

AMERIVEST PROPERTIES INC

Form SB-2/A

May 09, 2002

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As filed with the Securities and Exchange Commission on May , 2002

Registration No. 333-86676

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

AMERIVEST PROPERTIES INC.

(Name of small business issuer in its charter)

Maryland
(State or other jurisdiction
of incorporation or organization)

6798
(Primary Standard Industrial
Classification Code Number)

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

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

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

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

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

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

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

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

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

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

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED MAY 9, 2002

PROSPECTUS

3,000,000 Shares

Common Stock

AmeriVest Properties Inc. is offering 3,000,000 shares of our common stock in this offering. Our common stock is listed on the American Stock Exchange under the symbol AMV. On May 8, 2002, the last reported sale price of our common stock on the American Stock Exchange was \$6.15 per share.

The underwriters have an option to purchase up to an additional 450,000 shares of common stock to cover any over-allotments.

Investing in our common stock involves risks. See Risk Factors beginning on page 7.

	<u>Per Share</u>	<u>Total</u>
Public offering price	\$	\$
Underwriting discount	\$	\$
Proceeds, before fees and expenses, to AmeriVest	\$	\$

The underwriters expect to deliver the shares of common stock to purchasers on or about , 2002.

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

Ferris, Baker Watts Morgan Keegan & Company, Inc.

Incorporated

J.J.B. Hilliard, W.L. Lyons, Inc.

A PNC Company

The date of this prospectus is , 2002.

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[Picture of Keystone Office Park]

[Picture of
Sheridan
Plaza at
Inverness]

[Picture of Arrowhead Fountains]

[Picture
of the
Kellogg
Building]

[Picture of Sheridan Center]

1. Keystone Office Park, Indianapolis, IN
2. Sheridan Plaza at Inverness, Denver, CO
3. Arrowhead Fountains, Phoenix, AZ
4. The Kellogg Building, Denver, CO
5. Sheridan Center, Denver, CO

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PROSPECTUS SUMMARY

The following summary highlights information contained in this prospectus. You should read this entire prospectus carefully, including the Risk Factors section, the financial statements and the notes to the financial statements, before investing in shares of our common stock. Unless otherwise indicated, all information in this prospectus assumes that the underwriters will not exercise their over-allotment option. Unless the context otherwise requires, all references to we, us, our company or AmeriVest refer collectively to AmeriVest Properties Inc. and its subsidiaries, considered as a single enterprise.

Our Company

AmeriVest

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

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

Business Strategy

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

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

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

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

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

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

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

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

Properties

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

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

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

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

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

Keystone Office Park consists of three two-story buildings containing a total of 96,048 rentable square feet in Carmel, Indiana, which is in the Indianapolis metropolitan area. Building amenities include keyless access to each building, computerized touch screen directories and a common area conference center with Internet connectivity and presentation equipment. Keystone Office Park is 99% occupied by 35 tenants.

Recent Dividends

Since our initial public offering in November 1996, we have paid a cash dividend on our common stock each quarter. We have paid a quarterly cash dividend of \$0.125 per share for each of our seven most recent quarters.

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Recent Developments

In 2000 and 2001, all of our properties were managed under an agreement with Sheridan Realty Advisors, LLC, which is owned by certain of our executive officers and directors, and which also managed our day-to-day operations and assisted and advised our Board of Directors with respect to real estate acquisitions and investment opportunities. Effective as of January 1, 2002, we purchased the administrative and property management and accounting services business of Sheridan Realty Advisors for approximately \$50,000. As a result, most of Sheridan Realty Advisors' employees, including three of our senior executives, became our employees. The three senior executives also remain employees of Sheridan Realty Advisors. We currently employ 18 full-time employees, including our senior executives, and three part-time employees.

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

Potential Property Acquisitions

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

AMEX Symbol

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

Company Information

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

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The Offering

Common Stock Offered	3,000,000 shares
Common Stock to be Outstanding after this Offering	9,709,454 shares (10,159,454 shares if the underwriters exercise their over-allotment option in full). See Capitalization.
Use of Proceeds	The net proceeds of this offering will be used primarily to acquire and refurbish additional properties, for capital improvements to existing properties, including Arrowhead Fountains, Sheridan Center and the Kellogg Building, in an amount up to \$1.5 million, and for general corporate purposes.

