

Digital Realty Trust, Inc.
Form 10-Q
May 12, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended March 31, 2014

.. **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Transition Period From to .

Commission file number 001-32336 (Digital Realty Trust, Inc.)
000-54023 (Digital Realty Trust, L.P.)

DIGITAL REALTY TRUST, INC.
DIGITAL REALTY TRUST, L.P.

(Exact name of registrant as specified in its charter)

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Maryland (Digital Realty Trust, Inc.) **26-0081711**

Maryland (Digital Realty Trust, L.P.) **20-2402955**
 (State or other jurisdiction of (IRS employer
 incorporation or organization) **identification number)**

Four Embarcadero Center, Suite 3200

San Francisco, CA **94111**
 (Address of principal executive offices) (Zip Code)

(415) 738-6500

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Digital Realty Trust, Inc. Yes No
 Digital Realty Trust, L.P. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Digital Realty Trust, Inc. Yes No
 Digital Realty Trust, L.P. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Digital Realty Trust, Inc.:

Large accelerated filer Accelerated filer
 Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
 Digital Realty Trust, L.P.:

Large accelerated filer Accelerated filer

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Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Digital Realty Trust, Inc. Yes No
Digital Realty Trust, L.P. Yes No
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date

Digital Realty Trust, Inc.:

Class	Outstanding at May 6, 2014
Common Stock, \$.01 par value per share	135,344,816

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EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the quarter ended March 31, 2014 of Digital Realty Trust, Inc., a Maryland corporation, and Digital Realty Trust, L.P., a Maryland limited partnership, of which Digital Realty Trust, Inc. is the sole general partner. Unless otherwise indicated or unless the context requires otherwise, all references in this report to we, us, our, our company or the company refer to Digital Realty Trust, Inc. together with its consolidated subsidiaries, including Digital Realty Trust, L.P. Unless otherwise indicated or unless the context requires otherwise, all references to our operating partnership or the operating partnership refer to Digital Realty Trust, L.P. together with its consolidated subsidiaries.

Digital Realty Trust, Inc. is a real estate investment trust, or REIT, and the sole general partner of Digital Realty Trust, L.P. As of March 31, 2014, Digital Realty Trust, Inc. owned an approximate 97.6% common general partnership interest in Digital Realty Trust, L.P. The remaining approximate 2.4% common limited partnership interests are owned by non-affiliated investors and certain directors and officers of Digital Realty Trust, Inc. As of March 31, 2014, Digital Realty Trust, Inc. owned all of the preferred limited partnership interests of Digital Realty Trust, L.P. As the sole general partner of Digital Realty Trust, L.P., Digital Realty Trust, Inc. has the full, exclusive and complete responsibility for the operating partnership's day-to-day management and control.

We believe combining the quarterly reports on Form 10-Q of Digital Realty Trust, Inc. and Digital Realty Trust, L.P. into this single report results in the following benefits:

enhancing investors' understanding of our company and our operating partnership by enabling investors to view the business as a whole in the same manner as management views and operates the business;

eliminating duplicative disclosure and providing a more streamlined and readable presentation since a substantial portion of the disclosure applies to both our company and our operating partnership; and

creating time and cost efficiencies through the preparation of one combined report instead of two separate reports.

There are a few differences between our company and our operating partnership, which are reflected in the disclosure in this report. We believe it is important to understand the differences between our company and our operating partnership in the context of how we operate as an interrelated consolidated company. Digital Realty Trust, Inc. is a REIT, whose only material asset is its ownership of partnership interests of Digital Realty Trust, L.P. As a result, Digital Realty Trust, Inc. does not conduct business itself, other than acting as the sole general partner of Digital Realty Trust, L.P., issuing public equity from time to time and guaranteeing certain unsecured debt of Digital Realty Trust, L.P. and certain of its subsidiaries. Digital Realty Trust, Inc. itself does not issue any indebtedness but guarantees the unsecured debt of Digital Realty Trust, L.P. and certain of its subsidiaries, as disclosed in this report. Digital Realty Trust, L.P. holds substantially all the assets of the company and holds the ownership interests in the company's joint ventures. Digital Realty Trust, L.P. conducts the operations of the business and is structured as a partnership with no publicly traded equity. Except for net proceeds from public equity issuances by Digital Realty Trust, Inc., which are generally contributed to Digital Realty Trust, L.P. in exchange for partnership units, Digital Realty Trust, L.P. generates the capital required by the company's business through Digital Realty Trust, L.P.'s operations, by Digital Realty Trust, L.P.'s direct or indirect incurrence of indebtedness or through the issuance of partnership units.

The presentation of noncontrolling interests in operating partnership, stockholders' equity and partners' capital are the main areas of difference between the condensed consolidated financial statements of Digital Realty Trust, Inc. and those of Digital Realty Trust, L.P. The common limited partnership interests held by the limited partners in Digital Realty Trust, L.P. are presented as limited partners' capital within partners' capital in Digital Realty Trust, L.P.'s condensed consolidated financial statements and as noncontrolling interests in operating partnership within equity in Digital Realty Trust, Inc.'s condensed consolidated financial statements. The common and preferred partnership interests held by Digital Realty Trust, Inc. in Digital Realty Trust, L.P. are presented as general partner's capital within partners' capital in Digital Realty Trust, L.P.'s condensed consolidated financial statements and as preferred stock, common stock, additional paid-in capital and accumulated dividends in excess of earnings within stockholders' equity in Digital Realty Trust, Inc.'s condensed consolidated financial statements. The differences in the presentations between stockholders' equity and partners' capital result from the differences in the equity issued at the Digital Realty Trust, Inc. and the Digital Realty Trust, L.P. levels.

To help investors understand the significant differences between the company and the operating partnership, this report presents the following separate sections for each of the company and the operating partnership:

Condensed consolidated financial statements;

the following notes to the condensed consolidated financial statements:

Debt of the company and Debt of the operating partnership;

Income per Share and Income per Unit; and

Equity and Accumulated Other Comprehensive Income (Loss), Net of the company and Capital and Accumulated Other Comprehensive Income (Loss) of the operating partnership;

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Liquidity and Capital Resources in Management's Discussion and Analysis of Financial Condition and Results of Operations;
and

Unregistered Sales of Equity Securities and Use of Proceeds.

This report also includes separate Item 4. Controls and Procedures sections and separate Exhibit 31 and 32 certifications for each of the company and the operating partnership in order to establish that the Chief Executive Officer and the Chief Financial Officer of each entity have made the requisite certifications and that the company and the operating partnership are compliant with Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934 and 18 U.S.C. §1350.

In order to highlight the differences between the company and the operating partnership, the separate sections in this report for the company and the operating partnership specifically refer to the company and the operating partnership. In the sections that combine disclosure of the company and the operating partnership, this report refers to actions or holdings as being actions or holdings of the company. Although the operating partnership is generally the entity that enters into contracts and joint ventures and holds assets and debt, reference to the company is appropriate because the business is one enterprise and the company operates the business through the operating partnership.

As general partner with control of the operating partnership, Digital Realty Trust, Inc. consolidates the operating partnership for financial reporting purposes, and it does not have significant assets other than its investment in the operating partnership. Therefore, the assets and liabilities of Digital Realty Trust, Inc. and Digital Realty Trust, L.P. are the same on their respective condensed consolidated financial statements. The separate discussions of Digital Realty Trust, Inc. and Digital Realty Trust, L.P. in this report should be read in conjunction with each other to understand the results of the company on a consolidated basis and how management operates the company.

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DIGITAL REALTY TRUST, INC. AND DIGITAL REALTY TRUST, L.P.

FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 2014

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Table of Contents**DIGITAL REALTY TRUST, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands, except share and per share data)

	March 31, 2014 (unaudited)	December 31, 2013
ASSETS		
Investments in real estate:		
Properties:		
Land	\$ 685,640	\$ 693,791
Acquired ground leases	14,680	14,618
Buildings and improvements	8,834,693	8,680,677
Tenant improvements	490,697	490,492
Total investments in properties	10,025,710	9,879,578
Accumulated depreciation and amortization	(1,665,421)	(1,565,996)
Net investments in properties	8,360,289	8,313,582
Investment in unconsolidated joint ventures	81,411	70,504
Net investments in real estate	8,441,700	8,384,086
Cash and cash equivalents	70,242	56,808
Accounts and other receivables, net of allowance for doubtful accounts of \$7,156 and \$5,576 as of March 31, 2014 and December 31, 2013, respectively	181,433	181,163
Deferred rent	415,515	393,504
Acquired above-market leases, net	49,521	52,264
Acquired in-place lease value and deferred leasing costs, net	479,940	489,456
Deferred financing costs, net	34,295	36,475
Restricted cash	42,842	40,362
Assets held for sale	25,070	
Other assets	64,836	51,627
Total assets	\$ 9,805,394	\$ 9,685,745
LIABILITIES AND EQUITY		
Global revolving credit facility	\$ 790,500	\$ 724,668
Unsecured term loan	1,026,891	1,020,984
Unsecured senior notes, net of discount	2,368,848	2,364,232
Exchangeable senior debentures	266,400	266,400
Mortgage loans, net of premiums	554,742	585,608
Accounts payable and other accrued liabilities	614,645	662,687
Accrued dividends and distributions		102,509
Acquired below-market leases, net	123,152	130,269
Security deposits and prepaid rents	180,886	181,876
Liabilities associated with assets held for sale	3,610	
Total liabilities	5,929,674	6,039,233
Commitments and contingencies		
Equity:		
Stockholders' Equity:		

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Preferred Stock: \$0.01 par value per share, 70,000,000 shares authorized:

Series E Cumulative Redeemable Preferred Stock, 7.000%, \$287,500 and \$287,500 liquidation preference, respectively (\$25.00 per share), 11,500,000 and 11,500,000 shares issued and outstanding as of March 31, 2014 and December 31, 2013, respectively	277,172	277,172
Series F Cumulative Redeemable Preferred Stock, 6.625%, \$182,500 and \$182,500 liquidation preference, respectively (\$25.00 per share), 7,300,000 and 7,300,000 shares issued and outstanding as of March 31, 2014 and December 31, 2013, respectively	176,191	176,191
Series G Cumulative Redeemable Preferred Stock, 5.875%, \$250,000 and \$250,000 liquidation preference, respectively (\$25.00 per share), 10,000,000 and 10,000,000 shares issued and outstanding as of March 31, 2014 and December 31, 2013, respectively	241,468	241,468
Series H Cumulative Redeemable Preferred Stock, 7.375%, \$300,000 and \$0 liquidation preference, respectively (\$25.00 per share), 12,000,000 and 0 shares issued and outstanding as of March 31, 2014 and December 31, 2013, respectively	289,857	
Common Stock: \$0.01 par value, 215,000,000 shares authorized, 128,606,462 and		
128,455,350 shares issued and outstanding as of March 31, 2014 and December 31, 2013, respectively	1,279	1,279
Additional paid-in capital	3,689,098	3,688,937
Accumulated dividends in excess of earnings	(857,779)	(785,222)
Accumulated other comprehensive income, net	13,947	10,691
Total stockholders' equity	3,831,233	3,610,516
Noncontrolling Interests:		
Noncontrolling interests in operating partnership	37,406	29,027
Noncontrolling interests in consolidated joint ventures	7,081	6,969
Total noncontrolling interests	44,487	35,996
Total equity	3,875,720	3,646,512
Total liabilities and equity	\$ 9,805,394	\$ 9,685,745

See accompanying notes to the condensed consolidated financial statements.

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DIGITAL REALTY TRUST, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED INCOME STATEMENTS
(unaudited, in thousands, except share and per share data)

	Three Months Ended March 31,	
	2014	2013
Operating Revenues:		
Rental	\$ 305,786	\$ 281,399
Tenant reimbursements	83,621	75,917
Fee income	1,183	806
Other		248
Total operating revenues	390,590	358,370
Operating Expenses:		
Rental property operating	117,896	105,480
Property taxes	22,125	21,042
Insurance	2,422	2,205
Construction management	164	384
Change in fair value of contingent consideration	(3,403)	1,300
Depreciation and amortization	130,620	111,623
General and administrative	30,678	15,951
Transactions	81	1,763
Other		36
Total operating expenses	300,583	259,784
Operating income	90,007	98,586
Other Income (Expenses):		
Equity in earnings of unconsolidated joint ventures	2,581	2,335
Gain on contribution of property to unconsolidated joint venture	1,906	
Interest and other income	1,727	41
Interest expense	(47,374)	(48,078)
Tax expense	(1,838)	(1,203)
Loss from early extinguishment of debt	(292)	
Net income	46,717	51,681
Net income attributable to noncontrolling interests	(805)	(970)
Net income attributable to Digital Realty Trust, Inc.	45,912	50,711
Preferred stock dividends	(11,726)	(8,054)
Net income available to common stockholders	\$ 34,186	\$ 42,657
Net income per share available to common stockholders:		
Basic	\$ 0.27	\$ 0.34
Diluted	\$ 0.26	\$ 0.34
Weighted average common shares outstanding		
Basic	128,535,995	126,445,285
Diluted	129,136,961	126,738,339

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See accompanying notes to the condensed consolidated financial statements.

Table of Contents**DIGITAL REALTY TRUST, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(unaudited, in thousands)**

	Three Months Ended March 31,	
	2014	2013
Net income	\$ 46,717	\$ 51,681
Other comprehensive income (loss):		
Foreign currency translation adjustments	3,819	(63,063)
Decrease in fair value of interest rate swaps	(1,343)	(124)
Reclassification to interest expense from interest rate swaps	846	1,741
Comprehensive income (loss)	50,039	(9,765)
Comprehensive (income) loss attributable to noncontrolling interests	(871)	194
Comprehensive income (loss) attributable to Digital Realty Trust, Inc.	\$ 49,168	\$ (9,571)

See accompanying notes to the condensed consolidated financial statements.

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DIGITAL REALTY TRUST, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF EQUITY

(unaudited, in thousands, except share data)

	Preferred Stock	Number of Common Shares	Common Stock	Additional Paid-in Capital	Accumulated Dividends in Excess of Earnings	Accumulated Other Comprehensive Income, net	Total Stockholders Equity	Noncontrolling Interests in Operating Partnership	Noncontrolling Interests in Consolidated Joint Ventures	Total Noncontrolling Interests	Total Equity
Balance as of December 31, 2013	\$ 694,831	128,455,350	\$ 1,279	\$ 3,688,937	\$ (785,222)	\$ 10,691	\$ 3,610,516	\$ 29,027	\$ 6,969	\$ 35,996	\$ 3,646,512
Conversion of units to common stock		4,438		51			51	(51)		(51)	
Quittance of unvested restricted stock, net of forfeitures		145,757									
Common stock issuance costs				(100)			(100)				(100)
Exercise of stock options		917		38			38				38
Quittance of series H preferred stock, net of issuance costs	289,857						289,857				289,857
Amortization of earned compensation regarding share-based awards				10,478			10,478				10,478
Classification of vested share-based awards				(10,306)			(10,306)	10,306		10,306	
Dividends declared on preferred stock					(11,726)		(11,726)				(11,726)
Dividends and contributions on common stock and common and incentive units					(106,743)		(106,743)	(2,635)		(2,635)	(109,378)
Net income					45,912		45,912	693	112	805	46,722
Other comprehensive income foreign currency translation adjustments						3,743	3,743	76		76	3,819
Other comprehensive income fair value of interest rate swaps						(1,316)	(1,316)	(27)		(27)	(1,343)
Other comprehensive income reclassification accumulated other comprehensive loss to interest expense						829	829	17		17	846
	\$ 984,688	128,606,462	\$ 1,279	\$ 3,689,098	\$ (857,779)	\$ 13,947	\$ 3,831,233	\$ 37,406	\$ 7,081	\$ 44,487	\$ 3,875,720

See accompanying notes to the condensed consolidated financial statements.

Table of Contents**DIGITAL REALTY TRUST, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(unaudited, in thousands)**

	Three Months Ended March 31,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 46,717	\$ 51,681
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on contribution of investment property to unconsolidated joint venture	(1,906)	
Equity in earnings of unconsolidated joint ventures	(2,581)	(2,335)
Change in fair value of accrued contingent consideration	(3,403)	1,300
Distributions from unconsolidated joint ventures	2,214	1,625
Write-off of net assets due to early lease terminations		(36)
Depreciation and amortization of buildings and improvements, tenant improvements and acquired ground leases	111,142	93,286
Amortization of share-based unearned compensation	8,985	2,887
Allowance for doubtful accounts	1,580	1,100
Amortization of deferred financing costs	2,085	2,431
Loss on early extinguishment of debt	292	
Amortization of debt discount/premium	385	160
Amortization of acquired in-place lease value and deferred leasing costs	19,478	18,338
Amortization of acquired above-market leases and acquired below-market leases	(2,788)	(3,045)
Changes in assets and liabilities:		
Restricted cash	(1,589)	(62)
Accounts and other receivables	2,129	(15,584)
Deferred rent	(21,335)	(21,249)
Deferred leasing costs	(6,798)	(4,922)
Other assets	(14,227)	(10,858)
Accounts payable and other accrued liabilities	(26,051)	(28,858)
Security deposits and prepaid rents	2,082	3,182
Net cash provided by operating activities	116,411	89,041
Cash flows from investing activities:		
Acquisitions of real estate		(77,935)
Proceeds from contribution of investment property to unconsolidated joint venture	11,408	
Investment in unconsolidated joint ventures	(10,564)	(5,647)
Investment in equity securities	(5)	(12,549)
Deposits paid for acquisitions of real estate		(250)
Receipt of value added tax refund	425	1,990
Refundable value added tax paid	(2,289)	(1,914)
Change in restricted cash	(814)	(359)
Improvements to and advances for investments in real estate	(224,118)	(258,731)
Improvement advances to tenants	(2,499)	(1,010)
Collection of advances from tenants for improvements	912	767
Net cash used in investing activities	(227,544)	(355,638)

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See accompanying notes to the condensed consolidated financial statements.

Table of Contents**DIGITAL REALTY TRUST, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)****(unaudited, in thousands)**

	Three Months Ended March 31,	
	2014	2013
Cash flows from financing activities:		
Borrowings on revolving credit facility	\$ 433,297	\$ 492,643
Repayments on revolving credit facility	(371,351)	(657,095)
Borrowings on 4.250% unsecured senior notes due 2025		630,026
Principal payments on mortgage loans	(3,343)	(3,896)
Change in restricted cash	(68)	76
Payment of loan fees and costs	(150)	(5,272)
Capital contributions received from noncontrolling interests in consolidated joint ventures		45
Gross proceeds from the issuance of preferred stock	300,000	
Common stock offering costs paid	(100)	(95)
Preferred stock offering costs paid	(10,143)	
Proceeds from exercise of stock options	38	8
Payment of dividends to preferred stockholders	(11,726)	(8,054)
Payment of dividends to common stockholders and distributions to noncontrolling interests in operating partnership	(211,887)	(195,940)
Net cash provided by financing activities	124,567	252,446
Net increase (decrease) in cash and cash equivalents	13,434	(14,151)
Cash and cash equivalents at beginning of period	56,808	56,281
Cash and cash equivalents at end of period	\$ 70,242	\$ 42,130

See accompanying notes to the condensed consolidated financial statements.

Table of Contents**DIGITAL REALTY TRUST, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)****(unaudited, in thousands)**

	Three Months Ended March 31,	
	2014	2013
Supplemental disclosure of cash flow information:		
Cash paid for interest, including amounts capitalized	\$ 67,824	\$ 56,163
Cash paid for income taxes	863	60
Supplementary disclosure of noncash investing and financing activities:		
Change in net assets related to foreign currency translation adjustments	\$ 3,819	\$ (63,063)
Increase in accounts payable and other accrued liabilities related to change in fair value of interest rate swaps	(1,343)	(124)
Noncontrolling interests in operating partnership redeemed for or converted to shares of common stock	51	234
Preferred stock converted to shares of common stock		119,348
Accrual for additions to investments in real estate and tenant improvement advances included in accounts payable and accrued expenses	197,376	244,284
Additional accrual of contingent purchase price for investments in real estate		7,130
Allocation of purchase price of real estate/investment in partnership to:		
Investments in real estate		69,149
Acquired above-market leases		12
Acquired below-market leases		(2,087)
Acquired in-place lease value and deferred leasing costs		10,861
Cash paid for acquisition of real estate	\$	\$ 77,935

See accompanying notes to the condensed consolidated financial statements.

