# First Quarter 2004 Supplemental Financial Report

*Matters other than historical facts set forth within this Supplemental Financial Report are forward-looking statements within the meaning of the federal securities laws. You should exercise caution in interpreting and relying on forward-looking statements because they involve known and unknown risks, uncertainties and other factors which could materially affect actual results, performance or achievements. These factors include, without limitation, the ability to enter into new leases or renew leases on favorable terms, the financial condition of tenants, the uncertainties of acquisition activity, the cost and availability of financing, the effects of general and local economic and market conditions, regulatory changes and other risks and uncertainties detailed in the Company's Annual Report on Form 10-K. The Company assumes no obligation to update or supplement forward-looking statements that become untrue because of subsequent events.*

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**March 31, 2004**


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## Company Information

First Potomac Realty Trust is a self-managed, self-administered real estate investment trust formed to acquire, operate and develop industrial and flex properties in the Washington, DC metropolitan area and other major markets in Virginia and Maryland. Our focus is acquiring properties that can benefit from our intensive property management and seeking to reposition these properties to increase their profitability and value. Since its formation in 1997, First Potomac has assembled a 17-property portfolio consisting of 36 buildings totaling approximately 2.9 million square feet.

**Corporate Headquarters**

7200 Wisconsin Ave.
Suite 310
Bethesda, MD 20814

**New York Stock Exchange**

FPO
LISTED
NYSE

**Web Site**

www.first-potomac.com

**Investor Relations**

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Company Background

First Potomac Realty Trust ("the Company") closed on its initial public offering on October 28, 2003. The Company sold 8,625,000 common shares of beneficial interest, raising net proceeds of approximately $118 million. As of March 31, 2004, the Company had used approximately $111 million of the $118 million in net proceeds from the IPO to (i) repay debt, accrued interest and prepayment fees ($48 million), including $7 million of debt in the first quarter of 2004 associated with the partial paydown and restructuring of the mortgage encumbering our Rumsey Center and Snowden Center properties, (ii) acquire joint venture interests held by an institutional partner in four of the Company's properties ($3 million) and (iii) acquire four additional properties ($60 million). The Company intends to use the remaining proceeds for general corporate and working capital purposes, including possible future acquisitions.

Results and Basis of Presentation

The results and financial information for the three months ended March 31, 2003 that are presented in this supplemental disclosure for the Company's pre-IPO predecessor ("First Potomac Predecessor") are presented on a combined historical basis. First Potomac Predecessor is not a legal entity but rather a combination of the entities that comprised the historical operations of the Company and included (i) First Potomac Realty Investment Trust, Inc., the general partner of its Operating Partnership since 1997, (ii) First Potomac Realty Investment Limited Partnership, its Operating Partnership and (iii) First Potomac Management, Inc., the property management company that managed all of its assets.

**STATEMENTS OF OPERATIONS**
(unaudited, in thousands)

| | FIRST POTOMAC REALTY TRUST | FIRST POTOMAC PREDECESSOR |
|---|---|---|
| | 3 months ended March 31, 2004 | 3 months ended March 31, 2003 |
| **OPERATING REVENUES** | | |
| Rental revenues | $ 6,652 | $ 3,688 |
| Tenant reimbursments | 1,060 | 626 |
| | $ 7,712 | $ 4,314 |
| **PROPERTY EXPENSES** | | |
| Property operating | 1,631 | 648 |
| Real estate taxes and insurance | 709 | 400 |
| **NET OPERATING INCOME** | $ 5,372 | $ 3,266 |
| **OTHER INCOME (EXPENSE)** | | |
| General and administrative | (721) | (543) |
| Other income | 35 | 100 |
| **EBITDA** | 4,686 | 2,823 |
| Depreciation and amortization | (2,605) | (1,064) |
| Interest expense | (2,068) | (2,749) |
| Equity in loss of investees | - | (1) |
| Loss on early retirement of debt | (212) | - |
| Loss before minority interest | (199) | (991) |
| Minority interest | 28 | 83 |
| **NET (LOSS)** | $ (171) | $ (908) |

