafter enforced.

Section 4. EXECUTION OF DOCUMENTS. A person who holds more than one office in the Company may not act in more than one capacity to execute, acknowledge, or verify an instrument required by law to be executed, acknowledged, or verified by more than one officer.

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