Table of Contents**DIGITAL REALTY TRUST, L.P. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands, except unit and per unit data)

	March 31, 2014 (unaudited)	December 31, 2013
ASSETS		
Investments in real estate:		
Properties:		
Land	\$ 685,640	\$ 693,791
Acquired ground leases	14,680	14,618
Buildings and improvements	8,834,693	8,680,677
Tenant improvements	490,697	490,492
Total investments in properties	10,025,710	9,879,578
Accumulated depreciation and amortization	(1,665,421)	(1,565,996)
Net investments in properties	8,360,289	8,313,582
Investment in unconsolidated joint ventures	81,411	70,504
Net investments in real estate	8,441,700	8,384,086
Cash and cash equivalents	70,242	56,808
Accounts and other receivables, net of allowance for doubtful accounts of \$7,156 and \$5,576 as of March 31, 2014 and December 31, 2013, respectively	181,433	181,163
Deferred rent	415,515	393,504
Acquired above-market leases, net	49,521	52,264
Acquired in-place lease value and deferred leasing costs, net	479,940	489,456
Deferred financing costs, net	34,295	36,475
Restricted cash	42,842	40,362
Assets held for sale	25,070	
Other assets	64,836	51,627
Total assets	\$ 9,805,394	\$ 9,685,745
LIABILITIES AND CAPITAL		
Global revolving credit facility	\$ 790,500	\$ 724,668
Unsecured term loan	1,026,891	1,020,984
Unsecured senior notes, net of discount	2,368,848	2,364,232
Exchangeable senior debentures	266,400	266,400
Mortgage loans, net of premiums	554,742	585,608
Accounts payable and other accrued liabilities	614,645	662,687
Accrued dividends and distributions		102,509
Acquired below-market leases, net	123,152	130,269
Security deposits and prepaid rents	180,886	181,876
Liabilities associated with assets held for sale	3,610	
Total liabilities	5,929,674	6,039,233
Commitments and contingencies		
Capital:		
Partners' capital:		

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General Partner:

Series E Cumulative Redeemable Preferred Units, 7.000%, \$287,500 and \$287,500 liquidation preference, respectively (\$25.00 per unit), 11,500,000 and 11,500,000 units issued and outstanding as of March 31, 2014 and December 31, 2013, respectively	277,172	277,172
Series F Cumulative Redeemable Preferred Units, 6.625%, \$182,500 and \$182,500 liquidation preference, respectively (\$25.00 per unit), 7,300,000 and 7,300,000 units issued and outstanding as of March 31, 2014 and December 31, 2013, respectively	176,191	176,191
Series G Cumulative Redeemable Preferred Units, 5.875%, \$250,000 and \$250,000 liquidation preference, respectively (\$25.00 per unit), 10,000,000 and 10,000,000 units issued and outstanding as of March 31, 2014 and December 31, 2013, respectively	241,468	241,468
Series H Cumulative Redeemable Preferred Units, 7.375%, \$300,000 and \$0 liquidation preference, respectively (\$25.00 per unit), 12,000,000 and 0 units issued and outstanding as of March 31, 2014 and December 31, 2013, respectively	289,857	
Common units:		
128,606,462 and 128,455,350 units issued and outstanding as of March 31, 2014 and December 31, 2013, respectively	2,832,598	2,904,994
Limited partners, 1,491,814 and 1,491,814 common units, 1,236,428 and 1,077,838 profits interest units and 397,369 and 397,369 class C units outstanding as of March 31, 2014 and December 31, 2013, respectively	39,574	31,261
Accumulated other comprehensive income	11,779	8,457
Total partners capital	3,868,639	3,639,543
Noncontrolling interests in consolidated joint ventures	7,081	6,969
Total capital	3,875,720	3,646,512
Total liabilities and capital	\$ 9,805,394	\$ 9,685,745

See accompanying notes to the condensed consolidated financial statements.

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DIGITAL REALTY TRUST, L.P. AND SUBSIDIARIES
CONDENSED CONSOLIDATED INCOME STATEMENTS
(unaudited, in thousands, except unit and per unit data)

	Three Months Ended March 31,	
	2014	2013
Operating Revenues:		
Rental	\$ 305,786	\$ 281,399
Tenant reimbursements	83,621	75,917
Fee income	1,183	806
Other		248
Total operating revenues	390,590	358,370
Operating Expenses:		
Rental property operating	117,896	105,480
Property taxes	22,125	21,042
Insurance	2,422	2,205
Construction management	164	384
Change in fair value of contingent consideration	(3,403)	1,300
Depreciation and amortization	130,620	111,623
General and administrative	30,678	15,951
Transactions	81	1,763
Other		36
Total operating expenses	300,583	259,784
Operating income	90,007	98,586
Other Income (Expenses):		
Equity in earnings of unconsolidated joint ventures	2,581	2,335
Gain on contribution of property to unconsolidated joint venture	1,906	
Interest and other income	1,727	41
Interest expense	(47,374)	(48,078)
Tax expense	(1,838)	(1,203)
Loss from early extinguishment of debt	(292)	
Net income	46,717	51,681
Net (income) loss attributable to noncontrolling interests in consolidated joint ventures	(112)	(146)
Net income attributable to Digital Realty Trust, L.P.	46,605	51,535
Preferred units distributions	(11,726)	(8,054)
Net income available to common unitholders	\$ 34,879	\$ 43,481
Net income per unit available to common unitholders:		
Basic	\$ 0.27	\$ 0.34
Diluted	\$ 0.26	\$ 0.34
Weighted average common units outstanding:		
Basic	131,142,664	128,888,041
Diluted	131,743,630	129,181,095

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See accompanying notes to the condensed consolidated financial statements.

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DIGITAL REALTY TRUST, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(unaudited, in thousands)

	Three Months Ended March 31,	
	2014	2013
Net income	\$ 46,717	\$ 51,681
Other comprehensive income (loss):		
Foreign currency translation adjustments	3,819	(63,063)
Decrease in fair value of interest rate swaps	(1,343)	(124)
Reclassification to interest expense from interest rate swaps	846	1,741
Comprehensive income (loss)	\$ 50,039	\$ (9,765)

See accompanying notes to the condensed consolidated financial statements.

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DIGITAL REALTY TRUST, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CAPITAL

(unaudited, in thousands, except unit data)

	General Partner Preferred Units		Common Units		Limited Partners Common Units		Accumulated Other Comprehensive Income	Noncontrolling Interests in Consolidated Joint Ventures	Total Capital
	Units	Amount	Units	Amount	Units	Amount			
Balance as of December 31, 2013	28,800,000	\$ 694,831	128,455,350	\$ 2,904,994	2,967,021	\$ 31,261	\$ 8,457	\$ 6,969	\$ 3,646,512
Conversion of limited partner common units to general partner common units			4,438	51	(4,438)	(51)			
Issuance of unvested restricted common units, net of forfeitures			145,757						
Common stock offering costs				(100)					(100)
Issuance of common units in connection with the exercise of stock options			917	38					38
Issuance of common units, net of forfeitures					163,028				
Net proceeds from issuance of series H preferred units	12,000,000	289,857							289,857
Amortization of unearned compensation regarding share-based awards				10,478					10,478
Reclassification of vested share-based awards				(10,306)		10,306			
Distributions		(11,726)		(106,743)		(2,635)			(121,104)
Net income		11,726		34,186		693		112	46,717
Other comprehensive loss foreign currency translation adjustments							3,819		3,819
Other comprehensive loss fair value of interest rate swaps							(1,343)		(1,343)
Other comprehensive income reclassification of accumulated other comprehensive loss to interest expense							846		846
Balance as of March 31, 2014	40,800,000	\$ 984,688	128,606,462	\$ 2,832,598	3,125,611	\$ 39,574	\$ 11,779	\$ 7,081	\$ 3,875,720

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See accompanying notes to the condensed consolidated financial statements.

Table of Contents**DIGITAL REALTY TRUST, L.P. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(unaudited, in thousands)**

	Three Months Ended March 31,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 46,717	\$ 51,681
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on contribution of investment property to unconsolidated joint venture	(1,906)	
Equity in earnings of unconsolidated joint ventures	(2,581)	(2,335)
Change in fair value of accrued contingent consideration	(3,403)	1,300
Distributions from unconsolidated joint ventures	2,214	1,625
Write-off of net assets due to early lease terminations		(36)
Depreciation and amortization of buildings and improvements, tenant improvements and acquired ground leases	111,142	93,286
Amortization of share-based unearned compensation	8,985	2,887
Allowance for doubtful accounts	1,580	1,100
Amortization of deferred financing costs	2,085	2,431
Loss on early extinguishment of debt	292	
Amortization of debt discount/premium	385	160
Amortization of acquired in-place lease value and deferred leasing costs	19,478	18,338
Amortization of acquired above-market leases and acquired below-market leases	(2,788)	(3,045)
Changes in assets and liabilities:		
Restricted cash	(1,589)	(62)
Accounts and other receivables	2,129	(15,584)
Deferred rent	(21,335)	(21,249)
Deferred leasing costs	(6,798)	(4,922)
Other assets	(14,227)	(10,858)
Accounts payable and other accrued liabilities	(26,051)	(28,858)
Security deposits and prepaid rents	2,082	3,182
Net cash provided by operating activities	116,411	89,041
Cash flows from investing activities:		
Acquisitions of real estate		(77,935)
Proceeds from contribution of investment property to unconsolidated joint venture	11,408	
Investment in unconsolidated joint ventures	(10,564)	(5,647)
Investment in equity securities	(5)	(12,549)
Deposits paid for acquisitions of real estate		(250)
Receipt of value added tax refund	425	1,990
Refundable value added tax paid	(2,289)	(1,914)
Change in restricted cash	(814)	(359)
Improvements to and advances for investments in real estate	(224,118)	(258,731)
Improvement advances to tenants	(2,499)	(1,010)
Collection of advances from tenants for improvements	912	767
Net cash used in investing activities	(227,544)	(355,638)

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See accompanying notes to the condensed consolidated financial statements.

Table of Contents**DIGITAL REALTY TRUST, L.P. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(unaudited, in thousands)**

	Three Months Ended March 31,	
	2014	2013
Cash flows from financing activities:		
Borrowings on revolving credit facility	\$ 433,297	\$ 492,643
Repayments on revolving credit facility	(371,351)	(657,095)
Borrowings on 4.250% unsecured senior notes due 2025		630,026
Principal payments on mortgage loans	(3,343)	(3,896)
Change in restricted cash	(68)	76
Payment of loan fees and costs	(150)	(5,272)
Capital contributions received from noncontrolling interests in consolidated joint ventures		45
General partner contributions	289,795	(87)
Payment of distributions to preferred unitholders	(11,726)	(8,054)
Payment of distributions to common unitholders	(211,887)	(195,940)
Net cash provided by financing activities	124,567	252,446
Net increase (decrease) in cash and cash equivalents	13,434	(14,151)
Cash and cash equivalents at beginning of period	56,808	56,281
Cash and cash equivalents at end of period	\$ 70,242	\$ 42,130

See accompanying notes to the condensed consolidated financial statements.

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DIGITAL REALTY TRUST, L.P. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands)

	Three Months Ended March 31,	
	2014	2013
Supplemental disclosure of cash flow information:		
Cash paid for interest, including amounts capitalized	\$ 67,824	\$ 56,163
Cash paid for income taxes	863	60
Supplementary disclosure of noncash investing and financing activities:		
Change in net assets related to foreign currency translation adjustments	3,819	(63,063)
Increase in accounts payable and other accrued liabilities related to change in fair value of interest rate swaps	(1,343)	(124)
Preferred units converted to common units		119,348
Accrual for additions to investments in real estate and tenant improvement advances included in accounts payable and accrued expenses	197,376	244,284
Additional accrual of contingent purchase price for investments in real estate		7,130
Allocation of purchase price of real estate/investment in partnership to:		
Investments in real estate		69,149
Acquired above-market leases		12
Acquired below-market leases		(2,087)
Acquired in-place lease value and deferred leasing costs		10,861
Cash paid for acquisition of real estate	\$	\$ 77,935

See accompanying notes to the condensed consolidated financial statements.

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DIGITAL REALTY TRUST, INC. AND SUBSIDIARIES

DIGITAL REALTY TRUST, L.P. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2014 and 2013

1. Organization and Description of Business

Digital Realty Trust, Inc. through its controlling interest in Digital Realty Trust, L.P. (the Operating Partnership) and the subsidiaries of the Operating Partnership (collectively, we, our, us or the Company) is engaged in the business of owning, acquiring, developing and managing technology-related real estate. The Company is focused on providing customer driven datacenter solutions for domestic and international tenants across a variety of industry verticals ranging from financial services, cloud and information technology services, to manufacturing, energy, health care and consumer products. As of March 31, 2014, our portfolio consisted of 131 properties, including 13 properties held as investments in unconsolidated joint ventures and developable land, of which 104 are located throughout North America, 22 are located in Europe, three are located in Australia and two are located in Asia. We are diversified in major markets where corporate datacenter and technology tenants are concentrated, including the Boston, Chicago, Dallas, Los Angeles, New York Metro, Northern Virginia, Phoenix, San Francisco and Silicon Valley metropolitan areas in the United States, Amsterdam, Dublin, London and Paris markets in Europe and Singapore, Sydney, Melbourne, Hong Kong and Osaka markets in the Asia Pacific region. The portfolio consists of Internet gateway and corporate datacenter properties, technology manufacturing properties and regional or national headquarters of technology companies.

The Operating Partnership was formed on July 21, 2004 in anticipation of Digital Realty Trust, Inc.'s initial public offering (IPO) on November 3, 2004 and commenced operations on that date. As of March 31, 2014, Digital Realty Trust, Inc. owns a 97.6% common interest and a 100% preferred interest in the Operating Partnership. As sole general partner of the Operating Partnership, Digital Realty Trust, Inc. has the full, exclusive and complete responsibility for the Operating Partnership's day-to-day management and control. The limited partners of the Operating Partnership do not have rights to replace Digital Realty Trust, Inc. as the general partner nor do they have participating rights, although they do have certain protective rights.

2. Summary of Significant Accounting Policies

(a) Principles of Consolidation and Basis of Presentation

The accompanying interim condensed consolidated financial statements include all of the accounts of Digital Realty Trust, Inc., the Operating Partnership and the subsidiaries of the Operating Partnership. Intercompany balances and transactions have been eliminated.

The accompanying interim condensed consolidated financial statements are unaudited, but have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information and in compliance with the rules and regulations of the United States Securities and Exchange Commission. Accordingly, they do not include all of the disclosures required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments necessary for a fair presentation have been included. All such adjustments are considered to be of a normal recurring nature, except as otherwise indicated. The results of operations for the interim periods are not necessarily indicative of the results to be obtained for the full fiscal year. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our annual report on Form 10-K, as amended, for the year ended December 31, 2013.

The notes to the condensed consolidated financial statements of Digital Realty Trust, Inc. and the Operating Partnership have been combined to provide the following benefits:

enhancing investors' understanding of the Company and the Operating Partnership by enabling investors to view the business as a whole in the same manner as management views and operates the business;

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eliminating duplicative disclosure and providing a more streamlined and readable presentation since a substantial portion of the disclosure applies to both the Company and the Operating Partnership; and

creating time and cost efficiencies through the preparation of one set of notes instead of two separate sets of notes.

There are a few differences between the Company and the Operating Partnership, which are reflected in these condensed consolidated financial statements. We believe it is important to understand the differences between the Company and the Operating Partnership in the context of how we operate as an interrelated consolidated company. Digital Realty Trust, Inc.'s only material asset is its ownership of partnership interests of the Operating Partnership. As a result, Digital Realty Trust, Inc. does not conduct business itself, other than acting as the sole general partner of the Operating Partnership, issuing public equity from time to time and guaranteeing certain unsecured debt of the Operating Partnership and certain of its subsidiaries. Digital Realty Trust, Inc. itself does not hold any indebtedness but guarantees the unsecured debt of the Operating Partnership and certain of its subsidiaries, as disclosed in these notes.

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DIGITAL REALTY TRUST, INC. AND SUBSIDIARIES

DIGITAL REALTY TRUST, L.P. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

March 31, 2014 and 2013

The Operating Partnership holds substantially all the assets of the Company and holds the ownership interests in the Company's joint ventures. The Operating Partnership conducts the operations of the business and is structured as a partnership with no publicly traded equity. Except for net proceeds from public equity issuances by Digital Realty Trust, Inc., which are generally contributed to the Operating Partnership in exchange for partnership units, the Operating Partnership generates the capital required by the Company's business through the Operating Partnership's operations, by the Operating Partnership's direct or indirect incurrence of indebtedness or through the issuance of partnership units.

The presentation of noncontrolling interests in operating partnership, stockholders' equity and partners' capital are the main areas of difference between the condensed consolidated financial statements of Digital Realty Trust, Inc. and those of the Operating Partnership. The common limited partnership interests held by the limited partners in the Operating Partnership are presented as limited partners' capital within partners' capital in the Operating Partnership's condensed consolidated financial statements and as noncontrolling interests in operating partnership within equity in Digital Realty Trust, Inc.'s condensed consolidated financial statements. The common and preferred partnership interests held by Digital Realty Trust, Inc. in the Operating Partnership are presented as general partner's capital within partners' capital in the Operating Partnership's condensed consolidated financial statements and as preferred stock, common stock, additional paid-in capital and accumulated dividends in excess of earnings within stockholders' equity in Digital Realty Trust, Inc.'s condensed consolidated financial statements. The differences in the presentations between stockholders' equity and partners' capital result from the differences in the equity issued at the Digital Realty Trust, Inc. and the Operating Partnership levels.

To help investors understand the significant differences between the Company and the Operating Partnership, these consolidated financial statements present the following separate sections for each of the Company and the Operating Partnership:

condensed consolidated face financial statements; and

the following notes to the condensed consolidated financial statements:

Debt of the Company and Debt of the Operating Partnership;

Income per Share and Income per Unit; and

Equity and Accumulated Other Comprehensive Loss, Net of the Company and Capital and Accumulated Other Comprehensive Income (Loss) of the Operating Partnership.

In the sections that combine disclosure of Digital Realty Trust, Inc. and the Operating Partnership, these notes refer to actions or holdings as being actions or holdings of the Company. Although the Operating Partnership is generally the entity that enters into contracts and joint ventures and holds assets and debt, reference to the Company is appropriate because the business is one enterprise and the Company operates the business through the Operating Partnership.

(b) Cash Equivalents

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For the purpose of the condensed consolidated statements of cash flows, we consider short-term investments with original maturities of 90 days or less to be cash equivalents. As of March 31, 2014, cash equivalents consist of investments in money market instruments.

(c) Investment in Unconsolidated Joint Ventures

The Company's investment in unconsolidated joint ventures is accounted for using the equity method, whereby the investment is increased for capital contributed and our share of the joint ventures' net income and decreased by distributions we receive and our share of any losses of the joint ventures.

We amortize the difference between the cost of our investments in unconsolidated joint ventures and the book value of the underlying equity into equity in earnings from unconsolidated affiliates on a straight-line basis consistent with the lives of the underlying assets.

(d) Capitalization of Costs

Direct and indirect project costs that are clearly associated with the development of properties are capitalized as incurred. Project costs include all costs directly associated with the development of a property, including construction costs, interest, property taxes, insurance, legal fees and costs of personnel working on the project. Indirect costs that do not clearly relate to the projects under development are not capitalized and are charged to expense as incurred.

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DIGITAL REALTY TRUST, INC. AND SUBSIDIARIES

DIGITAL REALTY TRUST, L.P. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

March 31, 2014 and 2013

Capitalization of costs begins when the activities necessary to get the development project ready for its intended use begins, which include costs incurred before the beginning of construction. Capitalization of costs ceases when the development project is substantially complete and ready for its intended use. Determining when a development project commences, and when it is substantially complete and ready for its intended use involves a degree of judgment. We generally consider a development project to be substantially complete and ready for its intended use upon receipt of a certificate of occupancy. We cease cost capitalization if activities necessary for the development of the property have been suspended. Capitalized costs are allocated to the specific components of a project that are benefited.

During the three months ended March 31, 2014 and 2013, we capitalized interest of approximately \$5.3 million and \$5.3 million, respectively. During the three months ended March 31, 2014 and 2013, we capitalized amounts relating to compensation expense of employees direct and incremental to construction and successful leasing activities of approximately \$12.4 million and \$10.1 million, respectively. Cash flows from capitalized leasing costs of \$9.6 million and \$10.8 million are included in improvements to and advances for investments in real estate in cash flows from investing activities in the condensed consolidated statements of cash flows for the three months ended March 31, 2014 and 2013, respectively.

(e) Share-Based Compensation

The Company measures all share-based compensation awards at fair value on the date they are granted to employees and directors, and recognizes compensation cost, net of forfeitures, over the requisite service period for awards with only a service condition. The estimated fair value of the long-term incentive units and Class D Units (discussed in note 13) granted by us is being amortized on a straight-line basis over the expected service period.

The fair value of share-based compensation awards that contain a market condition is measured using a lattice model and not adjusted based on actual achievement of the performance goals.

(f) Income Taxes

Digital Realty Trust, Inc. has elected to be treated as a real estate investment trust (a REIT) for federal income tax purposes. As a REIT, Digital Realty Trust, Inc. generally is not required to pay federal corporate income tax to the extent taxable income is currently distributed to its stockholders. If Digital Realty Trust, Inc. fails to qualify as a REIT in any taxable year, it will be subject to federal income tax (including any applicable alternative minimum tax) on its taxable income at regular corporate tax rates.

The Company is subject to foreign, state and local income taxes in the jurisdictions in which it conducts business. The Company's U.S. consolidated taxable REIT subsidiary is subject to both federal and state income taxes to the extent there is taxable income. Accordingly, the Company recognizes current and deferred income taxes for its taxable REIT subsidiaries, certain states and non-U.S. jurisdictions, as appropriate.

We assess our significant tax positions in accordance with U.S. GAAP for all open tax years and determine whether we have any material unrecognized liabilities from uncertain tax benefits. If a tax position is not considered more-likely-than-not to be sustained solely on its technical merits, no benefits of the tax position are to be recognized (for financial statement purposes). As of March 31, 2014 and December 31, 2013, we have no assets or liabilities for uncertain tax positions. We classify interest and penalties from significant uncertain tax positions as interest expense and operating expense, respectively, in our condensed consolidated income statements. For the three months ended March 31, 2014 and 2013, we had no such interest or penalties. The tax year 2010 and thereafter remain open to examination by the major taxing jurisdictions with which the Company files tax returns.

See Note 10 for further discussion on income taxes.