FIRST POTOMAC REALTY TRUST

**Quarterly Supplemental Disclosure**
**March 31, 2004**

**FINANCIAL MEASURES**
(unaudited, in thousands, except per share data)

| **FUNDS FROM OPERATIONS ("FFO")** | 3 months ended March 31, 2004 |
|---|---|
| Net loss | $ (171) |
| Add back: | |
| Depreciation of real estate and amortization of leasing costs | 2,605 |
| Minority interest | (28) |
| **FFO** | $ 2,406 |
| **ADJUSTED FUNDS FROM OPERATIONS ("AFFO")** | |
| FFO | $ 2,406 |
| Straight-line rent, net | (65) |
| Deferred market rent | (102) |
| Non real-estate depreciation | 8 |
| Amortization of finance costs | 380 |
| Tenant improvements | (428) |
| Leasing commissions | (123) |
| Capital expenditures | (71) |
| **AFFO** | $ 2,005 |
| Total weighted average shares and OP units | |
| Basic | 10,031 |
| Diluted | 10,157 |
| FFO per share: | |
| FFO per share - Basic | $ 0.24 |
| FFO per share - Diluted | $ 0.24 |
| AFFO per share - Basic | $ 0.20 |
| AFFO per share - Diluted | $ 0.20 |

**NET OPERATING INCOME (NOI)**
**SAME-PROPERTY ANALYSIS**
(unaudited, in thousands)

| | FIRST POTOMAC REALTY TRUST | FIRST POTOMAC PREDECESSOR |
|---|---|---|
| | 3 months ended March 31, 2004 | 3 months ended March 31, 2003 |
| **NOI** | $ 5,372 | $ 3,266 |
| Less: Non-same property NOI | (2,499) | (504) |
| **Same-property[1] NOI - GAAP basis** | 2,873 | 2,762 |
| Straight-line revenue, net | (7) | (17) |
| Deferred market rental revenue | (10) | - |
| **Same-property NOI - cash basis** | $ 2,856 | $ 2,745 |
| Same-property NOI growth - GAAP basis | 4.0% | |
| Same-property NOI growth - cash basis | 4.0% | |

[1] Same-properties for the periods compared include Plaza 500, Van Buren Business Park, 6600 Business Parkway, 13129 Airpark Road, 4200 and 4212 Technology Court, Newington Business Park Center, Crossways Commerce Center I, Crossways Commerce Center II and the Coast Guard Building.

**CONSOLIDATED BALANCE SHEET**
(in thousands)

| | (unaudited) March 31, 2004 | December 31, 2003 |
|---|---|---|
| Assets | | |
| Rental property, net | $ 206,940 | $ 208,335 |
| Cash | 8,749 | 16,308 |
| Escrows and reserves | 2,568 | 3,422 |
| Accounts and other receivables | 682 | 575 |
| Accrued straight-line rents | 1,878 | 1,806 |
| Deferred costs, net | 3,103 | 3,205 |
| Prepaid expenses and other assets | 2,685 | 773 |
| Intangible assets, net | 9,306 | 9,724 |
| Total assets | $ 235,911 | $ 244,148 |
| Liabilities | | |
| Accounts payable and accrued expenses | $ 1,319 | $ 1,526 |
| Accrued interest | 432 | 152 |
| Rents received in advance | 1,041 | 802 |
| Tenant security deposits | 1,073 | 1,026 |
| Mortgage loans and other debt | 120,543 | 127,840 |
| Deferred market rent | 704 | 803 |
| Total liabilities | 125,112 | 132,149 |
| Minority interest | 19,700 | 19,867 |
| Shareholders' equity | | |
| Common shares, $0.001 par value, 100,000,000 common shares authorized: | | |
| 8,634,000 shares issued and outstanding | 9 | 9 |
| Additional paid-in capital | 117,526 | 117,525 |
| Accumulated deficit | (26,436) | (25,402) |
| Total shareholders' equity | 91,099 | 92,132 |
| Total liabilities and shareholders' equity | $ 235,911 | $ 244,148 |