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

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

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

(a) Represents real estate operating revenue less:

property operating expenses, general and administrative expense, severance expense, and impairment of deferred rents receivable.

(b) Includes a gain of \$1,156,445 (\$0.24 per diluted share) recognized on the sale of non-core office buildings in Appleton, Wisconsin and Odessa, Texas.

(c) Includes a gain of \$2,556,839 (\$1.02 per diluted share) recognized on the sale of our four self-storage facilities.

(d) Includes a gain of \$720,712 (\$0.38 per diluted share) recognized on the sale of our industrial/showroom property.

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RISK FACTORS

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

Our floating rate debt subjects us to interest rate risk.

As of April 30, 2002, more than 50% of our total property debt was at floating rates ranging from 190 to 250 basis points over LIBOR. We have fixed the interest rates on most of this debt through 2002 and are attempting to refinance this indebtedness prior to the end of 2002 with a new lender. Should short-term interest rates rise significantly prior to our completion of our refinancing or should we be unable to refinance or otherwise fix the interest rates on this debt beyond 2002, our cost of debt service could increase dramatically in 2003 and beyond. Our current weighted-average interest rate on this floating rate debt is under 5%. Most of this debt is due in 2003 and 2004. Increases in interest rates could increase our interest expense, which would adversely affect net earnings and cash available for payment of our debt obligations and distributions to our stockholders.

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

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

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

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

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

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

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

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

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

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

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

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

Following the completion of this offering, a substantial portion of the net proceeds from the offering will have no specific designated use. There can be no assurance that we will be able to locate acquisition properties that meet our acquisition criteria and, if not, our funds from operations per share would be adversely affected.

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

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

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

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

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

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

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

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

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

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

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

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

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

Development and construction risks could adversely affect our profitability.

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

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

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

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

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

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

Failure to succeed in new markets may limit our growth.

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

a lack of market knowledge and understanding of the local economies;

an inability to identify acquisition or development opportunities;

an inability to obtain construction trades people; and

an unfamiliarity with local government and permitting procedures.

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

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

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

decreases in rent rates due to competition or other factors;

changes in economic conditions;

increases in operating costs such as real estate taxes, insurance premiums, site maintenance and utilities;

changes in interest rates and the availability of financing; and

changes in laws and governmental regulations, including those governing real estate usage, zoning and taxes.

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

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

businesses similarly could be adversely affected, including their ability to continue to honor obligations under their existing leases.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Ownership Limit. In order to assist us in maintaining our qualification as a REIT, our bylaws contain provisions generally limiting the ownership of shares of our capital stock by any single stockholder to 9.0% of our outstanding shares, unless waived by our Board of Directors. These provisions could also delay or prevent an acquisition or change in control of our company that could benefit our stockholders. In 2001, our Board granted a one-time waiver of this restriction in order to allow the exercise of warrants by Jerry Tepper, a director who beneficially owned or controlled approximately 7% of our outstanding shares as of April 30, 2002 taking into account the shares acquired pursuant to the exercise

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of such warrants. In April of 2002, our Board granted waivers allowing William Atkins and Alexander Hewitt, directors who beneficially owned or controlled approximately 12% and 9%, respectively, of our outstanding shares as of April 30, 2002, to beneficially own up to 12.0% and 10.0%, respectively, of our outstanding shares. In connection with these waivers, our Board also reduced the ownership limitation from 9.8% to 9.0%, as described above, so as to assist us in our continued qualification as a REIT. Sheridan Investments, LLC has also been granted a waiver by our Board allowing it to beneficially own up to 19.0% of our outstanding shares. For REIT qualification purposes, our outstanding shares that are owned by Sheridan Investments, LLC are treated as if such shares were owned by the members of Sheridan Investments, LLC in proportion to their respective membership interests. Sheridan Investments, LLC has represented to us that no individual will be treated as beneficially owning shares of our capital stock in excess of the 9.0% ownership limitation (except for Messrs. Atkins and Hewitt, who will not be treated as owning more than 12.0% and 10.0%, respectively, of our outstanding shares) as a result of Sheridan Investments, LLC owning up to 19.0% of our outstanding shares.

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

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

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

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

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

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

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

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