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DIGITAL REALTY TRUST, INC. AND SUBSIDIARIES

DIGITAL REALTY TRUST, L.P. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

March 31, 2014 and 2013

(g) Presentation of Transactional-based Taxes

We account for transactional-based taxes, such as value added tax, or VAT, for our international properties on a net basis.

(h) Fee Income

Occasionally, customers engage the company for certain services. The nature of these services historically involves property management, construction management, and assistance with financing. The proper revenue recognition of these services can be different, depending on whether the arrangements are service revenue or contractor type revenue.

Service revenues are typically recognized on an equal monthly basis based on the minimum fee to be earned. The monthly amounts could be adjusted depending on if certain performance milestones are met.

Fee income also includes management fees. These fees arise from contractual agreements with entities in which we have a noncontrolling interest. The management fees are recognized as earned under the respective agreements. Management and other fee income related to partially owned entities are recognized to the extent attributable to the unaffiliated interest.

Contractor type revenue for long-term contracts is recognized under the percentage-of-completion method of accounting. Revenues are determined by measuring the percentage of total costs incurred to date to estimated total costs for each construction management contract based on current estimates of costs to complete. Contract costs include all labor and benefits, materials, subcontracts, and an allocation of indirect costs related to contract performance. Indirect costs are allocated to projects based upon labor hours charged. Third party costs are included in construction management expense and their reimbursements are included in construction management revenue to the extent that the Company is the primary obligor for the third party costs. Otherwise, construction management revenue and expense is reflected net of third party costs. As long-term design-build projects extend over one or more years, revisions in cost and estimated earnings during the course of the work are reflected in the accounting period in which the facts which require the revision become known. At the time a loss on a design-build project becomes known, the entire amount of the estimated loss is recognized in the condensed consolidated financial statements. Change orders are recognized when they are approved by the client.

Costs and estimated earnings in excess of billings on uncompleted construction management projects are included in other assets in the condensed consolidated balance sheets. Billings in excess of costs and estimated earnings on uncompleted construction management projects are included in accounts payable and other accrued liabilities in the condensed consolidated balance sheets. Customers are billed on a monthly basis at the end of each month, which can be in advance of work performed.

(i) Assets and Liabilities Measured at Fair Value

Fair value under U.S. GAAP is a market-based measurement, not an entity-specific measurement. Therefore, our fair value measurements are determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair-value measurements, we use a fair-value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or

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liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability which are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair-value measurement is based on inputs from different levels of the fair-value hierarchy, the level in the fair-value hierarchy within which the entire fair-value measurement falls is based on the lowest level input that is significant to the fair-value measurement in its entirety. Our assessment of the significance of a particular input to the fair-value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

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DIGITAL REALTY TRUST, INC. AND SUBSIDIARIES

DIGITAL REALTY TRUST, L.P. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

March 31, 2014 and 2013

(j) Transactions Expense

Transactions expense includes acquisition-related expenses and other business development expenses, which are expensed as incurred. Acquisition-related expenses include closing costs, broker commissions and other professional fees, including legal and accounting fees related to acquisitions and potential acquisitions.

(k) Management's Estimates

The preparation of financial statements in conformity with U.S. GAAP 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 condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates made. On an on-going basis, we evaluate our estimates, including those related to the valuation of our real estate properties, contingent consideration, accounts receivable and deferred rent receivable, performance-based equity compensation plans, the completeness of accrued liabilities and Digital Realty Trust, Inc.'s qualification as a REIT. We base our estimates on historical experience, current market conditions, and various other assumptions that are believed to be reasonable under the circumstances. Actual results may vary from those estimates and those estimates could vary under different assumptions or conditions.

(l) Segment and Geographic Information

All of our properties generate similar revenues and expenses related to tenant rent and reimbursements and operating expenses. The delivery of our products is consistent across all properties and although services are provided to a wide range of customers, the types of real estate services provided to them are standardized throughout the portfolio. As such, the properties in our portfolio have similar economic characteristics and the nature of the products and services provided to our customers and the method to distribute such services are consistent throughout the portfolio. Consequently, our properties qualify for aggregation into one reporting segment.

Operating revenues from properties in the United States were \$295.2 million and \$274.0 million and outside the United States were \$95.4 million and \$84.4 million for the three months ended March 31, 2014 and 2013, respectively. We had long-lived assets located in the United States of \$5.7 billion and \$5.6 billion and outside the United States of \$2.7 billion and \$2.7 billion as of March 31, 2014 and December 31, 2013, respectively.

Operating revenues from properties located in the United Kingdom were \$54.9 million and \$47.3 million, or 14.1% and 13.2% of total operating revenues, for the three months ended March 31, 2014 and 2013, respectively. No other foreign country comprised more than 10% of total operating revenues for each of these periods. We had long-lived assets located in the United Kingdom of \$1.7 billion and \$1.8 billion, or 20.8% and 21.1% of total long-lived assets, as of March 31, 2014 and December 31, 2013, respectively. No other foreign country comprised more than 10% of total long-lived assets as of March 31, 2014 and December 31, 2013.

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DIGITAL REALTY TRUST, INC. AND SUBSIDIARIES

DIGITAL REALTY TRUST, L.P. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

March 31, 2014 and 2013

(m) Reclassifications

Certain reclassifications to prior year amounts have been made to conform to the current year presentation. During the three months ended March 31, 2013, \$1.3 million was reclassified from rental property operating and maintenance expense to change in fair value of contingent consideration.

(n) Recent Accounting Pronouncements

In April 2014, Accounting Standards Update (ASU) 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360), Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, was issued which amends the requirements for reporting discontinued operations. Under ASU 2014-08, a disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results when the component or group of components meets the criteria to be classified as held for sale or when the component or group of components is disposed of by sale or other than by sale. In addition, this ASU requires additional disclosures about both discontinued operations and the disposal of an individually significant component of an entity that does not qualify for discontinued operations presentation in the financial statements. As permitted by the standard, the Company has elected to early adopt the provisions of ASU 2014-08 as of January 1, 2014 and will apply the provisions prospectively.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

March 31, 2014 and 2013

3. Investments in Real Estate

We acquired no real estate properties during the three months ended March 31, 2014.

On April 7, 2014, a wholly-owned subsidiary of the Operating Partnership sold 6 Braham Street to the tenant for £25.0 million (or approximately \$41.5 million based on the exchange rate as of April 7, 2014). The transaction after costs and various tenant prepayments resulted in net proceeds of approximately £22.6 million (or approximately \$37.5 million based on the exchange rate as of April 7, 2014) and a net gain of approximately £9.5 million (or approximately \$15.8 million based on the exchange rate as of April 7, 2014), which will be recognized in the three month period ended June 30, 2014. The transaction includes substantially all of the assets of 6 Braham Street and we expect no further cash flows following the sale date.

The property was identified as held for sale on March 21, 2014 when we entered into a Heads of Terms agreement with the buyer. 6 Braham Street was not a significant component of our United Kingdom portfolio nor does the sale of 6 Braham represent a significant shift in our strategy.

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As of March 31, 2014, our investment in unconsolidated joint ventures consists of effective 50% interests in joint ventures that own a data center property at 2001 Sixth Avenue in Seattle, Washington, a data center property at 2020 Fifth Avenue in Seattle, Washington and a development property at 33 Chun Choi Street in Hong Kong, and a 20% interest in a joint venture with an investment fund managed by Prudential Real Estate Investors (PREI®). The following tables present summarized financial information for the joint ventures as of March 31, 2014 and December 31, 2013 and for the three months ended March 31, 2014 and 2013 (unaudited, in thousands):

2014	Net Investment in Properties	As of March 31, 2014				Three Months Ended March 31, 2014			
		Total Assets	Mortgage Loans	Total Liabilities	Equity / (Deficit)	Revenues	Property Operating Expense	Net Operating Income	Net Income (Loss)
Total unconsolidated joint ventures	\$ 625,075	\$ 728,716	\$ 360,581	\$ 458,986	\$ 269,730	\$ 21,919	\$ (5,009)	\$ 16,910	\$ 5,894

Our investment in and share of equity in earnings of unconsolidated joint ventures

\$ 81,411

\$ 2,581

2013	Net Investment in Properties	As of December 31, 2013				Three Months Ended March 31, 2013			
		Total Assets	Mortgage Loans	Total Liabilities	Equity / (Deficit)	Revenues	Property Operating Expense	Net Operating Income	Net Income (Loss)
Total unconsolidated joint ventures	\$ 584,837	\$ 676,015	\$ 337,953	\$ 444,062	\$ 231,953	\$ 11,099	\$ (2,687)	\$ 8,412	\$ 4,931

Our investment in and share of equity in earnings of unconsolidated joint ventures

\$ 70,504

\$ 2,335

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

March 31, 2014 and 2013

PREI[®] Joint Venture

On March 5, 2014, we contributed the 636 Pierce Street property, which was acquired in December 2013, to the PREI[®] Joint Venture that was initially formed in September 2013. The property was valued at approximately \$40.4 million and subject to \$26.1 million in debt, which the joint venture assumed. PREI[®] contributed approximately \$11.4 million in cash for their 80% share of the net asset value of \$14.3 million. Subsequent to the closing, the joint venture refinanced the existing debt with \$23.0 million drawn from the joint venture's bank facility. Including the refinance costs, PREI[®] contributed \$17.5 million for the 636 Pierce Street property, bringing their contributed capital in the joint venture to \$164.8 million.

The transaction produced a \$1.9 million gain for the Company representing the difference between the \$11.4 million of cash proceeds received by the Company for their 80% share of the net asset less the Company's book value.

Differences between the Company's investment in the joint venture and the amount of the underlying equity in net assets of the joint venture are due to basis differences resulting from the Company's equity investment recorded at its historical basis versus the fair value of the Company's contributed interest in the joint venture. Our proportionate share of the earnings or losses related to this unconsolidated joint venture is reflected as equity in earnings of unconsolidated joint ventures on the accompanying consolidated income statements.

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The following summarizes our acquired intangible assets (acquired in-place lease value and acquired above-market lease value) and intangible liabilities (acquired below-market lease value) as of March 31, 2014 and December 31, 2013.

(Amounts in thousands)	Balance as of	
	March 31, 2014	December 31, 2013
Acquired in-place lease value:		
Gross amount	\$ 721,961	\$ 725,458
Accumulated amortization	(438,789)	(423,549)
Net	\$ 283,172	\$ 301,909
Acquired above-market leases:		
Gross amount	\$ 133,064	\$ 132,750
Accumulated amortization	(83,543)	(80,486)
Net	\$ 49,521	\$ 52,264
Acquired below-market leases:		
Gross amount	\$ 290,365	\$ 291,638
Accumulated amortization	(167,213)	(161,369)
Net	\$ 123,152	\$ 130,269

Amortization of acquired below-market lease value, net of acquired above-market lease value, resulted in an increase to rental revenues of \$2.8 million and \$3.0 million for the three months ended March 31, 2014 and 2013, respectively. The expected average remaining lives for acquired below-market leases and acquired above-market leases is 6.5 years and 4.3 years, respectively, as of March 31, 2014. Estimated annual amortization of acquired below-market lease value, net of acquired above-market lease value, for each of the five succeeding years and thereafter, commencing April 1, 2014 is as follows:

(Amounts in thousands)	
Remainder of 2014	\$ 7,171
2015	8,862
2016	7,540
2017	6,038
2018	4,419
Thereafter	39,601
Total	\$ 73,631

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Amortization of acquired in-place lease value (a component of depreciation and amortization expense) was \$15.1 million and \$14.9 million for the three months ended March 31, 2014 and 2013, respectively. The expected average amortization period for acquired in-place lease value is 6.4 years as of March 31, 2014. The weighted average remaining contractual life for acquired leases excluding renewals or extensions is 5.0 years as of March 31, 2014. Estimated annual amortization of acquired in-place lease value for each of the five succeeding years and thereafter, commencing April 1, 2014 is as follows:

(Amounts in thousands)	
Remainder of 2014	\$ 39,761
2015	44,295
2016	41,180
2017	28,363
2018	25,997
Thereafter	103,576
Total	\$ 283,172

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March 31, 2014 and 2013

6. Debt of the Company

In this Note 6, the Company refers only to Digital Realty Trust, Inc. and not to any of its subsidiaries.

The Company itself does not have any indebtedness. All debt is held directly or indirectly by the Operating Partnership.

Guarantee of Debt

The Company guarantees the Operating Partnership's obligations with respect to its 5.50% exchangeable senior debentures due 2029 (2029 Debentures), 4.50% notes due 2015 (2015 Notes), 5.875% notes due 2020 (2020 Notes), 5.250% notes due 2021 (2021 Notes), 3.625% notes due 2022 (2022 Notes) and its unsecured senior notes sold to Prudential Investment Management, Inc. and certain of its affiliates pursuant to the Amended and Restated Note Purchase and Private Shelf Agreement, as amended, which we refer to as the Prudential shelf facility. The Company and the Operating Partnership guarantee the obligations of Digital Stout Holding, LLC, a wholly owned subsidiary of the Operating Partnership, with respect to its 4.250% notes due 2025 (2025 Notes). The Company is also the guarantor of the Operating Partnership's and its subsidiary borrowers' obligations under the global revolving credit facility and unsecured term loan.

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A summary of outstanding indebtedness of the Operating Partnership as of March 31, 2014 and December 31, 2013 is as follows (in thousands):

Indebtedness	Interest Rate at March 31, 2014	Maturity Date	Principal Outstanding March 31, 2014	Principal Outstanding December 31, 2013
Global revolving credit facility	Various (1)	Nov. 3, 2017	\$ 790,500 (2)	\$ 724,668 (2)
Unsecured term loan	Various (3)(8)	Apr. 16, 2017	\$ 1,026,891 (4)	\$ 1,020,984 (4)
Unsecured senior notes:				
Prudential Shelf Facility:				
Series C	9.680%	Jan. 6, 2016	25,000	25,000
Series D	4.570%	Jan. 20, 2015	50,000	50,000
Series E	5.730%	Jan. 20, 2017	50,000	50,000
Series F	4.500%	Feb. 3, 2015	17,000	17,000
Total Prudential Shelf Facility			142,000	142,000
Senior Notes:				
4.50% notes due 2015	4.500%	Jul. 15, 2015	375,000	375,000
5.875% notes due 2020	5.875%	Feb. 1, 2020	500,000	500,000
5.25% notes due 2021	5.250%	Mar. 15, 2021	400,000	400,000
3.625% notes due 2022	3.625%	Oct. 1, 2022	300,000	300,000
4.25% notes due 2025	4.250%	Jan. 17, 2025	666,480(9)	662,280(9)
Unamortized discounts			(14,632)	(15,048)
Total senior notes, net of discount			2,226,848	2,222,232
Total unsecured senior notes, net of discount			2,368,848	2,364,232
Exchangeable senior debentures:				
5.50% exchangeable senior debentures due 2029	5.500%	Apr. 15, 2029(5)	266,400	266,400
Total exchangeable senior debentures			266,400	266,400

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Indebtedness	Interest	Maturity Date	Principal Outstanding	
	Rate at		March 31, 2014	December 31, 2013
Mortgage loans:				
Secured Term Debt (6)(7)	5.65%	Nov. 11, 2014	\$ 132,157	\$ 132,966
200 Paul Avenue 1-4 (7)	5.74%	Oct. 8, 2015	70,198	70,713
2045 & 2055 LaFayette Street (7)	5.93%	Feb. 6, 2017	63,351	63,623
34551 Ardenwood Boulevard 1-4 (7)	5.95%	Nov. 11, 2016	51,942	52,152
1100 Space Park Drive (7)	5.89%	Dec. 11, 2016	51,904	52,115
600 West Seventh Street	5.80%	Mar. 15, 2016	49,127	49,548
150 South First Street (7)	6.30%	Feb. 6, 2017	49,896	50,097
2334 Lundy Place (7)	5.96%	Nov. 11, 2016	37,778	37,930
Cressex 1 (10)	5.68%	Oct. 16, 2014	28,636 (9)	28,583 (9)
636 Pierce Street	5.27%	Apr. 15, 2023	(11)	26,327
8025 North Interstate 35	4.09%	Mar. 6, 2016	6,251	6,314
Manchester Technopark (10)	5.68%	Oct. 16, 2014	8,712 (9)	8,695 (9)
731 East Trade Street	8.22%	Jul. 1, 2020	4,101	4,186
Unamortized net premiums			689	2,359
Total mortgage loans, net of premiums			554,742	585,608
Total indebtedness			\$ 5,007,381	\$ 4,961,892

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- (1) The interest rate for borrowings under the global revolving credit facility equals the applicable index plus a margin of 110 basis points, which is based on the credit rating of our long-term debt. An annual facility fee of 20 basis points, which is based on the credit rating of our long-term debt, is due and payable quarterly on the total commitment amount of the facility. Two six-month extensions are available, which we may exercise if certain conditions are met.
- (2) Balances as of March 31, 2014 and December 31, 2013 are as follows (balances, in thousands):

Denomination of Draw	Balance as of March 31, 2014	Weighted-average interest rate	Balance as of December 31, 2013	Weighted-average interest rate
<u>Floating Rate Borrowing (a)</u>				
U.S. dollar (\$)	\$ 397,000	1.25%	\$ 466,000	1.27%
British pound sterling (£)	126,631 (c)	1.60%		
Euro ()	74,353 (c)	1.33%	78,335 (d)	1.33%
Australian dollar (AUD)	73,185 (c)	3.73%	67,212 (d)	3.70%
Hong Kong dollar (HKD)	66,677 (c)	1.31%	57,390 (d)	1.31%
Japanese yen (JPY)	13,174 (c)	1.20%	12,858 (d)	1.21%
Canadian dollar (CAD)	34,480 (c)	2.32%	14,873 (d)	2.32%
Total	\$ 785,500	1.60%	\$ 696,668	1.53%
<u>Base Rate Borrowing (b)</u>				
U.S. dollar (\$)	\$ 5,000	3.35%	\$ 28,000	3.35%
Total borrowings	\$ 790,500	1.61%	\$ 724,668	1.60%

- (a) The interest rates for floating rate borrowings under the global revolving credit facility equal the applicable index plus a margin of 110 basis points, which is based on the credit rating of our long-term debt.
- (b) The interest rates for base rate borrowings under the global revolving credit facility equal the U.S. Prime Rate plus a margin of 10 basis points, which is based on the credit rating of our long-term debt.
- (c) Based on exchange rates of \$1.67 to £1.00, \$1.38 to 1.00, \$0.93 to 1.00 AUD, \$0.13 to 1.00 HKD, \$0.01 to 1.00 JPY and \$0.90 to 1.00 CAD, respectively, as of March 31, 2014.
- (d) Based on exchange rates of \$1.37 to 1.00, \$0.89 to 1.00 AUD, \$0.13 to 1.00 HKD, \$0.01 to 1.00 JPY and \$0.94 to 1.00 CAD, respectively, as of December 31, 2013.
- (3) Interest rates are based on our senior unsecured debt ratings and are 120 basis points over the applicable index for floating rate advances. Two six-month extensions are available, which we may exercise if certain conditions are met.

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(4) Balances as of March 31, 2014 and December 31, 2013 are as follows (balances, in thousands):

Denomination of Draw	Balance as of March 31, 2014	Weighted-average interest rate	Balance as of December 31, 2013	Weighted-average interest rate
U.S. dollar (\$)	\$ 410,905	1.36% (b)	\$ 410,905	1.37% (d)
Singapore dollar (SGD)	181,710 (a)	1.42% (b)	180,918 (c)	1.40% (d)
British pound sterling (£)	201,485 (a)	1.72%	200,216 (c)	1.72%
Euro ()	137,001 (a)	1.43%	136,743 (c)	1.43%
Australian dollar (AUD)	95,790 (a)	3.82%	92,202 (c)	3.78%
Total	\$ 1,026,891	1.68% (b)	\$ 1,020,984	1.67% (d)

- (a) Based on exchange rates of \$0.80 to 1.00 SGD, \$1.67 to £1.00, \$1.38 to 1.00 and \$0.93 to 1.00 AUD, respectively, as of March 31, 2014.
- (b) As of March 31, 2014, the weighted-average interest rate reflecting interest rate swaps was 1.92% (U.S. dollar), 2.00% (Singapore dollar) and 2.01% (Total). See Note 14 for further discussion on interest rate swaps.
- (c) Based on exchange rates of \$0.79 to 1.00 SGD, \$1.66 to £1.00, \$1.37 to 1.00 and \$0.89 to 1.00 AUD, respectively, as of December 31, 2013.
- (d) As of December 31, 2013, the weighted-average interest rate reflecting interest rate swaps was 1.92% (U.S. dollar), 2.00% (Singapore dollar) and 2.00% (Total). See Note 14 for further discussion on interest rate swaps.

- (5) The 2029 Debentures were redeemed in April 2014.
- (6) This amount represents six mortgage loans secured by our interests in 36 NE 2nd Street, 3300 East Birch Street, 100 & 200 Quannapowitt Parkway, 300 Boulevard East, 4849 Alpha Road, and 11830 Webb Chapel Road. Each of these loans is cross-collateralized by the six properties.
- (7) The respective borrower's assets and credit are not available to satisfy the debts and other obligations of affiliates or any other person.
- (8) We have entered into interest rate swap agreements as a cash flow hedge for interest generated by the U.S. dollar and Singapore dollar tranches of the unsecured term loan. See note 14 for further information.
- (9) Based on exchange rate of \$1.67 to £1.00 as of March 31, 2014 and \$1.66 to £1.00 as of December 31, 2013.
- (10) These loans are also secured by a £7.8 million letter of credit. These loans are cross-collateralized by the two properties.
- (11) On March 5, 2014, we contributed this property to our joint venture with an investment fund managed by Prudential Real Estate Investors which was formed in September 2013. Also on March 5, 2014, the joint venture assumed the debt and repaid in full the outstanding balance of \$26.1 million on the mortgage loan.