**SELECTED OPERATING RATIOS**

(unaudited, in thousands)

| | | 3 months ended March 31, 2004 |
|---|---|---|
| **COVERAGE RATIOS** | | |
| **Interest Coverage Ratio** | | |
| EBITDA | $ | 4,686 |
| Divided by Interest Expense | | 2,068 |
| | | **2.27x** |
| **Fixed Charge Coverage Ratio** | | |
| EBITDA | $ | 4,686 |
| Divided by Interest Expense | | 2,068 |
| + Principal Amortization | | 297 |
| | | **1.98x** |
| **OVERHEAD RATIO** | | |
| **G&A to Real Estate Revenues** | | |
| General and Administrative Expense | $ | 721 |
| Real Estate Revenues | | 7,712 |
| | | **9.3%** |
| **LEVERAGE RATIOS** | | |
| **Debt/Total Market Capitalization** | | |
| Total Debt | $ | 120,543 |
| Total Market Capitalization | | 330,191 |
| | | **36.5%** |

**TOTAL MARKET CAPITALIZATION**
(in thousands, except per share data)

| | | | Percent of Total Market Capitalization |
|---|---|---|---|
| Total Common Shares Outstanding | | 8,634 | |
| Common Operating Partnership ("OP") Units | | 1,397 | |
| Total Common Shares and OP Units | | 10,031 | |
| Market Price at March 31, 2004 | $ | 20.90 | |
| Total Equity Capitalization | $ | 209,648 | 63.5% |
| Debt Capitalization | | | |
| Fixed-Rate Debt | $ | 95,043 | 28.8% |
| Floating-Rate Debt | | 25,500 | 7.7% |
| Total Debt Capitalization | | 120,543 | 36.5% |
| Total Market Capitalization | $ | 330,191 | 100.0% |

## DESCRIPTION OF PROPERTIES

| Property | Date of Acquisition | Property Type | Location | Square Footage | Occupancy at March 31, 2004 |
|---|---|---|---|---|---|
| Plaza 500 | 1997 | Multi-tenant industrial | Alexandria, VA | 505,945 | 97% |
| Van Buren Business Park | 1997 | Flex | Herndon, VA | 109,233 | 75% |
| 6600 Business Parkway | 1997 | Single-tenant industrial | Elkridge, MD | 172,200 | 100% |
| 13129 Airpark Road | 1997 | Multi-tenant industrial | Culpeper, VA | 150,400 | 66% |
| 4200 and 4212 Technology Court | 1998 | Flex | Chantilly, VA | 64,064 | 91% |
| Newington Business Park Center | 1999 | Multi-tenant industrial | Lorton, VA | 254,114 | 99% |
| Crossways Commerce Center I | 1999 | Multi-tenant industrial | Chesapeake, VA | 352,615 | 100% |
| Crossways Commerce Center II | 1999 | Flex | Chesapeake, VA | 143,736 | 100% |
| Coast Guard Building | 1999 | Flex | Chesapeake, VA | 61,992 | 100% |
| Snowden Center | 2002 | Flex | Columbia, MD | 140,438 | 86% |
| Rumsey Center | 2002 | Flex | Columbia, MD | 134,654 | 90% |
| Greenbrier Technology Center II | 2002 | Flex | Chesapeake, VA | 79,684 | 96% |
| Norfolk Business Center | 2002 | Flex | Norfolk, VA | 90,682 | 97% |
| Virginia Center | 2003 | Flex | Glen Allen, VA | 119,672 | 70% |
| Interstate Plaza | 2003 | Single-tenant Industrial | Alexandria, VA | 107,320 | 100% |
| Alexandria Corporate Park | 2003 | Multi-tenant Industrial | Alexandria, VA | 278,130 | 80% |
| 6251 Ammendale Road | 2003 | Flex | Beltsville, MD | 86,818 | 38% |
| **TOTAL** | | | | 2,851,697 | 90%[1] |

[1] Occupany at March 31, 2004, excluding fourth-quarter 2003 acquisitions, was 94%.