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On August 15, 2013, the Operating Partnership refinanced its revolving credit facility, which we refer to as the global revolving credit facility, increasing its total borrowing capacity to \$2.0 billion from \$1.8 billion. The global revolving credit facility has an accordion feature that would enable us to increase the borrowing capacity of the credit facility to \$2.55 billion, subject to the receipt of lender commitments and other conditions precedent. The refinanced facility matures on November 3, 2017, with two six-month extension options. The interest rate for borrowings under the expanded facility equals the applicable index plus a margin which is based on the credit rating of our long-term debt and is currently 110 basis points. An annual facility fee on the total commitment amount of the facility, based on the credit rating of our long-term debt, is currently 20 basis points, and payable quarterly. Funds may be drawn in U.S., Canadian, Singapore, Australian and Hong Kong dollars, as well as Euro, British pound sterling, Swiss franc, Japanese yen and Mexican peso denominations. As of March 31, 2014, borrowings under the global revolving credit facility bore interest at an overall blended rate of 1.61% comprised of 1.25% (U.S. dollars), 1.60% (British pound sterling), 1.33% (Euros), 3.73% (Australian dollars), 1.31% (Hong Kong dollars), 1.20% (Japanese yen) and 2.32% (Canadian dollars). The interest rates are based on 1-month LIBOR, 1-month GBP LIBOR, 1-month EURIBOR, 1-month BBR, 1-month HIBOR, 1-month JPY LIBOR and 1-month CDOR, respectively, plus a margin of 1.10%. The facility also bore a base borrowing rate of 3.35% (USD) which is based on U.S. Prime Rate plus a margin of 0.10%. We have used and intend to use available borrowings under the global revolving credit facility to acquire additional properties, fund development opportunities and to provide for working capital and other corporate purposes, including potentially for the repurchase, redemption or retirement of outstanding debt or equity securities. As of March 31, 2014, we have capitalized approximately \$18.0 million of financing costs related to the global revolving credit facility. As of March 31, 2014, approximately \$790.5 million was drawn under this facility and \$23.1 million of letters of credit were issued.

The global revolving credit facility contains various restrictive covenants, including limitations on our ability to incur additional indebtedness, make certain investments or merge with another company, and requirements to maintain financial coverage ratios, including with respect to unencumbered assets. In addition, the global revolving credit facility restricts Digital Realty Trust, Inc. from making distributions to its stockholders, or redeeming or otherwise repurchasing shares of its capital stock, after the occurrence and during the continuance of an event of default, except in limited circumstances including as necessary to enable Digital Realty Trust, Inc. to maintain its qualification as a REIT and to minimize the payment of income or excise tax. As of March 31, 2014, we were in compliance with all of such covenants.

Unsecured Term Loan

On August 15, 2013, we refinanced the senior unsecured multi-currency term loan facility, increasing its total borrowing capacity to \$1.0 billion from \$750.0 million, and pursuant to the accordion feature total commitments can be increased up to \$1.1 billion, subject to the receipt of lender commitments and other conditions precedent. The facility matures on April 16, 2017, with two six-month extension options. Interest rates are based on our senior unsecured debt ratings and are currently 120 basis points over the applicable index for floating rate advances. Funds may be drawn in U.S, Singapore and Australian dollars, as well as Euro and British pound sterling denominations with the option to add Hong Kong dollars and Japanese yen upon an accordion exercise. Based on exchange rates in effect at March 31, 2014, the balance outstanding is approximately \$1,026.9 million. We have used borrowings under the term loan for acquisitions, repayment of indebtedness, development, working capital and general corporate purposes. The covenants under this loan are consistent with our global revolving credit facility and, as of March 31, 2014, we were in compliance with all of such covenants. As of March 31, 2014, we have capitalized approximately \$8.4 million of financing costs related to the unsecured term loan.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

March 31, 2014 and 2013

Exchangeable Senior Debentures

5.50% Exchangeable Senior Debentures due 2029

On April 20, 2009, the Operating Partnership issued \$266.4 million of its 5.50% exchangeable senior debentures due April 15, 2029 (the 2029 Debentures). Costs incurred to issue the 2029 Debentures were approximately \$7.8 million. These costs were amortized over a period of five years, which represented the estimated term of the 2029 Debentures, and are included in deferred financing costs, net in the condensed consolidated balance sheet. The 2029 Debentures were general unsecured senior obligations of the Operating Partnership, ranked equally in right of payment with all other senior unsecured indebtedness of the Operating Partnership and were fully and unconditionally guaranteed by Digital Realty Trust, Inc.

Interest was payable on October 15 and April 15 of each year beginning October 15, 2009 until the maturity date of April 15, 2029. The 2029 Debentures bore interest at 5.50% per annum and were exchangeable for shares of Digital Realty Trust, Inc. common stock at an exchange rate that was initially 23.2558 shares per \$1,000 principal amount of 2029 Debentures. The exchange rate on the 2029 Debentures was subject to adjustment for certain events, including, but not limited to, certain dividends on Digital Realty Trust, Inc. common stock in excess of \$0.33 per share per quarter (the reference dividend). Effective December 11, 2013, the exchange rate had been adjusted to 25.5490 shares per \$1,000 principal amount of 2029 Debentures as a result of the aggregate dividends in excess of the reference dividend that Digital Realty Trust, Inc. declared and paid on its common stock beginning with the quarter ended September 30, 2013 and through the quarter ended December 31, 2013. Due to the fact that the exchange feature for the 2029 Debentures had to be settled in the common stock of Digital Realty Trust, Inc., accounting guidance on convertible debt instruments that requires the principal amount to be settled in cash upon conversion did not apply.

On March 17, 2014, we commenced an offer to repurchase, at the option of each holder, any and all of the outstanding 2029 Debentures at a price equal to 100% of the principal amount, as required by the terms of the indenture governing the 2029 Debentures. The repurchase offer expired on April 11, 2014. No 2029 Debentures were repurchased pursuant to this offer. On March 17, 2014, we also distributed a Notice of Redemption to the holders of the 2029 Debentures that the Operating Partnership intended to redeem all of the outstanding 2029 Debentures, pursuant to its option under the indenture governing the 2029 Debentures, on April 18, 2014, at a price equal to 100% of the principal amount, plus accrued and unpaid interest thereon up to the redemption date. In connection with the redemption, holders of the 2029 Debentures had the right to exchange their 2029 Debentures on or prior to April 16, 2014. The 2029 Debentures not surrendered pursuant to the repurchase offer on or prior to April 11, 2014, or for exchange on or prior to April 16, 2014, were redeemed on April 18, 2014.

In connection with the redemption, at the request of the holders that exercised their exchange right pursuant to the terms of the 2029 Debentures, we issued 6,734,938 restricted shares of Digital Realty Trust, Inc. common stock in exchange for approximately \$261.2 million in aggregate principal amount of the 2029 Debentures. On April 18, 2014, the Operating Partnership redeemed for cash approximately \$5.2 million in aggregate principal amount of the 2029 Debentures pursuant to its option under the indenture governing the 2029 Debentures at a price equal to 100% of the principal amount plus accrued and unpaid interest thereon up to the redemption date.

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The table below summarizes our debt maturities and principal payments as of March 31, 2014 (in thousands):

	Global Revolving Credit Facility ⁽¹⁾	Unsecured Term Loan ⁽¹⁾	Prudential Shelf Facility	Senior Notes	Exchangeable Senior Debentures ⁽²⁾	Mortgage Loans ⁽³⁾	Total Debt
Remainder of 2014	\$	\$	\$	\$	\$ 266,400	\$ 175,817	\$ 442,217
2015			67,000	375,000		75,493	517,493
2016			25,000			191,979	216,979
2017	790,500	1,026,891	50,000			108,395	1,975,786
2018						593	593
Thereafter				1,866,480		1,776	1,868,256
Subtotal	\$ 790,500	\$ 1,026,891	\$ 142,000	\$ 2,241,480	\$ 266,400	\$ 554,053	\$ 5,021,324
Unamortized discount				(14,632)			(14,632)
Unamortized premium						689	689
Total	\$ 790,500	\$ 1,026,891	\$ 142,000	\$ 2,226,848	\$ 266,400	\$ 554,742	\$ 5,007,381

- (1) Subject to two six-month extension options exercisable by us. The bank group is obligated to grant the extension options provided we give proper notice, we make certain representations and warranties and no default exists under the global revolving credit facility and the unsecured term loan, as applicable.
- (2) The 2029 Debentures were redeemed in April 2014.
- (3) Our mortgage loans are generally non-recourse to us, subject to carve-outs for specified actions by us or specified undisclosed environmental liabilities. As of March 31, 2014, we provided partial letter of credit support with respect to approximately \$37.3 million of the outstanding mortgage indebtedness (based on exchange rates as of March 31, 2014).

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The following is a summary of basic and diluted income per share (in thousands, except share and per share amounts):

	Three Months Ended March 31,	
	2014	2013
Net income available to common stockholders	\$ 34,186	\$ 42,657
Weighted average shares outstanding basic	128,535,995	126,445,285
Potentially dilutive common shares:		
Stock options	51,909	70,877
Series H Cumulative Redeemable Preferred Stock	388,340	
Unvested incentive units	160,717	222,177
Weighted average shares outstanding diluted	129,136,961	126,738,339
Income per share:		
Basic	\$ 0.27	\$ 0.34
Diluted	\$ 0.26	\$ 0.34

We have excluded the following potentially dilutive securities in the calculations above as they would be antidilutive or not dilutive:

	Three Months Ended March 31,	
	2014	2013
Weighted average of Operating Partnership common units not owned by Digital Realty Trust, Inc.	2,606,669	2,442,756
Potentially dilutive 2029 Debentures	6,806,254	6,590,470
Potentially dilutive Series D Cumulative Convertible Preferred Stock		1,909,146
Potentially dilutive Series E Cumulative Redeemable Preferred Stock	5,674,269	4,381,703
Potentially dilutive Series F Cumulative Redeemable Preferred Stock	3,598,608	2,778,866
Potentially dilutive Series G Cumulative Redeemable Preferred Stock	4,920,508	
	23,606,308	18,102,941

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The following is a summary of basic and diluted income per unit (in thousands, except unit and per unit amounts):

	Three Months Ended March 31,	
	2014	2013
Net income available to common unitholders	\$ 34,879	\$ 43,481
Weighted average units outstanding basic	131,142,664	128,888,041
Potentially dilutive common units:		
Stock options	51,909	70,877
Series H Cumulative Redeemable Preferred Units	388,340	
Unvested incentive units	160,717	222,177
Weighted average units outstanding diluted	131,743,630	129,181,095
Income per unit:		
Basic	\$ 0.27	\$ 0.34
Diluted	\$ 0.26	\$ 0.34

We have excluded the following potentially dilutive securities in the calculations above as they would be antidilutive or not dilutive:

	Three Months Ended March 31,	
	2014	2013
Potentially dilutive 2029 Debentures	6,806,254	6,590,470
Potentially dilutive Series D Cumulative Convertible Preferred Units		1,909,146
Potentially dilutive Series E Cumulative Redeemable Preferred Units	5,674,269	4,381,703
Potentially dilutive Series F Cumulative Redeemable Preferred Units	3,598,608	2,778,866
Potentially dilutive Series G Cumulative Redeemable Preferred Units	4,920,508	
	20,999,639	15,660,185

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March 31, 2014 and 2013

10. Income Taxes

Digital Realty Trust, Inc. has elected to be treated and believes that it has been organized and has operated in a manner that has enabled it to qualify as a REIT for federal income tax purposes. As a REIT, Digital Realty Trust, Inc. is generally not subject to corporate level federal income taxes on earnings distributed currently to its stockholders. Since inception, Digital Realty Trust, Inc. has distributed at least 100% of its taxable income annually and intends to do so for the tax year ending December 31, 2014. As such, no provision for federal income taxes has been included in the accompanying consolidated financial statements for the three months ended March 31, 2014 and 2013.

The Operating Partnership is a partnership and is not required to pay federal income tax. Instead, taxable income is allocated to its partners, who include such amounts on their federal income tax returns. As such, no provision for federal income taxes has been included in the Operating Partnership's accompanying consolidated financial statements.

We have elected taxable REIT subsidiary (TRS) status for some of our consolidated subsidiaries. In general, a TRS may provide services that would otherwise be considered impermissible for REITs to provide and may hold assets that REITs cannot hold directly. Income taxes for TRS entities were accrued, as necessary, for the three months ended March 31, 2014 and 2013.

For our TRS entities and foreign subsidiaries that are subject to U.S. federal, state and foreign income taxes, deferred tax assets and liabilities are established for temporary differences between the financial reporting basis and the tax basis of assets and liabilities at the enacted tax rates expected to be in effect when the temporary differences reverse. A valuation allowance for deferred tax assets is provided if we believe it is more likely than not that the deferred tax asset may not be realized, based on available evidence at the time the determination is made. An increase or decrease in the valuation allowance that results from the change in circumstances that causes a change in our judgment about the realizability of the related deferred tax asset is included in income. Deferred tax assets (net of valuation allowance) and liabilities for our TRS entities and foreign subsidiaries were accrued, as necessary, for the three months ended March 31, 2014 and 2013. As of March 31, 2014, we had a net deferred tax liability of approximately \$148.4 million primarily related to our foreign properties. The majority of our net deferred tax liability relates to differences between tax basis and book basis of the assets acquired in the Sentrum Portfolio acquisition during 2012.

11. Equity and Accumulated Other Comprehensive Income (Loss), Net

(a) Equity Distribution Agreements

On June 29, 2011, Digital Realty Trust, Inc. entered into equity distribution agreements, which we refer to as the 2011 Equity Distribution Agreements, with each of Merrill Lynch, Pierce, Fenner & Smith Incorporated, Citigroup Global Markets Inc., Credit Suisse Securities (USA) LLC, Deutsche Bank Securities Inc. and Morgan Stanley & Co. LLC, or the Agents, under which it can issue and sell shares of its common stock having an aggregate offering price of up to \$400.0 million from time to time through, at its discretion, any of the Agents as its sales agents. The sales of common stock made under the 2011 Equity Distribution Agreements will be made in at the market offerings as defined in Rule 415 of the Securities Act. To date, Digital Realty Trust, Inc. has generated net proceeds of approximately \$342.7 million from the issuance of approximately 5.7 million common shares under the 2011 Equity Distribution Agreements at an average price of \$60.35 per share after payment of approximately \$3.5 million of commissions to the sales agents and before offering expenses. No sales were made under the program during the three months ended March 31, 2014 and 2013. As of March 31, 2014, shares of common stock having an aggregate offering price of \$53.8 million remained available for offer and sale under the program.

(b) Redeemable Preferred Stock

7.375% Series H Cumulative Redeemable Preferred Stock

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On March 26, 2014, Digital Realty Trust, Inc. issued 12,000,000 shares of its 7.375% series H cumulative redeemable preferred stock, or the series H preferred stock, for net proceeds of approximately \$289.9 million. In addition, on April 7, 2014, Digital Realty Trust, Inc. issued an additional 600,000 shares of series H preferred stock pursuant to a partial exercise of the underwriters' over-allotment.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

March 31, 2014 and 2013

option. Also, on April 7, 2014, Digital Realty Trust, Inc. re-opened and issued an additional 2,000,000 shares of series H preferred stock. Combined with the earlier issuances, Digital Realty Trust, Inc. issued 14,600,000 shares of its series H preferred stock, for net proceeds of approximately \$353.2 million. Dividends are cumulative on the series H preferred stock from the date of original issuance in the amount of \$1.84375 per share each year, which is equivalent to 7.375% of the \$25.00 liquidation preference per share. Dividends on the series H preferred stock are payable quarterly in arrears. The first dividend payable on the series H preferred stock on June 30, 2014 will be a pro rata dividend from and including the original issue date to and including June 30, 2014 in the amount of \$0.48655 per share. The series H preferred stock does not have a stated maturity date and is not subject to any sinking fund or mandatory redemption provisions. Upon liquidation, dissolution or winding up, the series H preferred stock will rank senior to Digital Realty Trust, Inc. common stock and rank on parity with Digital Realty Trust, Inc. s series E cumulative redeemable preferred stock, series F cumulative redeemable preferred stock and series G cumulative redeemable preferred stock with respect to the payment of distributions and other amounts. Digital Realty Trust, Inc. is not allowed to redeem the series H preferred stock before March 26, 2019, except in limited circumstances to preserve its status as a REIT. On or after March 26, 2019, Digital Realty Trust, Inc. may, at its option, redeem the series H 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 on such series H preferred stock up to but excluding the redemption date. Holders of the series H preferred stock generally have no voting rights except for limited voting rights if Digital Realty Trust, Inc. fails to pay dividends for six or more quarterly periods (whether or not consecutive) and in certain other circumstances. Upon the occurrence of specified changes of control, as a result of which neither Digital Realty Trust, Inc. s common stock nor the common securities of the acquiring or surviving entity (or American Depositary Receipts representing such securities) is listed on the New York Stock Exchange, the NYSE MKT, LLC or the NASDAQ Stock Market or listed or quoted on a successor exchange or quotation system, each holder of series H preferred stock will have the right (unless, prior to the change of control conversion date specified in the Articles Supplementary governing the series H preferred stock, Digital Realty Trust, Inc. has provided or provides notice of its election to redeem the series H preferred stock) to convert some or all of the series H preferred stock held by it into a number of shares of Digital Realty Trust, Inc. s common stock per share of series H preferred stock to be converted equal to the lesser of:

the quotient obtained by dividing (i) the sum of the \$25.00 liquidation preference plus the amount of any accrued and unpaid dividends to, but not including, the change of control conversion date (unless the change of control conversion date is after a record date for a series H preferred stock dividend payment and prior to the corresponding series H preferred stock dividend payment date, in which case no additional amount for such accrued and unpaid dividend will be included in this sum) by (ii) the common stock price specified in the Articles Supplementary governing the series H preferred stock; and

0.9632, or the share cap, subject to certain adjustments;

subject, in each case, to provisions for the receipt of alternative consideration as described in the Articles Supplementary governing the series H preferred stock. Except in connection with specified change of control transactions, the series H preferred stock is not convertible into or exchangeable for any other property or securities of Digital Realty Trust, Inc.

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Noncontrolling interests in the Operating Partnership relate to the interests that are not owned by Digital Realty Trust, Inc. The following table shows the ownership interest in the Operating Partnership as of March 31, 2014 and December 31, 2013:

	March 31, 2014		December 31, 2013	
	Number of units	Percentage of total	Number of units	Percentage of total
Digital Realty Trust, Inc.	128,606,462	97.6%	128,455,350	97.7%
Noncontrolling interests consist of:				
Common units held by third parties	1,491,814	1.1	1,491,814	1.2
Incentive units held by employees and directors (see note 13)	1,633,797	1.3	1,475,207	1.1
	131,732,073	100.0%	131,422,371	100.0%

Limited partners have the right to require the Operating Partnership to redeem part or all of their common units for cash based on the fair market value of an equivalent number of shares of Digital Realty Trust, Inc. common stock at the time of redemption. Alternatively, Digital Realty Trust, Inc. may elect to acquire those common units in exchange for shares of Digital Realty Trust, Inc. common stock on a one-for-one basis, subject to adjustment in the event of stock splits, stock dividends, issuance of stock rights, specified extraordinary distributions and similar events. Pursuant to authoritative accounting guidance, Digital Realty Trust, Inc. evaluated whether it controls the actions or events necessary to issue the maximum number of shares that could be required to be delivered under the share settlement of the noncontrolling Operating Partnership common and incentive units. Based on the results of this analysis, we concluded that the common and incentive Operating Partnership units met the criteria to be classified within equity.

The redemption value of the noncontrolling Operating Partnership common units and the vested incentive units was approximately \$149.2 million and \$124.1 million based on the closing market price of Digital Realty Trust, Inc. common stock on March 31, 2014 and December 31, 2013, respectively.

The following table shows activity for the noncontrolling interests in the Operating Partnership for the three months ended March 31, 2014:

	Common Units	Incentive Units	Total
As of December 31, 2013	1,491,814	1,475,207	2,967,021
Conversion of incentive units held by employees and directors for shares of Digital Realty Trust, Inc. common stock (1)		(4,438)	(4,438)
Cancellation of incentive units held by employees and directors		(18,773)	(18,773)
Grant of incentive units to employees and directors		181,801	181,801
As of March 31, 2014	1,491,814	1,633,797	3,125,611

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- (1) This redemption was recorded as a reduction to noncontrolling interests in the Operating Partnership and an increase to common stock and additional paid in capital based on the book value per unit in the accompanying condensed consolidated balance sheet of Digital Realty Trust, Inc.

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March 31, 2014 and 2013

(d) Dividends

We have declared and paid the following dividends on our common and preferred stock for the three months ended March 31, 2014 (in thousands):

Date dividend declared	Dividend payable date	Series E Preferred Stock ⁽¹⁾	Series F Preferred Stock ⁽²⁾	Series G Preferred Stock ⁽³⁾	Common Stock ⁽⁴⁾
February 11, 2014	March 31, 2014	\$ 5,031	\$ 3,023	\$ 3,672	\$ 106,743
		\$ 5,031	\$ 3,023	\$ 3,672	\$ 106,743

- (1) \$1.750 annual rate of dividend per share.
- (2) \$1.656 annual rate of dividend per share.
- (3) \$1.469 annual rate of dividend per share.
- (4) \$3.320 annual rate of dividend per share.