## PORTFOLIO ANALYSIS

### PORTFOLIO BY MARKET

| | Number of Buildings | Square Feet | Occupancy Rate | Annualized Rent | Percentage of Annualized Rent |
|---|---|---|---|---|---|
| Washington | 20 | 1,556,024 | 86% | $ 15,966,663 | 59% |
| Norfolk | 6 | 728,709 | 99% | 6,147,368 | 23% |
| Baltimore | 9 | 447,292 | 93% | 4,008,261 | 15% |
| Richmond | 1 | 119,672 | 70% | 911,196 | 3% |
| Total | 36 | 2,851,697 | 90% | $ 27,033,488 | 100% |

### PORTFOLIO BY PROPERTY TYPE

| | Number of Buildings | Square Feet | Occupancy Rate | Annualized Rent | Percentage of Annualized Rent |
|---|---|---|---|---|---|
| Single-tenant Industrial | 2 | 279,520 | 100% | $ 2,239,084 | 8% |
| Multi-tenant Industrial | 12 | 1,541,204 | 92% | 13,756,094 | 51% |
| Flex | 22 | 1,030,973 | 84% | 11,038,309 | 41% |
| Total | 36 | 2,851,697 | 90% | $ 27,033,487 | 100% |

### PORTFOLIO BY LEASE TYPE

| | Number of Leases | Square Feet[1] | Percentage of Portfolio |
|---|---|---|---|
| Triple Net | 125 | 1,618,875 | 63% |
| Industrial Gross | 25 | 383,306 | 15% |
| Full Service | 45 | 556,286 | 22% |
| Total | 195 | 2,558,467 | 100% |

[1] Does not include vacant and core factor space.

## SUMMARY OF LARGEST TENANTS

| Ranking | Tenant | Number of Leases | Total Occupied Square Feet | Total Annualized Rental Revenue [1] | Percentage of Total Annualized Rental Revenue | Weighted Average Remaining Lease Term |
|---|---|---|---|---|---|---|
| 1 | U.S. Government | 14 | 521,873 | $ 6,695,442 | 24.8% | 6.0 |
| 2 | First Data Corporation | 1 | 117,336 | 1,184,774 | 4.4% | 4.7 |
| 3 | Carolina Holdings | 1 | 124,501 | 1,053,665 | 3.9% | 5.9 |
| 4 | REICO Distributors | 1 | 172,200 | 976,816 | 3.6% | 7.5 |
| 5 | CACI | 3 | 46,207 | 952,254 | 3.5% | 5.8 |
| 6 | Fibertek, Inc. | 1 | 28,719 | 586,155 | 2.2% | 1.8 |
| 7 | Anteon International Corporation | 5 | 108,700 | 568,616 | 2.1% | 2.8 |
| 8 | AMSEC LLC | 1 | 35,631 | 532,602 | 2.0% | 2.5 |
| 9 | Paratek Microwave | 1 | 29,828 | 391,642 | 1.4% | 3.6 |
| 10 | Precision Partners, Inc. | 1 | 47,495 | 380,581 | 1.4% | 5.9 |
| | Subtotal Top 10 Tenants | 29 | 1,232,490 | $ 13,322,545 | 49.3% | 5.4 |
| | All Remaining Tenants | 166 | 1,325,977 | $ 13,710,942 | 50.7% | 3.4 |
| | Total / Weighted Average | 195 | 2,558,467 | $ 27,033,487 | 100.0% | 4.4 |

[1] Annualized rental revenue is based on rental revenue as of March 31, 2004.

## LEASE EXPIRATIONS

| | | Gross Leased Area | | Annualized Rental Revenue | | |
|---|---|---|---|---|---|---|
| Year of Lease Expiration | Number of Leases Expiring | Square Footage | Percent of Total | Amount | Percent of Total | Average per Sq. Ft. |
| 2004 | 31 | 148,423 | 5.8% | $ 1,886,900 | 7.0% | $ 12.71 |
| 2005 | 37 | 211,895 | 8.3% | 2,902,642 | 10.7% | 13.70 |
| 2006 | 33 | 308,462 | 12.0% | 3,087,082 | 11.4% | 10.01 |
| 2007 | 36 | 505,357 | 19.8% | 5,074,789 | 18.8% | 10.04 |
| 2008 | 19 | 272,663 | 10.7% | 2,995,760 | 11.1% | 10.99 |
| 2009 | 14 | 514,367 | 20.1% | 4,074,539 | 15.1% | 7.92 |
| 2010 | 5 | 242,298 | 9.4% | 2,111,759 | 7.8% | 8.72 |
| 2011 and thereafter | 20 | 355,002 | 13.9% | 4,900,017 | 18.1% | 13.80 |
| **Total** | 195 | 2,558,467 | 100.0% | $ 27,033,487 | 100.0% | $ 10.57 |