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Distributions out of Digital Realty Trust, Inc.'s current or accumulated earnings and profits are generally classified as dividends whereas distributions in excess of its current and accumulated earnings and profits, to the extent of a stockholder's U.S. federal income tax basis in Digital Realty Trust, Inc.'s stock, are generally classified as a return of capital. Distributions in excess of a stockholder's U.S. federal income tax basis in Digital Realty Trust, Inc.'s stock are generally characterized as capital gain. Cash provided by operating activities has generally been sufficient to fund all distributions, however, in the future we may also need to utilize borrowings under the global revolving credit facility to fund all or a portion of distributions.

(e) Accumulated Other Comprehensive Income (Loss), Net

The accumulated balances for each item within other comprehensive income, net are as follows (in thousands):

	Foreign currency translation adjustments	Cash flow hedge adjustments	Accumulated other comprehensive income, net
Balance as of December 31, 2013	\$ 11,745	\$ (1,054)	\$ 10,691
Net current period change	3,743	(1,316)	2,427
Reclassification to interest expense from interest rate swaps		829	829
Balance as of March 31, 2014	\$ 15,488	\$ (1,541)	\$ 13,947

12. Capital and Accumulated Other Comprehensive Income (Loss)**(a) Redeemable Preferred Units***7.375% Series H Cumulative Redeemable Preferred Units*

On March 26, 2014 and April 7, 2014, the Operating Partnership issued in the aggregate a total of 14,600,000 of its 7.375% series H cumulative redeemable preferred units, or series H preferred units, to Digital Realty Trust, Inc. (the General Partner) in conjunction with the General Partner's issuance of an equivalent number of shares of its 7.375% series H cumulative redeemable preferred stock, or the series H preferred stock. Distributions are cumulative on the series H preferred units from the date of original issuance in the amount of \$1.84375 per unit each year, which is equivalent to 7.375% of the \$25.00 liquidation preference per unit. Distributions on the series H preferred units are payable quarterly in arrears. The first distribution payable on the series H preferred units on June 30, 2014 will be a pro rata distribution from and including the original issue date to and including June 30, 2014 in the amount of \$0.48655 per unit. The series H preferred units do not have a stated maturity date and are not subject to any sinking fund. The Operating Partnership is required to redeem the series H preferred units in the event that the General Partner redeems the series H preferred stock. The General Partner is not allowed to redeem the series H preferred stock prior to March 26, 2019 except in limited circumstances to preserve the General Partner's status as a REIT. On or after March 26, 2019, the General Partner may, at its option, redeem the series H 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 on such series H preferred stock up to but excluding the redemption date. Upon liquidation, dissolution or winding up, the series H preferred units will rank senior to the Operating Partnership's common units with respect to the payment of distributions and other amounts and rank on parity with the Operating Partnership's series E cumulative redeemable preferred units, series F cumulative redeemable preferred units and series G cumulative redeemable preferred units. Except in connection with specified change of control transactions of the General Partner, the series H preferred units are not convertible into or exchangeable for any other property or securities of the Operating Partnership.

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(b) Allocations of Net Income and Net Losses to Partners

Except for special allocations to holders of profits interest units described below in note 13(a) under the heading Incentive Plan-Long-Term Incentive Units, the Operating Partnership's net income will generally be allocated to the General Partner to the extent of the accrued preferred return on its preferred units, and then to the General Partner and the Operating Partnership's limited partners in accordance with the respective percentage interests in the common units issued by the Operating Partnership. Net loss will generally be allocated to the General Partner and the Operating Partnership's limited partners in accordance with the respective common percentage interests in the Operating Partnership until the limited partner's capital is reduced to zero and any remaining net loss would be allocated to the General Partner. However, in some cases, losses may be disproportionately allocated to partners who have guaranteed our debt. The allocations described above are subject to special allocations relating to depreciation deductions and to compliance with the provisions of Sections 704(b) and 704(c) of the Code, and the associated Treasury Regulations.

(c) Partnership Units

Limited partners have the right to require the Operating Partnership to redeem part or all of their common units for cash based on the fair market value of an equivalent number of shares of the General Partner's common stock at the time of redemption. Alternatively, the General Partner may elect to acquire those common units in exchange for shares of the General Partner's common stock on a one-for-one basis, subject to adjustment in the event of stock splits, stock dividends, issuance of stock rights, specified extraordinary distributions and similar events. Pursuant to authoritative accounting guidance, the Operating Partnership evaluated whether it controls the actions or events necessary to issue the maximum number of shares that could be required to be delivered under the share settlement of the limited partners' common units and the vested incentive units. Based on the results of this analysis, the Operating Partnership concluded that the common and vested incentive Operating Partnership units met the criteria to be classified within capital.

The redemption value of the limited partners' common units and the vested incentive units was approximately \$149.2 million and \$124.1 million based on the closing market price of Digital Realty Trust, Inc.'s common stock on March 31, 2014 and December 31, 2013, respectively.

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All distributions on the Operating Partnership's units are at the discretion of Digital Realty Trust, Inc.'s board of directors. The Operating Partnership has declared and paid the following distributions on its common and preferred units for the three months ended March 31, 2014 (in thousands):

Date distribution declared	Distribution payable date	Series E Preferred Units ⁽¹⁾	Series F Preferred Units ⁽²⁾	Series G Preferred Units ⁽³⁾	Common Units ⁽⁴⁾
February 11, 2014	March 31, 2014	\$ 5,031	\$ 3,023	\$ 3,672	\$ 109,378
		\$ 5,031	\$ 3,023	\$ 3,672	\$ 109,378

(1) \$1.750 annual rate of distribution per unit.

(2) \$1.656 annual rate of distribution per unit.

(3) \$1.469 annual rate of distribution per unit.

(4) \$3.320 annual rate of distribution per unit.

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The accumulated balances for each item within other comprehensive income are as follows (in thousands):

	Foreign currency translation adjustments	Cash flow hedge adjustments	Accumulated other comprehensive income
Balance as of December 31, 2013	\$ 10,235	\$ (1,778)	\$ 8,457
Net current period change	3,819	(1,343)	2,476
Reclassification to interest expense from interest rate swaps		846	846
Balance as of March 31, 2014	\$ 14,054	\$ (2,275)	\$ 11,779

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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13. Incentive Plan

Our Amended and Restated 2004 Incentive Award Plan (as defined below) provided for the grant of incentive awards to employees, directors and consultants. Awards issuable under the Amended and Restated 2004 Incentive Award Plan included stock options, restricted stock, dividend equivalents, stock appreciation rights, long-term incentive units, cash performance bonuses and other incentive awards. Only employees were eligible to receive incentive stock options under the Amended and Restated 2004 Incentive Award Plan. Initially, we had reserved a total of 4,474,102 shares of common stock for issuance pursuant to the 2004 Incentive Award Plan, subject to certain adjustments set forth in the 2004 Incentive Award Plan. On May 2, 2007, Digital Realty Trust, Inc.'s stockholders approved the First Amended and Restated Digital Realty Trust, Inc., Digital Services, Inc. and Digital Realty Trust, L.P. 2004 Incentive Award Plan (as amended, the Amended and Restated 2004 Incentive Award Plan). The Amended and Restated 2004 Incentive Award Plan increased the aggregate number of shares of stock which could have been issued or transferred under the plan by 5,000,000 shares to a total of 9,474,102 shares, and provided that the maximum number of shares of stock with respect to awards granted to any one participant during a calendar year was 1,500,000 shares and the maximum amount that could have been paid in cash during any calendar year with respect to any performance-based award not denominated in stock or otherwise for which the foregoing limitation would not be an effective limitation for purposes of Section 162(m) of the Code was \$10.0 million.

As of March 31, 2014, 2,007,813 shares of common stock or awards convertible into or exchangeable for common stock remained available for future issuance under the Amended and Restated 2004 Incentive Award Plan. Each long-term incentive unit, Class C Unit and Class D Unit issued under the Amended and Restated 2004 Incentive Award Plan counted as one share of common stock for purposes of calculating the limit on shares that could be issued under the Amended and Restated 2004 Incentive Award Plan and the individual award limit discussed above.

On April 28, 2014, Digital Realty Trust, Inc. held its 2014 Annual Meeting of Stockholders, or 2014 Annual Meeting, at which the Company's stockholders approved the Digital Realty Trust, Inc., Digital Services, Inc. and Digital Realty Trust, L.P. 2014 Incentive Award Plan, or the 2014 Incentive Award Plan, which had been previously recommended for approval by the Company's Board of Directors. The 2014 Incentive Award Plan became effective as of the date of such stockholder approval. The material features of the 2014 Incentive Award Plan are described in our definitive Proxy Statement filed on March 19, 2014 in connection with the 2014 Annual Meeting, which description is incorporated herein by reference.

(a) Long-Term Incentive Units

Long-term incentive units, which are also referred to as profits interest units, may be issued to eligible participants for the performance of services to or for the benefit of the Operating Partnership. Long-term incentive units, whether vested or not, will receive the same quarterly per unit distributions as Operating Partnership common units, which equal per share distributions on Digital Realty Trust, Inc. common stock. Initially, long-term incentive units do not have full parity with common units with respect to liquidating distributions. If such parity is reached, vested long-term incentive units may be converted into an equal number of common units of the Operating Partnership at any time, and thereafter enjoy all the rights of common units of the Operating Partnership, including redemption rights. For a discussion of how long-term incentive units reach parity with common units, see note 13(a) to our consolidated financial statements for the fiscal year ended December 31, 2013, included in our Annual Report on 10-K, as amended, for the year ended December 31, 2013.

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Below is a summary of our long-term incentive unit activity for the three months ended March 31, 2014.

Unvested Units	Units	Weighted-Average Grant Date Fair Value
Unvested, beginning of period	440,951	\$ 62.42
Granted	181,801	52.15
Vested	(289,564)	59.13
Cancelled or expired	(18,773)	65.21
Unvested, end of period	314,415	59.34

During the three months ended March 31, 2013, certain employees were granted an aggregate of 95,316 long-term incentive units, which, in addition to a service condition, were subject to a performance condition that impacted the number of units which ultimately vested. The performance condition was based upon our achievement of the 2013 Core Funds From Operations, or CFFO, per share targets. Based on our 2013 CFFO per diluted share and unit, 75,105 of the 2013 long-term incentive units, net of forfeitures satisfied the performance condition. The grant date fair values, which equal the market price of Digital Realty Trust, Inc. common stock, are being expensed on a straight-line basis for service awards over four years, the current vesting period of the long-term incentive units. We expense the fair value of awards that contain a performance condition using an accelerated method with each vesting tranche valued as a separate award.

The expense recorded for the three months ended March 31, 2014 and 2013 related to long-term incentive units was approximately \$7.8 million and \$2.2 million, respectively. We capitalized amounts relating to compensation expense of employees direct and incremental to construction and successful leasing activities of approximately \$0.5 million and \$0.4 million for the three months ended March 31, 2014 and 2013, respectively. Unearned compensation representing the unvested portion of the long-term incentive units totaled \$14.3 million and \$12.9 million as of March 31, 2014 and December 31, 2013, respectively. We expect to recognize this unearned compensation over the next 2.6 years on a weighted average basis.

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On February 11, 2014, the Compensation Committee of the Board of Directors of the Company approved the grant of performance-based Class D Units of the Operating Partnership and performance-based restricted stock units, or RSUs, covering shares of the Company's common stock (collectively, the awards), under the Amended and Restated 2004 Incentive Award Plan to officers and employees of the Company.

The awards, which were determined to contain a market condition, utilize total shareholder return, or TSR, over a three-year measurement period as the performance metric. Awards will vest based on the Company's TSR relative to the MSCI US REIT Index, or RMS, over a three-year performance period commencing in January 2014 (or, if earlier, ending on the date on which a change in control of the Company occurs), or the Performance Period, subject to continued services. Performance vesting is measured based on the difference between the Company's TSR percentage and the TSR percentage of the RMS, or the RMS Relative Performance. In the event that the RMS Relative Performance during the Performance Period is achieved at the threshold, target or high level as set forth below, the awards will become performance-vested with respect to the percentage of Class D Units, or RSUs, as applicable, set forth below:

Level	RMS Relative Performance	Performance Vesting Percentage
	< 0 basis points	0%
Threshold Level	0 points	25%
Target Level	325 basis points	50%
High Level	≥ 650 basis points	100%

If the RMS Relative Performance falls between the levels specified above, the percentage of the awards that will performance vest will be determined using straight-line linear interpolation between such levels.

Following the completion of the Performance Period, performance-vested awards, if any, will vest 50% on February 27, 2017 and 50% on February 27, 2018, subject to continued employment through each applicable vesting date.

Vesting will be accelerated, in full or on a pro rata basis, in the event of a change in control, termination of employment by the Company without cause, termination of employment by the award recipient for good reason, death, disability or retirement.

The fair value of the 2014 grant of awards was measured using a Monte Carlo simulation to estimate the probability of the performance vesting conditions being satisfied. The Company's achievement of the performance vesting conditions is contingent on its TSR over a three-year performance period, relative to the total shareholder return of the RMS. The Monte Carlo simulation is a probabilistic technique based on the underlying theory of the Black-Scholes formula, which was run for 100,000 trials to determine the fair value of the awards. For each trial, the payoff to an award is calculated at the settlement date and is then discounted to the grant date at a risk-free interest rate. The total expected value of the awards on the grant date was determined by multiplying the average value per award over all trials by the number of awards granted. Assumptions used in the valuation include expected stock price volatility of 33 percent and a risk-free interest rate of 0.67 percent. The valuation was performed in a risk-neutral framework, so no assumption was made with respect to an equity risk premium.

As of March 31, 2014, 645,484 performance-based Class D Units and 247,158 performance-based RSUs had been awarded to our executive officers and other employees. The fair value of these awards of approximately \$17.1 million will be recognized as compensation expense on a straight-line basis over the expected service period of approximately four years. The unearned compensation as of March 31, 2014 was \$13.6 million, net of cancellations. As of March 31, 2014, none of the above awards had vested. We recognized compensation expense related to these awards of \$0.4 million in the three months ended March 31, 2014. We capitalized amounts relating to compensation expense of employees

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directly engaged in construction and leasing activities of \$0.2 million for the three months ended March 31, 2014. If the market condition is not met, the unamortized amount will be recognized as an expense at that time.

Table of Contents**DIGITAL REALTY TRUST, INC. AND SUBSIDIARIES****DIGITAL REALTY TRUST, L.P. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****March 31, 2014 and 2013****(c) Stock Options**

The following table summarizes the Amended and Restated 2004 Incentive Award Plan's stock option activity for the period ended March 31, 2014:

	Shares	Period Ended March 31, 2014 Weighted average exercise price
Options outstanding, beginning of period	123,690	\$ 30.13
Exercised	(917)	41.73
Cancelled / Forfeited		
Options outstanding, end of period	122,773	\$ 30.04
Exercisable, end of period	122,773	\$ 30.04

The following table summarizes information about stock options outstanding and exercisable as of March 31, 2014:

Exercise price	Options outstanding and exercisable			
	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Aggregate intrinsic value
\$12.00-13.02	34,870	0.58	\$ 12.00	\$ 1,432,460
\$20.37-28.09	17,000	1.64	21.28	540,630
\$33.18-41.73	70,903	3.05	41.02	855,416
	122,773	2.15	\$ 30.04	\$ 2,828,506

Table of Contents**DIGITAL REALTY TRUST, INC. AND SUBSIDIARIES****DIGITAL REALTY TRUST, L.P. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****March 31, 2014 and 2013*****(d) Restricted Stock***

Below is a summary of our restricted stock activity for the three months ended March 31, 2014.

Unvested Shares	Shares	Weighted-Average Grant Date Fair Value
Unvested, beginning of period	255,081	\$ 63.35
Granted	158,780	52.11
Vested	(70,485)	60.50
Cancelled or expired	(13,023)	65.21
Unvested, end of period	330,353	58.48

The grant date fair values, which equal the market price of Digital Realty Trust, Inc. common stock, are being expensed on a straight-line basis for service awards over the vesting period of the restricted stock, which ranges from three to four years. We expense the fair value of awards that contain a performance condition using an accelerated method with each vesting tranche valued as a separate award.

During the three months ended March 31, 2013, certain employees were granted an aggregate of 69,995 shares of restricted stock, which, in addition to a service condition, were subject to a performance condition that impacted the number of shares which ultimately vested. The performance condition was based upon our achievement of the 2013 CFFO per share targets. Upon evaluating the results of the performance condition, the final number of shares was determined and such shares vest based on satisfaction of the service conditions. Based on our 2013 CFFO per diluted share and unit, 50,805 shares of the 2013 restricted stock awards (net of forfeitures) satisfied the performance condition.

The expense recorded for the three months ended March 31, 2014 and 2013 related to grants of restricted stock was approximately \$0.8 million and \$0.7 million, respectively. We capitalized amounts relating to compensation expense of employees direct and incremental to construction and successful leasing activities of approximately \$0.8 million and \$0.6 million for the three months ended March 31, 2014 and 2013, respectively. Unearned compensation representing the unvested portion of the restricted stock totaled \$15.1 million and \$8.7 million as of March 31, 2014 and December 31, 2013, respectively. We expect to recognize this unearned compensation over the next 3.0 years on a weighted average basis.

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As of March 31, 2014 and December 31, 2013, we had the following outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk (in thousands):

Notional Amount		Type of Derivative	Strike Rate	Effective Date	Expiration Date	Fair Value at Significant Other Observable Inputs (Level 2)	
As of March 31, 2014	As of December 31, 2013					As of March 31, 2014	As of December 31, 2013
<u>Currently-paying contracts</u>							
\$410,905 ⁽¹⁾	\$ 410,905 ⁽¹⁾	Swap	0.717	Various	Various	\$ (234)	\$ (76)
150,696 ⁽²⁾	150,040 ⁽²⁾	Swap	0.925	Jul. 17, 2012	Apr. 18, 2017	474	131
561,601	560,945					240	55
<u>Forward-starting contracts</u>							
150,000 ⁽³⁾		Forward-starting Swap	2.091	Jul. 15, 2014	Jul. 15, 2019	(681)	
<u>Total</u>							
\$711,601	\$ 560,945					\$ (441)	\$ 55

(1) Represents the U.S. dollar tranche of the unsecured term loan.

(2) Represents a portion of the Singapore dollar tranche of the unsecured term loan. Translation to U.S. dollars is based on exchange rate of \$0.80 to 1.00 SGD as of March 31, 2014 and \$0.79 to 1.00 SGD as of December 31, 2013.

(3) In January 2014, we entered into a new forward-starting swap agreement with a notional amount of \$150.0 million requiring fixed rate interest payments of 2.091% for a five-year period that commences in July 2014.

As of March 31, 2014, we estimate that an additional \$5.1 million will be reclassified as an increase to interest expense during the twelve months ending March 31, 2015, when the hedged forecasted transactions impact earnings.

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We disclose fair value information about all financial instruments, whether or not recognized in the condensed consolidated balance sheets, for which it is practicable to estimate fair value. Current accounting guidance requires the Company to disclose fair value information about all financial instruments, whether or not recognized in the balance sheets, for which it is practicable to estimate fair value.

The Company's disclosures of estimated fair value of financial instruments at March 31, 2014 and December 31, 2013 were determined using available market information and appropriate valuation methods. Considerable judgment is necessary to interpret market data and develop estimated fair value. The use of different market assumptions or estimation methods may have a material effect on the estimated fair value amounts.

The carrying amounts for cash and cash equivalents, restricted cash, accounts and other receivables, accounts payable and other accrued liabilities, accrued dividends and distributions, security deposits and prepaid rents approximate fair value because of the short-term nature of these instruments. As described in note 14, the interest rate swaps are recorded at fair value.

We calculate the fair value of our mortgage loans, unsecured term loan, unsecured senior notes and exchangeable senior debentures based on currently available market rates assuming the loans are outstanding through maturity and considering the collateral and other loan terms. In determining the current market rate for fixed rate debt, a market spread is added to the quoted yields on federal government treasury securities with similar maturity dates to our debt. The carrying value of our global revolving credit facility approximates fair value, due to the variability of interest rates.

As of March 31, 2014 and December 31, 2013, the aggregate estimated fair value and carrying value of our global revolving credit facility, unsecured term loan, unsecured senior notes, exchangeable senior debentures and mortgage loans were as follows (in thousands):

	Categorization under the fair value hierarchy	As of March 31, 2014		As of December 31, 2013	
		Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value
Global revolving credit facility ⁽¹⁾	Level 2	\$ 790,500	\$ 790,500	\$ 724,668	\$ 724,668
Unsecured term loan ⁽²⁾	Level 2	1,026,891	1,026,891	1,020,984	1,020,984
Unsecured senior notes ⁽³⁾⁽⁴⁾	Level 2	2,422,322	2,368,848	2,379,999	2,364,232
Exchangeable senior debentures ⁽³⁾	Level 2	363,846	266,400	336,847	266,400
Mortgage loans ⁽³⁾	Level 2	589,378	554,742	622,580	585,608
		\$ 5,192,937	\$ 5,007,381	\$ 5,085,078	\$ 4,961,892

(1) The carrying value of our global revolving credit facility approximates estimated fair value, due to the variability of interest rates and the stability of our credit rating.