## LEASING ANALYSIS

| | | 3 months ended March 31, 2004 |
|---|---|---|
| **Total new and renewal leases** | | |
| Square footage of expired leases | | 137,911 |
| Square footage of new and renewal leases | | 175,412 |
| Number of new and renewal leases commencing | | 16 |
| **New Leases[1]** | | |
| New square footage | | 47,431 |
| Number of new leases commencing | | 6 |
| Average rental rate | $ | 8.56 |
| Percentage growth in base rent [2] | | 17.8% |
| Average capital cost per square foot | $ | 2.35 |
| **Renewal Leases** | | |
| Square footage of renewal leases | | 127,981 |
| Number of renewal leases commencing | | 10 |
| Retention rate | | 93.0% |
| New base rent | $ | 10.75 |
| Expiring base rent | $ | 10.37 |
| Percentage growth in base rent | | 3.8% |
| Average capital cost per square foot | $ | 0.89 |

[1] Includes lease square footage and costs related to leases signed in 1st quarter for subsequent periods.

[2] Includes those leases for which there was a comparable lease in place during previous 12-month period.

Rent is presented on a cash basis. Rents have not been averaged over terms. New rent is that which is initially paid at commencement.

**DEBT ANALYSIS**
(in thousands)

| Encumbered Properties | Interest Rate | Principal Balance March 31, 2004 | Annual Debt Service | Maturity Date | Balance at Maturity |
|---|---|---|---|---|---|
| **Fixed Rate Debt** | | | | | |
| | 7.26% | $ 39,131 | $ 3,429 | 12/11/2007 | $ 36,784 |
| Plaza 500 | | | | | |
| Van Buren Business Park | | | | | |
| 6600 Business Parkway | | | | | |
| 13129 Airpark Road | | | | | |
| 4200 Tech Court | 8.07% | 1,831 | 168 | 10/1/2009 | 1,703 |
| 4212 Tech Court | 8.53% | 1,776 | 169 | 6/1/2010 | 1,653 |
| Crossways Commerce Center | 6.70% | 26,570 | 2,087 | 10/1/2012 | 23,314 |
| Newington Business Park Center | 6.70% | 16,760 | 1,316 | 10/1/2012 | 14,706 |
| Interstate Plaza | 7.45% | 8,975 | 726 | 1/1/2007 | 8,282 |
| | | $ 95,043 | $ 7,895 | | $ 86,442 |
| **Floating Rate Debt** | | | | | |
| Greenbrier/Norfolk | LIBOR + 2.45% | $ 10,500 | $ 375 | 11/30/2005 | $ 10,500 |
| Rumsey/Snowden | LIBOR + 2.35% | 15,000 | 518 | 12/31/2006 | 15,000 |
| | | $ 25,500 | $ 893 | | $ 25,500 |
| Total | | $ 120,543 | $ 8,788 | | $ 111,942 |

## MANAGEMENT STATEMENTS ON NON-GAAP SUPPLEMENTAL MEASURES

Investors in and analysts following the real estate industry utilize funds from operations ("FFO"), net operating income ("NOI"), EBITDA and adjusted funds from operations ("AFFO"), variously defined, as supplemental performance measures.

While the Company believes net income available to common stockholders as defined by GAAP is the most appropriate measure, it considers FFO, NOI, EBITDA, and AFFO appropriate supplemental measures given their wide use by and relevance to investors and analysts. FFO, reflecting the assumption that real estate asset values rise or fall with market conditions, principally adjusts for the effects of GAAP depreciation/amortization of real estate assets. NOI provides a measure of rental operations and does not factor in depreciation/amortization and non-property specific expenses such as general and administrative expenses. EBITDA provides a further tool to evaluate the ability to incur and service debt and to fund dividends and other cash needs. AFFO provides a further tool to evaluate the ability to fund dividends. In addition, FFO, NOI, EBITDA and AFFO are commonly used in various ratios, pricing multiples/yields and returns and valuation calculations used to measure financial position, performance and value.

**Net Operating Income**

Management believes that NOI is a useful supplemental measure of the Company's operating performance. The Company defines NOI as operating revenues (rental income, tenant reimbursements, and other income) less property and related expenses (property expenses, real estate taxes, and insurance). Other real estate investment trust ("REITs") may use different methodologies for calculating NOI, and accordingly, the Company's NOI may not be comparable to other REITs.

Because NOI excludes general and administrative expenses, interest expense, depreciation and amortization, gains and losses from property dispositions, discontinued operations, and extraordinary items, it provides a performance measure that, when compared year over year, reflects the revenues and expenses directly associated with owning and operating commercial real estate properties and the impact to operations from trends in occupancy rates, rental rates, and operating costs, providing perspective not immediately apparent from net income. The Company uses NOI to evaluate its operating performance since NOI allows the Company to evaluate the impact that factors such as occupancy levels, lease structure, lease rates, and tenant base have on the Company's results, margins and returns. In addition, management believes that NOI provides useful information to the investment community about the Company's financial and operating performance when compared to other REITs since NOI is generally recognized as a standard measure of performance in the real estate industry.

However, NOI should not be viewed as an alternative measure of the Company's financial performance since it does not reflect general and administrative expenses, interest expense, depreciation and amortization costs, the level of capital expenditures and leasing costs necessary to maintain the operating performance of the Company's properties.

**EBITDA**

Management believes that EBITDA is a useful supplemental measure of the Company's operating performance. EBITDA is defined as earnings before interest, taxes, depreciation and amortization.

Management considers EBITDA to be an appropriate supplemental performance measure since it represents earnings prior to the impact of depreciation, amortization, gain (loss) from property dispositions and loss on early retirement of debt. This calculation facilitates the review of income from operations without considering the effect of non-cash depreciation and amortization or the cost of debt.

**Funds From Operations**

Management believes that FFO is a useful supplemental measure of the Company's operating performance. As defined by the National Association of Real Estate Investment Trusts, or NAREIT, FFO represents net income (loss) before minority interest (computed in accordance with GAAP), including gains (or losses) from debt restructuring and excluding gain on sale of property, plus real estate related depreciation and amortization (excluding amortization of deferred financing costs) and after adjustments for unconsolidated partnerships and joint ventures. Other REITs may use different methodologies for calculating FFO and, accordingly, the Company's FFO may not be comparable to other REITs.

Management considers FFO a useful additional measure of performance for an equity REIT because it facilitates an understanding of the operating performance of its properties without giving effect to real estate depreciation and amortization, which assumes that the value of real estate assets diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, we believe that FFO provides a more meaningful and accurate indication of our performance. In addition, management believes that FFO provides useful information to the investment community about the Company's financial performance when compared to other REITs since FFO is generally recognized as the industry standard for reporting the operations of REITs.

However, FFO should not be viewed as an alternative measure of the Company's operating performance since it does not reflect either depreciation and amortization costs or the level of capital expenditures and leasing costs necessary to maintain the operating performance of the Company's properties, which are significant economic costs that could materially impact the Company's results of operations.

**Adjusted Funds From Operations**

Management believes that AFFO is a useful measures of the Company's liquidity. The Company computes AFFO by adding to FFO the non-cash amortization of deferred financing costs, and then subtracting tenant improvements, leasing commissions, and recurring capital expenditures, and eliminating the net effect of straight-line rents. AFFO provides an additional perspective on the Company's ability to fund cash needs and make distributions to shareholders by adjusting for the effect of these non-cash items included in FFO, as well as recurring capital expenditures and leasing costs. However, other REITs may use different methodologies for calculating AFFO and, accordingly, the Company's AFFO may not be comparable to other REITs.