(2) The carrying value of our unsecured term loan approximates estimated fair value, due to the variability of interest rates and the stability of our credit rating.

(3)

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Valuations for our unsecured senior notes and mortgage loans are determined based on the expected future payments discounted at risk-adjusted rates. The 2015 Notes, 2020 Notes, 2021 Notes, 2022 Notes and 2025 Notes and exchangeable senior debentures are valued based on quoted market prices.

- (4) The carrying value of the 2015 Notes, 2020 Notes, 2021 Notes, 2022 Notes and 2025 Notes are net of discount of \$14,632 and \$15,047 in the aggregate as of March 31, 2014 and December 31, 2013, respectively.

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DIGITAL REALTY TRUST, INC. AND SUBSIDIARIES

DIGITAL REALTY TRUST, L.P. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

March 31, 2014 and 2013

16. Commitments and Contingencies

(a) Contingent liabilities

As part of the acquisition of 29A International Business Park, the seller could earn additional consideration based on future net operating income growth in excess of certain performance targets, as defined in the agreements for the acquisition. As of March 31, 2014, construction is not complete and none of the leases executed subsequent to purchase would cause an amount to become probable of payment and therefore no amount is accrued as of March 31, 2014. The maximum amount that could be earned by the seller is \$50.0 million SGD (or approximately \$39.8 million based on the exchange rate as of March 31, 2014). The earnout contingency expires in November 2020.

One of the tenants at our Convergence Business Park property has an option to expand as part of their lease agreement, which expires in April 2017. As part of this option, development activities are not permitted on specifically identified expansion space within the property until April 2014. From April 2014 through April 2017, the tenant has the right of first refusal on any third party's bona fide offer to buy the adjacent land. If the tenant exercises their option, we may (a) construct and lease an additional shell building on the expansion space to the tenant at a stipulated rate of return on cost or (b) sell the existing building and the expansion space to the tenant for a price of approximately \$24.0 million and \$225,000 per square acre, respectively, plus additional adjustments as provided in the lease.

As part of the acquisition of the Sentrum Portfolio, the seller could earn additional consideration based on future net returns on vacant space to be developed, but not currently leased, as defined in the purchase agreement for the acquisition. The initial estimate of fair value of contingent consideration was approximately £56.5 million (or approximately \$87.6 million based on the exchange rate as of July 11, 2012, the acquisition date). We have adjusted the contingent consideration to fair value at each reporting date with changes in fair value recognized in operating income. At March 31, 2014, the fair value of the contingent consideration for Sentrum was £37.2 million (or approximately \$62.0 million based on the exchange rate as of March 31, 2014) and is currently accrued in accounts payable and other accrued expenses in the condensed consolidated balance sheet. During the year ended December 31, 2013, we made earnout payments of approximately £16.9 million (or approximately \$25.8 million based on the exchange rates as of the date of each payment). No payments were made during the three months ended March 31, 2014. Change in fair value of contingent consideration for Sentrum was an increase to operating income of approximately \$3.4 million for the three months ended March 31, 2014 and a reduction to operating income of approximately \$1.3 million for the three months ended March 31, 2013. The earn-out contingency expires in July 2015. This amount will be reassessed on a quarterly basis, with any changes being recognized in earnings. Increases or decreases in the fair value of the contingent consideration can result from changes in discount periods, discount rates and probabilities that contingencies will be met.

(b) Construction Commitments

Our properties require periodic investments of capital for tenant-related capital expenditures and for general capital improvements and from time to time in the normal course of our business, we enter into various construction contracts with third parties that may obligate us to make payments. At March 31, 2014, we had open commitments related to construction contracts of approximately \$281.4 million.

(c) Legal Proceedings

Although the Company is involved in legal proceedings arising in the ordinary course of business, as of March 31, 2014, the Company is not currently a party to any legal proceedings nor, to its knowledge, is any legal proceeding threatened against it that it believes would have a material adverse effect on its financial position, results of operations or liquidity.

Table of Contents**DIGITAL REALTY TRUST, INC. AND SUBSIDIARIES****DIGITAL REALTY TRUST, L.P. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****March 31, 2014 and 2013****17. Subsequent Events**

On April 1, 2014, Digital Stout Holding, LLC, a wholly-owned subsidiary of Digital Realty Trust, L.P, issued £300.0 million (or approximately \$498.9 million based on the April 1, 2014 exchange rate of £1.00 to \$1.66) aggregate principal amount of its 4.750% Guaranteed Notes due 2023, or the 2023 notes. The 2023 notes are senior unsecured obligations of Digital Stout Holding, LLC and are fully and unconditionally guaranteed by Digital Realty Trust, Inc. and Digital Realty Trust, L.P. Interest on the 2023 notes is payable semiannually in arrears at a rate of 4.750% per annum. The 2023 notes will mature on October 13, 2023. We intend to use the net proceeds from the offering of the 2023 notes to temporarily repay borrowings under our global revolving credit facility, to acquire additional properties, to fund development opportunities, for general working capital purposes or a combination of the foregoing.

On April 29, 2014, we declared the following dividends per share and the Operating Partnership declared an equivalent distribution per unit:

Share / Unit Class	Series E Preferred Stock and Unit	Series F Preferred Stock and Unit	Series G Preferred Stock and Unit	Series H Preferred Stock and Unit	Common stock and common unit
Dividend and distribution amount	\$ 0.437500	\$ 0.414063	\$ 0.367188	\$ 0.486550 ⁽¹⁾	\$ 0.830000
Dividend and distribution payable date	June 30, 2014	June 30, 2014	June 30, 2014	June 30, 2014	June 30, 2014
Dividend and distribution payable to holders of record on	June 13, 2014	June 13, 2014	June 13, 2014	June 13, 2014	June 13, 2014
Annual equivalent rate of dividend and distribution	\$ 1.750	\$ 1.656	\$ 1.469	\$ 1.844	\$ 3.320

(1) Represents a pro rata dividend from and including the original issue date to and including June 30, 2014.

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The following discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto appearing elsewhere in this report. This report contains forward-looking statements within the meaning of the federal securities laws. In particular, statements pertaining to our capital resources, expected use of proceeds from our equity distribution program and other securities offerings, expected use of borrowings under our credit facility, portfolio performance, leverage policy, acquisition and capital expenditure plans, supply and demand for data center space, capitalization rates and expected rental rates on new or renewed data center space, as well as our discussion of

Factors Which May Influence Future Results of Operations, contain forward-looking statements. Likewise, all of our statements regarding anticipated market conditions, demographics and results of operations are forward-looking statements. You can identify forward-looking statements by the use of forward-looking terminology such as believes, expects, may, will, should, seeks, approximately, intends, forms, estimates or anticipates or the negative of these words and phrases or similar words or phrases which are predictions of or indicate future events or trends and discussions which do not relate solely to historical matters. You can also identify forward-looking statements by discussions of strategy, plans or intentions. Forward-looking statements involve numerous risks and uncertainties and you should not rely on them as predictions of future events. Forward-looking statements depend on assumptions, data or methods that may be incorrect or imprecise and that we may not be able to realize. We do not guarantee that the transactions and events described will happen as described or that they will happen at all. The following factors, among others, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements: the impact of current global economic, credit and market conditions; current local economic conditions in our geographic markets; decreases in information technology spending, including as a result of economic slowdowns or recession; adverse economic or real estate developments in our industry or the industry sectors that we sell to (including risks relating to decreasing real estate valuations and impairment charges); our dependence upon significant tenants; bankruptcy or insolvency of a major tenant or a significant number of smaller tenants; defaults on or non-renewal of leases by tenants; our failure to obtain necessary debt and equity financing; risks associated with using debt to fund our business activities, including re-financing and interest rate risks, our failure to repay debt when due, adverse changes in our credit ratings or our breach of covenants or other terms contained in our loan facilities and agreements; financial market fluctuations; changes in foreign currency exchange rates; our inability to manage our growth effectively; difficulty acquiring or operating properties in foreign jurisdictions; the suitability of our properties and data center infrastructure, delays or disruptions in connectivity, failure of our physical infrastructure or services or availability of power; our failure to successfully integrate and operate acquired or developed properties or businesses; risks related to joint venture investments, including as a result of our lack of control of such investments; delays or unexpected costs in development of properties; decreased rental rates, increased operating costs or increased vacancy rates; increased competition or available supply of data center space; our inability to successfully develop and lease new properties and development space; difficulties in identifying properties to acquire and completing acquisitions; our inability to acquire off-market properties; our inability to comply with the rules and regulations applicable to reporting companies; Digital Realty Trust, Inc.'s failure to maintain its status as a REIT for federal income tax purposes; possible adverse changes to tax laws; restrictions on our ability to engage in certain business activities; environmental uncertainties and risks related to natural disasters; losses in excess of our insurance coverage; changes in foreign laws and regulations, including those related to taxation and real estate ownership and operation; and changes in local, state and federal regulatory requirements, including changes in real estate and zoning laws and increases in real property tax rates.

While forward-looking statements reflect our good faith beliefs, they are not guaranties of future performance. We disclaim any obligation to publicly update or revise any forward-looking statement to reflect changes in underlying assumptions or factors, new information, data or methods, future events or other changes.

The risks included here are not exhaustive, and additional factors could adversely affect our business and financial performance, including factors and risks included in other sections of this report, including under Part II, Item 1A, Risk Factors. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can we assess the impact of all such risk factors on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, you should not place undue reliance on forward-looking statements as a prediction of actual results.

Occupancy percentages included in the following discussion, for some of our properties, are calculated based on factors in addition to contractually leased square feet, including available power, required support space and common area.

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Overview

Our company. Digital Realty Trust, Inc. completed its initial public offering of common stock, or our IPO, on November 3, 2004. We believe that we have operated in a manner that has enabled us to qualify, and have elected to be treated, as a REIT under Sections 856 through 860 of the Code. Our company was formed on March 9, 2004. During the period from our formation until we commenced operations in connection with the completion of our IPO, we did not have any corporate activity other than the issuance of shares of Digital Realty Trust, Inc. common stock in connection with the initial capitalization of the company. Our operating partnership was formed on July 21, 2004.

Business and strategy. Our primary business objectives are to maximize: (i) sustainable long-term growth in earnings and funds from operations per share and unit and (ii) cash flow and returns to our stockholders and our operating partnership's unitholders through the payment of distributions. We expect to achieve our objectives by focusing on our core business of investing in and developing technology-related real estate. A significant component of our current and future internal growth is anticipated through the development of our existing space held for development and acquisition of new properties. We target high quality, strategically located properties containing applications and operations critical to the day-to-day operations of corporate enterprise datacenter and technology industry tenants and properties that may be developed for such use. Most of our properties contain fully redundant electrical supply systems, multiple power feeds, above-standard precision cooling systems, raised floor areas, extensive in-building communications cabling and high-level security systems. We focus solely on technology-related real estate because we believe that the growth in corporate datacenter adoption and the technology-related real estate industry generally will continue to be superior to that of the overall economy.

As of March 31, 2014, we owned an aggregate of 131 properties, including 13 properties held as investments in unconsolidated joint ventures, with approximately 24.5 million rentable square feet including approximately 1.3 million square feet of space under active development and approximately 1.4 million square feet of space held for future development. The 13 properties held as investments in unconsolidated joint ventures have an aggregate of approximately 1,691,000 rentable square feet. The 11 parcels of developable land we own comprised approximately 154 acres. At March 31, 2014, approximately 1,335,000 square feet was under construction for Turn-Key Flex[®], Powered Base Building[®] and Custom Solutions (formerly referred to as Build-to-Suit) products, all of which are expected to be income producing on or after completion, in four U.S. domestic markets, two European markets, one Canadian market and our Singapore market, consisting of approximately 803,000 square feet of base building construction and 532,000 square feet of data center construction.

We have developed detailed, standardized procedures for evaluating acquisitions to ensure that they meet our financial, technical and other criteria. We expect to continue to acquire additional assets as a part of our growth strategy. We intend to aggressively manage and lease our assets to increase their cash flow. We may continue to build out our development portfolio when justified by anticipated returns.

We may acquire properties subject to existing mortgage financing and other indebtedness or we may incur new indebtedness in connection with acquiring or refinancing these properties. Debt service on such indebtedness will have a priority over any cash dividends with respect to Digital Realty Trust, Inc.'s common stock and preferred stock. We currently intend to limit our indebtedness to 60% of our total enterprise value and, based on the closing price of Digital Realty Trust, Inc. common stock on March 31, 2014 of \$53.08, our ratio of debt to total enterprise value was approximately 38%. Our total enterprise value is defined as the sum of the market value of Digital Realty Trust, Inc.'s outstanding common stock (which may decrease, thereby increasing our debt to total enterprise value ratio), excluding options issued under our company's incentive award plan, plus the liquidation value of Digital Realty Trust, Inc.'s preferred stock, plus the aggregate value of our operating partnership's units not held by Digital Realty Trust, Inc. (with the per unit value equal to the market value of one share of Digital Realty Trust, Inc. common stock and excluding long-term incentive units, Class C units and Class D units), plus the book value of our total consolidated indebtedness.

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Revenue base. As of March 31, 2014, we owned 131 properties through our operating partnership, including 13 properties held as investments in unconsolidated joint ventures and developable land. These properties are mainly located throughout the U.S., with 22 properties located in Europe, three properties in Australia, two properties in Canada and two properties in Asia. We, through our predecessor, acquired our first portfolio property in January 2002 and have added properties as follows:

Year Ended December 31:	Properties Acquired (1)	Net Rentable Square Feet (2)	Square Feet of Space Under Active Development as of March 31, 2014 (3)	Square Feet of Space Held for Future Development as of March 31, 2014 (4)
2002	5	1,156,483		46,530
2003	6	1,074,662		
2004	10	2,550,893		121,372
2005	20	3,409,877		105,757
2006	18	2,858,771		22,722
2007 (5)(8)	13	1,743,508		84,527
2008	5	416,705	86,656	147,543
2009 (6)(8)	7	1,516,447	141,524	106,545
2010	15	2,354,595	80,758	187,247
2011 (7)	10	1,126,516	525,094	170,355
2012	15	2,506,748	250,000	270,605
2013	7	996,222	251,326	159,041
2014				
Properties owned as of March 31, 2014	131	21,711,427	1,335,358	1,422,244

- (1) Excludes properties sold: 100 Technology Center Drive (March 2007), 4055 Valley View Lane (March 2007) and 7979 East Tufts Avenue (July 2006). Also excludes a leasehold interest acquired in March 2007 related to an acquisition made in 2006. Includes 11 properties held in our managed portfolio of unconsolidated joint ventures consisting of 4650 Old Ironsides Drive (Silicon Valley), 2950 Zanker Road (Silicon Valley), 4700 Old Ironsides Drive (Silicon Valley), 444 Toyama Drive (Silicon Valley), 43790 Devin Shafron Drive (Northern Virginia), 21551 Beaumeade Circle (Northern Virginia), 7505 Mason King Court (Northern Virginia), 14901 FAA Boulevard (Dallas), 900 Dorothy Drive (Dallas), 636 Pierce Street (New York Metro) and 33 Chun Choi Street (Hong Kong); and two unconsolidated non-managed joint ventures: 2001 Sixth Avenue (Seattle) and 2020 Fifth Avenue (Seattle).
- (2) Current net rentable square feet as of March 31, 2014, which represents the current square feet under lease as specified in the applicable lease agreements plus management's estimate of space available for lease based on engineering drawings. Includes tenants' proportional share of common areas but excludes space held for development.
- (3) Space under active development includes current base building and data center projects in progress.
- (4) Space held for future development includes space held for future data center development, and excludes space under active development.
- (5) Includes three developed buildings (43915 Devin Shafron Drive, 43830 Devin Shafron Drive and 43790 Devin Shafron Drive) placed into service in 2010 and 2011 that are being included with a property (Devin Shafron buildings) that was acquired in 2007.
- (6) Includes a developed building (21551 Beaumeade Circle) placed into service in 2011 that is being included with a property (Beaumeade Circle Portfolio) that was acquired in 2009.
- (7) Includes four developed buildings (43940 Digital Loudoun Plaza in Northern Virginia, 3825 NW Aloclek Place in Portland, Oregon, 98 Radnor Drive in Melbourne, Australia and 1-23 Templar Road in Sydney, Australia) placed into service in 2013 and 2012 that were acquired in 2011.
- (8) 43790 Devin Shafron Drive and 21551 Beaumeade Circle, which were previously included as part of the Devin Shafron buildings and Beaumeade Portfolio, respectively, are now each separately included in the property count because they were separately contributed to an unconsolidated joint venture in September 2013.

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In May 2008, we acquired 701 & 717 Leonard Street, a parking garage in Dallas, Texas; however, we exclude the acquisition from our property count because it is located adjacent to our internet gateway datacenter located at 2323 Bryan Street and is not considered a separate property.

As of March 31, 2014, the properties in our portfolio, including the 13 properties held as investments in unconsolidated joint ventures, were approximately 92.1% leased excluding approximately 1.3 million square feet of space under active development and approximately 1.4 million square feet of space held for future development. Due to the capital-intensive and long-term nature of the operations being supported, our lease terms are generally longer than standard commercial leases. As of March 31, 2014, our average lease term is approximately 12 years, with an average of approximately seven years remaining. Our lease expirations through December 31, 2015 are 12.7% of rentable square feet excluding space under active development and space held for future development as of March 31, 2014.

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Factors Which May Influence Future Results of Operations

Global market and economic conditions

United States and international market and economic conditions in recent years have been unprecedented and challenging with tighter credit conditions and slower economic growth in many markets in which we own properties and conduct our operations. The U.S. and global economies have experienced a recession and face continued concerns about the systemic impact of adverse economic conditions, such as high energy costs, geopolitical issues, the availability and cost of credit, unstable global financial and mortgage markets, high corporate, consumer and governmental debt levels, ongoing sovereign debt and economic issues in European countries, and high unemployment. The European debt crisis has raised concerns regarding the debt burden of certain countries using the euro as their currency and their ability to meet future financial obligations. While recent economic trends across the eurozone have been largely positive, concerns remain regarding the creditworthiness of certain European countries, and there can be no assurance that these improvements will be sustainable.

As a result of these conditions, general economic conditions and the cost and availability of capital have been and may again be adversely affected in some or all of the markets in which we own properties and conduct our operations. Renewed or increased turbulence in the U.S., European, Asia Pacific and other international financial markets and economies may adversely affect our ability, and the ability of our tenants, to replace or renew maturing liabilities on a timely basis, access the capital markets to meet liquidity and capital expenditure requirements and may result in adverse effects on our, and our tenants', financial condition and results of operations.

In addition, our access to funds under our global revolving credit facility depends on the ability of the lenders that are parties to such facilities to meet their funding commitments to us. We cannot assure you that long-term disruptions in the global economy and the return of tighter credit conditions among, and potential failures or nationalizations of, third party financial institutions as a result of such disruptions will not have an adverse effect on our lenders. If our lenders are not able to meet their funding commitments to us, our business, results of operations, cash flows and financial condition could be adversely affected.

If we do not have sufficient cash flow to continue operating our business and are unable to borrow additional funds, access our existing lines of credit or raise equity or debt capital, we may need to source alternative ways to increase our liquidity. Such alternatives may include, without limitation, curtailing development activity, disposing of one or more of our properties possibly on disadvantageous terms or entering into or renewing leases on less favorable terms than we otherwise would.

Rental income. The amount of rental income generated by the properties in our portfolio depends on several factors, including our ability to maintain or improve the occupancy rates of currently leased space and to lease currently available space and space available from lease terminations. Excluding approximately 1.3 million square feet of space under active development and approximately 1.4 million square feet of space held for future development as of March 31, 2014, the occupancy rate of the properties in our portfolio, including the 13 properties held as investments in unconsolidated joint ventures, was approximately 92.1% of our net rentable square feet.

As of March 31, 2014, we had 2,367 leases with a total of 680 tenants in our portfolio, including the 11 properties held in our managed portfolio of unconsolidated joint ventures. As of March 31, 2014, approximately 89% of our leases (on a rentable square footage basis) contained base rent escalations that were either fixed (generally ranging from 2% to 4%) or indexed based on a consumer price index or other similar inflation related index. We cannot assure you that these escalations will cover any increases in our costs or will otherwise keep rental rates at or above market rates.

The amount of rental income generated by us also depends on maintaining or increasing rental rates at our properties, which in turn depends on several factors, including supply and demand and market rates for data center space. Included in our approximately 20.0 million net rentable square feet, excluding space under active development and space held for future development and 13 properties held as investments in unconsolidated joint ventures, at March 31, 2014 is approximately 735,000 square feet of datacenter space with extensive installed tenant improvements available for lease. Since our IPO, we have leased approximately 4.8 million square feet of similar space, including Turn-Key Flex[®] space. Our Turn-Key Flex[®] product is an effective solution for tenants who prefer to utilize a partner with the expertise or capital budget to provide extensive datacenter infrastructure and security. Our expertise in datacenter construction and operations enables us to lease space to these tenants at a premium over other uses. In addition, as of March 31, 2014, we had approximately 1.3 million square feet of space under active development and approximately 1.4 million square feet of space held for future development, or approximately 11% of the total rentable space in our portfolio, including one vacant property

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comprising approximately 128,000 square feet and the 13 properties held as investments in unconsolidated joint ventures. Our ability to grow earnings depends in part on our ability to develop space and lease development space at favorable rates, which we may not be able to obtain. Development space requires significant capital investment in order to develop datacenter facilities that are ready for use and, in addition, we may require additional time or encounter delays in securing tenants for development space. We may purchase additional vacant properties and properties with vacant development space in the future. We will require additional capital to finance our development activities, which may not be available or may not be available on terms acceptable to us, including as a result of the conditions described above under Global market and economic conditions.

In addition, the timing between when we sign a new lease with a tenant and when that lease commences and we begin to generate rental income may be significant and may not be easily predictable. Certain leases may provide for staggered commencement dates for additional space, the timing of which may be delayed significantly.

Economic downturns, including as a result of the conditions described above under Global market and economic conditions, or regional downturns affecting our markets or downturns in the technology-related real estate industry that impair our ability to lease or renew or re-lease space, or otherwise reduce returns on our investments or the ability of our tenants to fulfill their lease commitments, as in the case of tenant bankruptcies, could adversely affect our ability to maintain or increase rental rates at our properties.

Scheduled lease expirations. Our ability to re-lease expiring space at rental rates equal to or in excess of current rental rates will impact our results of operations. In addition to approximately 1.7 million square feet of available space in our portfolio, which excludes approximately 1.3 million square feet of space under active development and approximately 1.4 million square feet of space held for future development as of March 31, 2014 and the two properties held as investments in our non-managed unconsolidated joint ventures, leases representing approximately 3.6% and 9.1% of the net rentable square footage of our portfolio are scheduled to expire during the nine months ending December 31, 2014 and the year ending December 31, 2015, respectively.

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During the three months ended March 31, 2014, we signed new leases totaling approximately 369,000 square feet of space and renewal leases totaling approximately 189,000 square feet of space. The following table summarizes our leasing activity in the three months ended March 31, 2014:

	Number of Leases (1)	Rentable Square Feet (2)	Expiring Rates (3)	New Rates (3)	Rental Rate Changes	TI s/Lease Commissions Per Square Foot	Weighted Average Lease Terms (years)
Leasing Activity (4)(5)							
Renewals Signed							
Turn-Key Flex	4	22,235	\$ 100.44	\$ 114.83	14.3%	\$ 3.37	1.4
Powered Base Building	7	142,459	\$ 52.76	\$ 63.59	20.5%	\$ 10.35	6.8
Colocation	19	18,644	\$ 200.18	\$ 197.71	(1.2%)	\$ 3.07	2.3
Non-technical	6	5,600	\$ 27.79	\$ 31.93	14.9%	\$ 2.77	4.8
New Leases Signed (6)							
Turn-Key Flex	12	147,410		\$ 201.83		\$ 21.86	5.1
Powered Base Building	2	160,632		\$ 74.95		\$ 0.00	15.0
Colocation	46	24,187		\$ 170.97		\$ 9.41	4.4
Non-technical	12	36,377		\$ 18.07		\$ 2.31	5.4
Leasing Activity Summary							
Turn-Key Flex	16	169,645		\$ 190.43			
Powered Base Building	9	303,091		\$ 69.61			
Colocation	65	42,831		\$ 182.61			
Non-technical	18	41,977		\$ 19.92			

(1) The number of leases represents the leased-unit count; a lease could include multiple units.

(2) For some of our properties, we calculate square footage based on factors in addition to contractually leased square feet, including power, required support space and common area.

(3) Rental rates represent annual estimated cash rent per rentable square foot adjusted for straight-line rents in accordance with GAAP. GAAP rental rates are inclusive of tenant concessions, if any.

(4) Excludes short term leases.

(5) Commencement dates for the leases signed range from 2014 to 2015.

(6) Includes leases signed for new and re-leased space.

Our ability to re-lease or renew expiring space at rental rates equal to or in excess of current rental rates will impact our results of operations. We continue to see strong demand in most of our key markets for datacenter space and, subject to the supply of available datacenter space in these markets, expect the rental rates we are likely to achieve on any new, re-leased or renewed datacenter space leases for 2014 expirations on an average aggregate basis will generally be higher than the rates currently being paid for the same space on a GAAP basis and flat on a cash basis. For the three months ended March 31, 2014, rents on renewed space increased by an average of 14.3% on a GAAP basis on our Turn-Key Flex® space compared to the expiring rents and increased by an average of 20.5% on a GAAP basis on our Powered Base Building® space compared to the expiring rents. Our past performance may not be indicative of future results, and we cannot assure you that leases will be renewed or that our properties will be re-leased at all or at rental rates equal to or above the current average rental rates. Further, re-leased/renewed rental rates in a particular market may not be consistent with rental rates across our portfolio as a whole and may fluctuate from one period to another due to a number of factors, including local real estate conditions, local supply and demand for datacenter space, competition from other datacenter developers or operators, the condition of the property and whether the property, or space within the property, has been developed.

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Market concentration. We depend on the market for technology-based real estate in specific geographic regions and significant changes in these regional markets can impact our future results. As of March 31, 2014, our portfolio, including the 13 properties held as investments in unconsolidated joint ventures, was geographically concentrated in the following metropolitan markets.

Metropolitan Market	Percentage of March 31, 2014 total annualized rent ⁽¹⁾
London, England	11.9%
Northern Virginia	10.4%
Dallas	9.4%
Silicon Valley	9.2%
New York Metro	8.9%
Chicago	7.0%
San Francisco	6.6%
Phoenix	6.5%
Boston	4.2%
Los Angeles	3.4%
Seattle	3.1%
Singapore	2.8%
Other	16.6%
Total	100.0%

(1) Annualized rent is monthly contractual rent (defined as cash base rent before abatements) under existing leases as of March 31, 2014 multiplied by 12. The aggregate amount of abatements for the three months ended March 31, 2014 was approximately \$8.6 million.

Operating expenses. Our operating expenses generally consist of utilities, property and ad valorem taxes, property management fees, insurance and site maintenance costs, as well as rental expenses on our ground and building leases. In particular, our buildings require significant power to support the datacenter operations contained in them. Many of our leases contain provisions under which the tenants reimburse us for a portion of property operating expenses and real estate taxes incurred by us. However, we generally are not entitled to reimbursement of property operating expenses, other than utility expense, and real estate taxes under our leases for Turn-Key Flex[®] facilities. We also incur general and administrative expenses, including expenses relating to our asset management function, as well as significant legal, accounting and other expenses related to corporate governance, SEC reporting and compliance with the various provisions of the Sarbanes-Oxley Act. Increases or decreases in such operating expenses will impact our overall performance. We expect to incur additional operating expenses as we continue to expand.

Climate change legislation. In June 2009, the U.S. House of Representatives approved comprehensive clean energy and climate change legislation intended to cut greenhouse gas, or GHG, emissions, create new clean energy jobs and enhance the energy independence of the United States, which included a cap-and-trade program for GHG emissions. The U.S. Senate did not subsequently pass similar legislation. New climate change legislation was introduced in the U.S. Senate in 2013, but significant opposition to federal climate change legislation exists. As a result, near-term action to reduce GHG emissions likely will be focused on regulatory agencies, primarily the U.S. Environmental Protection Agency, or EPA, and state actions. The EPA has been moving aggressively to regulate GHG emissions from automobiles and large stationary sources, including electricity producers, using its own authority under the Clean Air Act. The EPA made an endangerment finding in 2009 that allows it to create regulations imposing emission reporting, permitting, control technology installation, and monitoring requirements applicable to certain emitters of GHGs, including facilities that provide electricity to our data centers, although the materiality of the impacts will not be known until all regulations are finalized.

The EPA has already finalized its GHG reporting rule, which requires that certain emitters, including electricity generators, monitor and report GHG emissions. The EPA has also finalized its tailoring rule, which imposes permitting and control technology requirements upon certain newly-constructed or modified facilities which emit GHGs under the Clean Air Act New Source Review Prevention of Significant Deterioration, or NSR PSD, and Title V permitting programs. As a result, newly-issued NSR PSD or Title V permits for new or modified electricity generating and other facilities may need to address GHG emissions, including by requiring the installation of Best Available Control Technology. Some of those regulations have been finalized and currently are in litigation.

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Courts have rejected certain legal challenges to the endangerment finding, the tailoring rule, and other regulations but other legal challenges are pending. In addition, the EPA proposed in April 2012 a rule that would set a GHG emission standard applicable to new electricity generating units, and the EPA re-proposed the rule in September 2013. The Obama Administration issued a plan in June 2013 under which the EPA is to issue a final rule by 2015 regulating GHG emissions from existing electricity generating units. At the state level, California implemented a GHG cap-and-trade program that began imposing compliance obligations on industrial sectors, including electricity generators and importers, in January 2013. In addition, since 2005 the European Union (including the United Kingdom) has been operating under a cap-and-trade program, which directly affects the largest emitters of GHGs, including electricity producers from whom we purchase power.

The cost of electric power comprises a significant component of our operating expenses. Any additional taxation or regulation of energy use, including as a result of (i) new legislation that Congress may pass, (ii) the regulations that the EPA has proposed or finalized, (iii) regulations under legislation that states have passed or may pass, or (iv) any further reductions in the EU program could significantly increase our costs, and we may not be able to effectively pass all of these costs on to our tenants. These matters could adversely impact our business, results of operations, or financial condition.

Interest rates. As of March 31, 2014, we had approximately \$561.6 million of variable rate debt subject to interest rate swap agreements on certain tranches of our unsecured term loan, along with \$790.5 million and \$465.3 million of variable rate debt that was outstanding on the global revolving credit facility and the unswapped portion of the unsecured term loan, respectively. The availability of debt and equity capital may decrease as a result of the circumstances described above under Global market and economic conditions. The effects on commercial real estate mortgages, if available, include, but may not be limited to: higher loan spreads, tightened loan covenants, reduced loan to value ratios resulting in lower borrower proceeds and higher principal payments. Potential future increases in interest rates and credit spreads may increase our interest expense and fixed charges and negatively affect our financial condition and results of operations, potentially impacting our future access to the debt and equity capital markets. Increased interest rates may also increase the risk that the counterparties to our swap agreements will default on their obligations, which could further increase our interest expense. If we cannot obtain capital from third party sources, we may not be able to acquire or develop properties when strategic opportunities exist, satisfy our debt service obligations or pay the cash dividends to Digital Realty Trust, Inc.'s stockholders necessary to maintain its qualification as a REIT.

Demand for datacenter space. Our portfolio of properties consists primarily of technology-related real estate and datacenter real estate in particular. A decrease in the demand for, or increase in supply of, datacenter space, Internet gateway facilities or other technology-related real estate would have a greater adverse effect on our business and financial condition than if we owned a portfolio with a more diversified tenant base or less specialized use. Over the past two years, we have made a significant investment in building out additional inventory primarily in what we anticipate will be our active major markets prior to having executed leases with respect to this space. We believe that demand continues to exceed supply in most markets in which we operate, particularly in Dallas, London and Singapore; whereas we anticipate that our Northern Virginia and Silicon Valley markets may be at risk of significant over-supply. However, until this inventory is leased up, which will depend on a number of factors, including available datacenter space in these markets, our return on invested capital is negatively impacted. Our development activities make us particularly susceptible to general economic slowdowns, including recessions and the other circumstances described above under Global market and economic conditions, as well as adverse developments in the corporate datacenter, Internet and data communications and broader technology industries. Any such slowdown or adverse development could lead to reduced corporate IT spending or reduced demand for datacenter space. Reduced demand could also result from business relocations, including to markets that we do not currently serve. Changes in industry practice or in technology, such as virtualization technology, more efficient computing or networking devices, or devices that require higher power densities than today's devices, could also reduce demand for the physical datacenter space we provide or make the tenant improvements in our facilities obsolete or in need of significant upgrades to remain viable. In addition, the development of new technologies, the adoption of new industry standards or other factors could render many of our tenants' current products and services obsolete or unmarketable and contribute to a downturn in their businesses, thereby increasing the likelihood that they default under their leases, become insolvent or file for bankruptcy. In addition, demand for datacenter space in our properties, or the rates at which we lease space, may be adversely impacted either across our portfolio or in specific markets as a result of an increase in the number of competitors, or the amount of space being offered in our markets and other markets by our competitors.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP. The preparation of these financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses in the reporting period. Our actual results may differ from these estimates. We have provided a summary of our significant accounting policies in note 2 to our condensed consolidated financial statements included elsewhere in this report. We describe below those accounting policies that require material subjective or complex judgments and that have the most significant impact on our financial condition and consolidated results of operations. Our management evaluates these estimates on an ongoing basis, based upon information currently available and on various assumptions management believes are reasonable as of the date on

the front cover of this report.

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Acquisition of real estate. The price that we pay to acquire a property is impacted by many factors including the condition of the property and improvements, the occupancy of the building, the term and rate of in-place leases, the creditworthiness of the tenants, favorable or unfavorable financing, above or below-market ground leases and numerous other factors.

Accordingly, we are required to make subjective assessments to allocate the purchase price paid to acquire investments in real estate among the identifiable assets including intangibles and liabilities assumed based on our estimate of the fair value of such assets and liabilities. This includes determining the value of the property and improvements, land, ground leases, if any, and tenant improvements. Additionally, we evaluate the value of in-place leases on occupancy and market rent, the value of the tenant relationships, the value (or negative value) of above (or below) market leases, any debt or deferred taxes assumed from the seller or loans made by the seller to us and any building leases assumed from the seller. Each of these estimates requires a great deal of judgment and some of the estimates involve complex calculations. These allocation assessments have a direct impact on our results of operations. For example, if we were to allocate more value to land, there would be no depreciation with respect to such amount. If we were to allocate more value to the property as opposed to allocating to the value of in-place tenant leases, this amount would be recognized as an expense over a much longer period of time. This potential effect occurs because the amounts allocated to property are depreciated over the estimated lives of the property whereas amounts allocated to in-place tenant leases are amortized over the estimated term (including renewal and extension assumptions) of the leases. Additionally, the amortization of the value (or negative value) assigned to above (or below) market rate leases is recorded as an adjustment to rental revenue as compared to amortization of the value of in-place tenant leases and tenant relationships, which is included in depreciation and amortization in our condensed consolidated income statements.

Capitalization of costs. Direct and indirect project costs that are clearly associated with the development of properties are capitalized as incurred. Project costs include all costs directly associated with the development of a property, including construction costs, interest, property taxes, insurance, legal fees and costs of personnel working on the project. Indirect costs that do not clearly relate to the projects under development are not capitalized and are charged to expense as incurred.

Capitalization of costs begins when activities, including development of plans, obtaining permits from governmental authorities and physical construction, that are necessary to get the asset ready for its intended use are in progress and costs have been incurred. Capitalization of costs ceases when the development project is substantially complete and ready for its intended use. Determining when a development project commences, and when it is substantially complete and ready for its intended use involves a degree of judgment. We generally consider a development project to be substantially complete and ready for its intended use upon receipt of a certificate of occupancy. We cease cost capitalization if activities necessary for the development of the property have been suspended. Capitalized costs are allocated to the specific components of a project that are benefited.

Useful lives of assets. We are required to make subjective assessments as to the useful lives of our properties for purposes of determining the amount of depreciation to record on an annual basis with respect to our investments in real estate. These assessments have a direct impact on our net income because if we were to shorten the expected useful lives of our investments in real estate we would depreciate such investments over fewer years, resulting in more depreciation expense and lower net income on an annual basis.

Asset impairment evaluation. We review each of our properties for indicators that its carrying amount may not be recoverable. Examples of such indicators may include a significant decrease in the market price of the property, a significant adverse change in the extent or manner in which the property is being used in its physical condition or expected to be used based on the underwriting at the time of acquisition, an accumulation of costs significantly in excess of the amount originally expected for the acquisition or development of the property, or a history of operating or cash flow losses of the property. When such impairment indicators exist, we review an estimate of the future undiscounted net cash flows (excluding interest charges) expected to result from the real estate investment's use and eventual disposition and compare that estimate to the carrying value of the property. We consider factors such as future operating income, trends and prospects, as well as the effects of leasing demand, competition and other factors. If our future undiscounted net cash flow evaluation indicates that we are unable to recover the carrying value of a real estate investment, an impairment loss is recorded to the extent that the carrying value exceeds the estimated fair value of the property. These losses have a direct impact on our net income because recording an impairment loss results in an immediate negative adjustment to net income. The evaluation of anticipated cash flows is highly subjective and is based in part on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results in future periods. Since cash flows on properties considered to be long-lived assets to be held and used are considered on an undiscounted basis to determine whether the carrying value of a property is recoverable, our strategy of holding properties over the long-term directly decreases the likelihood of their carrying values not being recoverable and therefore requiring the recording of an impairment loss. If our strategy changes or market conditions otherwise dictate an earlier sale date, an impairment loss may be recognized and such loss could be material. If we determine that the asset fails the recoverability test, the affected assets must be reduced to their fair value. No such impairment losses have been recognized to date.

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We generally estimate the fair value of rental properties utilizing a discounted cash flow analysis that includes projections of future revenues, expenses and capital improvement costs that a market participant would use based on the highest and best use of the asset, which is similar to the income approach that is commonly utilized by appraisers.

Revenue Recognition

Rental revenue is recognized using the straight-line method over the terms of the tenant leases. Deferred rents included in our condensed consolidated balance sheets represent the aggregate excess of rental revenue recognized to date on a straight-line basis versus the contractual rental payments under the terms of the leases. Many of our leases contain provisions under which the tenants reimburse us for a portion of property operating expenses and real estate taxes incurred by us. However, we generally are not entitled to reimbursement of property operating expenses, other than utility expense, and real estate taxes under our leases for Turn-Key Flex[®] facilities. Such reimbursements are recognized in the period that the expenses are incurred. Lease termination fees are recognized over the remaining term of the lease, effective as of the date the lease modification is finalized, assuming collection is not considered doubtful. As discussed above, we recognize amortization of the value of acquired above or below-market tenant leases as a reduction of rental revenue in the case of above-market leases or an increase to rental revenue in the case of below-market leases.

We must make subjective estimates as to when our revenue is earned and the collectability of our accounts receivable related to minimum rent, deferred rent, expense reimbursements, lease termination fees and other income. We specifically analyze accounts receivable and historical bad debts, tenant concentrations, tenant creditworthiness and current economic trends when evaluating the adequacy of the allowance for bad debts. These estimates have a direct impact on our net income because a higher bad debt allowance would result in lower net income, and recognizing rental revenue as earned in one period versus another would result in higher or lower net income for a particular period.

Share-Based Awards

We recognize compensation expense related to share-based awards. We generally amortize this compensation expense over the vesting period of the award. The calculation of the fair value of share-based awards is subjective and requires several assumptions over such items as expected stock volatility, dividend payments and future company results. These assumptions have a direct impact on our net income because a higher share-based awards amount would result in lower net income for a particular period.

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The discussion below relates to our financial condition and results of operations for the three months ended March 31, 2014 and 2013. A summary of our operating results for the three months ended March 31, 2014 and 2013 is as follows (in thousands).

	Three Months Ended March 31,	
	2014	2013
Income Statement Data:		
Total operating revenues	\$ 390,590	\$ 358,370
Total operating expenses	(300,583)	(259,784)
Operating income	90,007	98,586
Other expenses, net	(43,290)	(46,905)
Net income	\$ 46,717	\$ 51,681

Our property portfolio has experienced consistent and significant growth since the first property acquisition in January 2002. As a result of this growth, our period-to-period comparison of our financial performance focuses on the impact on our revenues and expenses resulting both from the new property additions to our portfolio, as well as on a same store property basis (new properties are properties that were acquired after December 31, 2012 along with the 10 properties that were contributed to our joint venture with the PREI®-managed fund in September 2013 and March 2014). The following table identifies each of the properties in our portfolio acquired from January 1, 2013 through March 31, 2014.

Our stabilized portfolio includes all of our same store properties with the exception of properties contributed to joint ventures, undeveloped land, development properties currently under construction or committed for construction, and lease-up properties. We define development properties as those properties for which we expect to spend significant development and construction costs on the existing or acquired buildings pursuant to a formal plan, the intended result of which is a higher economic return on the property. We define lease-up properties as properties we recently developed that have not yet reached 95% occupancy as of December 31, 2012.

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Acquired Buildings	Acquisition Date	Space under active development as of March 31, 2014 ⁽¹⁾	Space held for future development as of March 31, 2014 ⁽¹⁾	Net rentable square feet excluding space held for development ⁽²⁾	Square feet including development space	Occupancy rate as of March 31, 2014 ⁽³⁾
As of December 31, 2012 (124 properties)		1,184,547	1,263,203	20,715,205	23,162,955	91.9%
January 1, 2013 through March 31, 2014						
17201 Waterview Parkway	Jan-13			61,750	61,750	100.0
1900 S. Price Road	Jan-13		108,926	118,348	227,274	100.0
371 Gough Road	Mar-13	44,411	50,115	25,515	120,041	100.0
1500 Towerview Road	Mar-13			328,765	328,765	100.0
MetCenter Business Park	May-13			336,695	336,695	87.1
Liverpoolweg 10	Jun-13			16,813	16,813	100.0
Principal Park	Sep-13	106,400			106,400	
636 Pierce Street ⁽⁴⁾	Dec-13			108,336	108,336	100.0
Subtotal		150,811	159,041	996,222	1,306,074	95.6%
Total		1,335,358	1,422,244	21,711,427	24,469,029	92.1%

- (1) Space under active development includes current base building and data center projects in progress. Space held for future development includes space held for future data center development, and excludes space under active development.
- (2) Net rentable square feet at a building represents the current square feet at that building under lease as specified in the lease agreements plus management's estimate of space available for lease based on engineering drawings. Net rentable square feet includes tenants' proportional share of common areas but excludes development space.
- (3) Occupancy rates exclude development space. For some of our properties, we calculate occupancy based on factors in addition to contractually leased square feet, including available power, required support space and common area.
- (4) On March 5, 2014, we contributed the 636 Pierce Street property to the PREI[®] joint venture that was initially formed in September 2013. *Comparison of the Three Months Ended March 31, 2014 to the Three Months Ended March 31, 2013*

Portfolio

As of March 31, 2014, our portfolio consisted of 131 properties, including 13 properties held as investments in unconsolidated joint ventures and developable land, with an aggregate of 24.5 million rentable square feet including 1.3 million square feet of space under active development and 1.4 million square feet of space held for future development compared to a portfolio consisting of 127 properties, including three properties held as investments in unconsolidated joint ventures and developable land, with an aggregate of 24.1 million rentable square feet including 1.4 million square feet of space under active development and 2.1 million square feet of space held for future development as of March 31, 2013. The increase in our portfolio reflects the acquisition of three properties during the twelve months ended March 31, 2014 (in addition, one property was placed into service during the twelve months ended March 31, 2014 related to a land parcel that was acquired prior to January 1, 2013).

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Total operating revenues for the three months ended March 31, 2014 and 2013 were as follows (in thousands):

	Three Months Ended March 31,		
	2014	2013	Change
Rental	\$ 305,786	\$ 281,399	\$ 24,387
Tenant reimbursements	83,621	75,917	7,704
Fee income	1,183	806	377
Other		248	(248)
Total operating revenues	\$ 390,590	\$ 358,370	\$ 32,220

As shown by the same store and new properties table below, the increases in rental revenues and tenant reimbursement revenues in the three months ended March 31, 2014 compared to the same period in 2013 were due to new leasing at our same store properties, including completed and leased development space, and acquisitions of properties. Other revenues changes in the periods presented were primarily due to tenant termination revenues. We acquired 3 properties during the twelve months ended March 31, 2014.

(in thousands)	Same Store			New Properties		
	Three Months Ended March 31,	2013	Change	Three Months Ended March 31,	2013	Change
Rental	\$ 301,666	\$ 273,616	\$ 28,050	\$ 4,120	\$ 7,783	\$ (3,663)
Tenant reimbursements	83,082	74,663	8,419	539	1,254	(715)
Fee income				1,183	806	377
Other		248	(248)			
Total operating revenues	\$ 384,748	\$ 348,527	\$ 36,221	\$ 5,842	\$ 9,843	\$ (4,001)

Same store rental revenues increased for the three months ended March 31, 2014 compared to the same period in 2013 primarily as a result of new leases at our properties during the twelve months ended March 31, 2014, including leases of completed development space, the largest of which were for space in the Sentrum Portfolio, 43940 Digital Loudoun Plaza and 2121 South Price Road. Same store growth was driven by the delivery of approximately 550,000 square feet of leased data center space from within our same store development platform during the last 12 months. In our same store portfolio, we calculate the change in rental rates on renewals signed during the quarter as compared to the previous rent on that same space. During the twelve months ended March 31, 2014, the percentage increase was 19.2% on a GAAP basis. Same store rental revenues increased for the three months ended March 31, 2014 as compared to the same period in 2013 as a result of the increase in rentable square feet of leased data center space. During the twelve months ended March 31, 2014, we also delivered approximately 340,000 square feet of un-leased data center space which was one of the drivers impacting occupancy which decreased slightly to 91.4% as of March 31, 2014 from 93.4% as of March 31, 2013 along with certain leases expiring at one of our non-technical properties during 2013. Same store tenant reimbursement revenues increased for the three months ended March 31, 2014 as compared to the same period in 2013 primarily as a result of new leasing and higher utility and operating expenses being billed to our tenants, the largest occurrences of which were at the Sentrum Portfolio, 111 8th Avenue (2nd and 6th Floors), 720 2nd Street and 350 East Cermak Road.

Excluding the effect of our contribution of 10 properties to an unconsolidated joint venture, new properties revenues increased approximately \$3.3 million for the three months ended March 31, 2014 compared to the same period in 2013. 1500 Towerview Road and 7401 E. Ben White Boulevard contributed \$2.0 million, or approximately 70% of the new properties increase in rental revenues and tenant reimbursements compared to the same period in 2013.

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The following table shows revenues for stabilized properties (includes all of our same store properties with the exception of properties contributed to joint ventures, undeveloped land, development properties currently under construction or committed for construction, and lease-up properties) and non-stabilized properties (all other properties) (in thousands).

(in thousands)	Stabilized			Non-Stabilized		
	Three Months Ended March 31, 2014	2013	Change	Three Months Ended March 31, 2014	2013	Change
Rental	\$ 198,531	\$ 196,439	\$ 2,092	\$ 107,255	\$ 84,960	\$ 22,295
Tenant reimbursements	57,043	55,621	1,422	26,578	20,296	6,282
Fee income				1,183	806	377
Other		248	(248)			
Total operating revenues	\$ 255,574	\$ 252,308	\$ 3,266	\$ 135,016	\$ 106,062	\$ 28,954

Operating Expenses and Interest Expense

Operating expenses and interest expense during the three months ended March 31, 2014 and 2013 were as follows (in thousands):

	Three Months Ended March 31,		
	2014	2013	Change
Rental property operating and maintenance	\$ 117,896	\$ 105,480	\$ 12,416
Property taxes	22,125	21,042	1,083
Insurance	2,422	2,205	217
Construction management	164	384	(220)
Change in fair value of contingent consideration	(3,403)	1,300	(4,703)
Depreciation and amortization	130,620	111,623	18,997
General and administrative	30,678	15,951	14,727
Transactions	81	1,763	(1,682)
Other		36	(36)
Total operating expenses	\$ 300,583	\$ 259,784	\$ 40,799
Interest expense	\$ 47,374	\$ 48,078	\$ (704)

As shown in the same store and new properties table below, total same store expenses for the three months ended March 31, 2014 increased compared to the same period in 2013 primarily as a result of higher utility rates in several of our properties along with development projects being placed into service leading to higher utility expense (included in rental property operating and maintenance) in 2014. The following table shows expenses for new properties (properties that were acquired after December 31, 2012 along with the 10 properties contributed to our joint venture with the PREI[®]-managed fund) and same store properties (all other properties) (in thousands).

	Same Store			New Properties		
	Three Months Ended March 31, 2014	2013	Change	Three Months Ended March 31, 2014	2013	Change
Rental property operating and maintenance	\$ 117,860	\$ 105,051	\$ 12,809	\$ 36	\$ 429	\$ (393)
Property taxes	21,554	20,008	1,546	571	1,034	(463)
Insurance	2,400	2,037	363	22	168	(146)
Construction management ⁽¹⁾				164	384	(220)
Change in fair value of contingent consideration	(3,403)	1,300	(4,703)			
Depreciation and amortization	129,044	109,147	19,897	1,576	2,476	(900)
General and administrative ⁽²⁾	30,678	15,951	14,727			

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Transactions ⁽³⁾				81	1,763	(1,682)
Other	36	(36)				
Total operating expenses	\$ 298,133	\$ 253,530	\$ 44,603	\$ 2,450	\$ 6,254	\$ (3,804)
Interest expense ⁽⁴⁾	\$ 46,306	\$ 47,992	\$ (1,686)	\$ 1,068	\$ 86	\$ 982

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- (1) Construction management expenses are included entirely in new properties as they are not allocable to specific properties.
- (2) General and administrative expenses are included in same store as they are not allocable to specific properties.
- (3) Transaction expenses are included entirely in new properties as they are not allocable to specific properties.
- (4) Interest expense on our global revolving credit facility and unsecured term loan is allocated on a specific property basis.

Same store rental property operating and maintenance expenses increased in the three months ended March 31, 2014 compared to the same period in 2013 primarily as a result of higher consumption and utility rates in several of our properties along with development projects being placed into service leading to higher utility expense in 2014. We capitalized amounts relating to compensation expense of employees direct and incremental to construction and executed leasing activities of \$12.4 million and \$10.1 million for the three months ended March 31, 2014 and 2013, respectively.

Same store property taxes increased by approximately \$1.5 million in the three months ended March 31, 2014 compared to the same period in 2013, primarily as a result of higher supplemental property tax assessments at one of our properties in 2013.

Same store depreciation and amortization expense increased in the three months ended March 31, 2014 by approximately \$19.9 million compared to the same period in 2013, principally because of depreciation of development projects that were placed into service in late 2013 and during 2014.

General and administrative expenses for the three months ended March 31, 2014 increased by approximately \$14.7 million compared to the same period in 2013 primarily due to the \$12.4 million severance charge related to the departure of our former Chief Executive Officer, Michael Foust. The severance amount was determined in accordance with the non-cause termination provisions of Mr. Foust's existing employment agreement and applicable equity award agreements with the company.

Same store interest expense decreased for the three months ended March 31, 2014 by approximately \$1.7 million as compared to the same period in 2013 primarily as a result of lower average outstanding mortgage debt balances during 2014 compared to 2013 primarily due to the paydown of the following loans: Clonshaugh Industrial Estate II (June 2013), 1500 Space Park Drive (July 2013), Paul van Vlissingenstraat 16 (July 2013), Chemin de l'Epinglier 2 (July 2013), Mundells Roundabout (October 2013), Gyroscopweg 2E-2F (October 2013) and 360 Spear Street (November 2013). During the three months ended March 31, 2014 and 2013, we capitalized interest of approximately \$5.3 million and \$5.3 million, respectively.

Excluding the effect of our contribution of 10 properties to an unconsolidated joint venture, new properties expenses (excluding construction management and transactions) increased approximately \$1.8 million for the three months ended March 31, 2014 compared to the same period in 2013. 7401 E. Ben White Boulevard and 1500 Towerview Road contributed \$1.0 million, or approximately 54% of the total new properties increase in total operating expenses (excluding construction management and transactions) compared to the same period in 2013.

Transactions expense decreased in the three months ended March 31, 2014 compared to the same period in 2013, principally because there have been no acquisitions in 2014 compared to the acquisition of four properties in 2013.

The following table shows expenses for stabilized properties (includes all of our same store properties with the exception of properties contributed to joint ventures, undeveloped land, development properties currently under construction or committed for construction, and lease-up properties) and non-stabilized properties (all other properties) (in thousands).

(in thousands)	Stabilized			Non-Stabilized		
	Three Months Ended March 31, 2014	2013	Change	Three Months Ended March 31, 2014	2013	Change
Rental property operating and maintenance	\$ 75,035	\$ 73,033	\$ 2,002	\$ 42,861	\$ 32,447	\$ 10,414
Property taxes	14,325	14,849	(524)	7,800	6,193	1,607
Insurance	1,832	1,519	313	590	686	(96)
Construction management ⁽¹⁾				164	384	(220)
Change in fair value of contingent consideration	(3,403)	1,300	(4,703)			
Depreciation and amortization	78,311	75,354	2,957	52,309	36,269	16,040
General and administrative ⁽²⁾	30,678	15,951	14,727			

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Transactions ⁽³⁾						
Other	36	(36)		81	1,763	(1,682)
Total operating expenses	\$ 196,778	\$ 182,042	\$ 14,736	\$ 103,805	\$ 77,742	\$ 26,063
Interest expense ⁽⁴⁾	\$ 42,009	\$ 44,281	\$ (2,272)	\$ 5,365	\$ 3,797	\$ 1,568

Stabilized rental property operating and maintenance expenses increased approximately \$2.0 million in the three months ended March 31, 2014 compared to the same period in 2013 primarily as a result of higher consumption and utility rates in several of our properties.

Stabilized property taxes decreased by approximately \$0.5 million in the three months ended March 31, 2014 compared to the same period in 2013, primarily as a result of higher supplemental property tax assessments at one of our properties in 2013.

Stabilized depreciation and amortization expense increased approximately \$3.0 million in the three months ended March 31, 2014 compared to the same period in 2013, principally because of depreciation of a development project that was placed into service during 2013.

General and administrative expenses for the three months ended March 31, 2014 increased approximately \$14.7 million compared to the same period in 2013 primarily due to the \$12.4 million severance charge related to the departure of our former Chief Executive Officer. The severance amount was determined in accordance with the non-cause termination provisions of Mr. Foust's existing employment agreement and applicable equity award agreements with the company.

Stabilized interest expense decreased approximately \$2.3 million for the three months ended March 31, 2014 as compared to the same period in 2013 primarily as a result of lower average outstanding mortgage debt balances during 2014 compared to 2013 primarily due to the paydown of the following loans: Clonshaugh Industrial Estate II (June 2013), 1500 Space Park Drive (July 2013), Paul van Vlissingenstraat 16 (July 2013), Chemin de l'Épinglier 2 (July 2013), Mundells Roundabout (October 2013), Gyroscopweg 2E-2F (October 2013) and 360 Spear Street (November 2013).

Non-stabilized rental property operating and maintenance expenses increased in the three months ended March 31, 2014 compared to the same period in 2013 primarily as a result of higher consumption and utility rates in several of our properties along with development projects being placed into service leading to higher utility expense in 2014.

Non-stabilized depreciation and amortization expense increased approximately \$16.0 million in the three months ended March 31, 2014 compared to the same period in 2013, principally because of depreciation of development projects that were placed into service in late 2013 and during 2014.

Transactions expense decreased in the three months ended March 31, 2014 compared to the same period in 2013, principally because there have been no acquisitions in 2014 compared to the acquisition of four properties in 2013.

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Liquidity and Capital Resources of the Parent Company

In this *Liquidity and Capital Resources of the Parent Company* section and in the *Liquidity and Capital Resources of the Operating Partnership* section below, the term, our *parent company*, refers to Digital Realty Trust, Inc. on an unconsolidated basis, excluding our operating partnership.

Analysis of Liquidity and Capital Resources

Our parent company's business is operated primarily through our operating partnership of which our parent company is the sole general partner and which it consolidates for financial reporting purposes. Because our parent company operates on a consolidated basis with our operating partnership, the section entitled *Liquidity and Capital Resources of the Operating Partnership* should be read in conjunction with this section to understand the liquidity and capital resources of our parent company on a consolidated basis and how our company is operated as a whole.

Our parent company issues public equity from time to time, but does not otherwise generate any capital itself or conduct any business itself, other than incurring certain expenses in operating as a public company which are fully reimbursed by the operating partnership. Our parent company itself does not hold any indebtedness other than guarantees of the indebtedness of our operating partnership and certain of its subsidiaries, and its only material asset is its ownership of partnership interests of our operating partnership. Therefore, the consolidated assets and liabilities and the consolidated revenues and expenses of our parent company and our operating partnership are the same on their respective financial statements, except for immaterial differences related to cash, other assets and accrued liabilities that arise from public company expenses paid by our parent company. However, all debt is held directly or indirectly at the operating partnership level. Our parent company's principal funding requirement is the payment of dividends on its common and preferred shares. Our parent company's principal source of funding for its dividend payments is distributions it receives from our operating partnership.

As the sole general partner of our operating partnership, our parent company has the full, exclusive and complete responsibility for our operating partnership's day-to-day management and control. Our parent company causes our operating partnership to distribute such portion of its available cash as our parent company may in its discretion determine, in the manner provided in our operating partnership's partnership agreement. Our parent company receives proceeds from its equity issuances from time to time, but is generally required by our operating partnership's partnership agreement to contribute the proceeds from its equity issuances to our operating partnership in exchange for partnership units of our operating partnership.

Our parent company is a well-known seasoned issuer with an effective shelf registration statement filed on April 23, 2012 that allows our parent company to register an unspecified amount of various classes of equity securities. As circumstances warrant, our parent company may issue equity from time to time on an opportunistic basis, dependent upon market conditions and available pricing. Any proceeds from such equity issuances would be generally contributed to our operating partnership in exchange for additional equity interests in our operating partnership. Our operating partnership may use the proceeds to acquire additional properties, to fund development opportunities and for general working capital purposes, including potentially for the repurchase, redemption or retirement of outstanding debt or equity securities.

The liquidity of our parent company is dependent on our operating partnership's ability to make sufficient distributions to our parent company. The primary cash requirement of our parent company is its payment of dividends to its stockholders. Our parent company also guarantees our operating partnership's, as well as certain of its subsidiaries', unsecured debt. If our operating partnership or such subsidiaries fail to fulfill their debt requirements, which trigger parent company guarantee obligations, then our parent company will be required to fulfill its cash payment commitments under such guarantees. However, our parent company's only asset is its investment in our operating partnership.

We believe our operating partnership's sources of working capital, specifically its cash flow from operations, and funds available under its global revolving credit facility are adequate for it to make its distribution payments to our parent company and, in turn, for our parent company to make its dividend payments to its stockholders. However, we cannot assure you that our operating partnership's sources of capital will continue to be available at all or in amounts sufficient to meet its needs, including its ability to make distribution payments to our parent company. The lack of availability of capital could adversely affect our operating partnership's ability to pay its distributions to our parent company, which would in turn, adversely affect our parent company's ability to pay cash dividends to its stockholders.

On June 29, 2011, Digital Realty Trust, Inc. entered into equity distribution agreements, which we refer to as the 2011 Equity Distribution Agreements, with each of Merrill Lynch, Pierce, Fenner & Smith Incorporated, Citigroup Global Markets Inc., Credit Suisse Securities (USA) LLC, Deutsche Bank Securities Inc. and Morgan Stanley & Co. LLC, or the Agents, under which it can issue and sell shares of its common stock having an aggregate offering price of up to \$400.0 million from time to time through, at its discretion, any of the Agents as its sales agents. The sales of common stock made under the 2011 Equity Distribution Agreements will

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be made in at the market offerings as defined in Rule 415 of the Securities Act. To date, Digital Realty Trust, Inc. has generated net proceeds of approximately \$342.7 million from the issuance of approximately 5.7 million common shares under the 2011 Equity Distribution Agreements at an average price of \$60.35 per share after payment of approximately \$3.5 million of commissions to the sales agents and before offering expenses. No sales were made under the program during the three months ended March 31, 2014 and 2013. As of March 31, 2014, shares of common stock having an aggregate offering price of \$53.8 million remained available for offer and sale under the program.

On March 26, 2014 and April 7, 2014, our parent company issued an aggregate of 14.6 million shares of its 7.375% Series H Cumulative Redeemable Preferred Stock for total net proceeds, after underwriting discounts and estimated offering expenses, of \$353.2 million, including the proceeds from the partial exercise of the underwriters' over-allotment option. We used the net proceeds from the offerings to temporarily repay borrowings under our global revolving credit facility.

On April 1, 2014, Digital Stout Holding, LLC, a wholly-owned subsidiary of Digital Realty Trust, L.P, issued £300.0 million (or approximately \$498.9 million based on the April 1, 2014 exchange rate of £1.00 to \$1.66) aggregate principal amount of its 4.750% Guaranteed Notes due 2023, or the 2023 notes. The 2023 notes are senior unsecured obligations of Digital Stout Holding, LLC and are fully and unconditionally guaranteed by Digital Realty Trust, Inc. and Digital Realty Trust, L.P. Interest on the 2023 notes is payable semiannually in arrears at a rate of 4.750% per annum. The 2023 notes will mature on October 13, 2023. We used the net proceeds from the offering of the 2023 notes to temporarily repay borrowings under our global revolving credit facility.

On April 18, 2014, the Operating Partnership redeemed approximately \$5.2 million in aggregate principal amount of the 2029 Debentures pursuant to its option under the indenture governing the 2029 Debentures at a price equal to 100% of the principal amount plus accrued and unpaid interest thereon up to April 18, 2014. In connection with the redemption, the holders of approximately \$261.2 million in aggregate principal amount of the 2029 Debentures exchanged such 2029 Debentures for an aggregate of 6,734,938 unregistered shares of Digital Realty Trust, Inc. common stock pursuant to the terms of the indenture governing the 2029 Debentures.

Future Uses of Cash

Our parent company may from time to time seek to retire, redeem or repurchase its equity or the debt securities of our operating partnership through cash purchases and/or exchanges for equity securities in open market purchases, privately negotiated transactions or otherwise. Such repurchases, redemptions or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions or other factors. The amounts involved may be material.

We are also subject to the commitments discussed below under Dividends and Distributions.

Dividends and Distributions

Our parent company is required to distribute 90% of its taxable income (excluding capital gains) on an annual basis in order for it to continue to qualify as a REIT for federal income tax purposes. Accordingly, our parent company intends to make, but is not contractually bound to make, regular quarterly distributions to its common stockholders from cash flow from our operating partnership's operating activities. While historically our parent company has satisfied this distribution requirement by making cash distributions to its stockholders, it may choose to satisfy this requirement by making distributions of cash or other property. All such distributions are at the discretion of our parent company's board of directors. Our parent company considers market factors and our operating partnership's performance in addition to REIT requirements in determining distribution levels. Our parent company has distributed at least 100% of its taxable income annually since inception to minimize corporate level federal income taxes. Amounts accumulated for distribution to stockholders are invested primarily in interest-bearing accounts and short-term interest-bearing securities, which are consistent with our intention to maintain our parent company's status as a REIT.

As a result of this distribution requirement, our operating partnership cannot rely on retained earnings to fund its on-going operations to the same extent that other companies whose parent companies are not REITs can. Our parent company may need to continue to raise capital in the debt and equity markets to fund our operating partnership's working capital needs, as well as potential developments at new or existing properties, acquisitions or investments in existing or newly created joint ventures. In addition, our parent company may be required to use borrowings under our operating partnership's global revolving credit facility, if necessary, to meet REIT distribution requirements and maintain our parent company's REIT status.

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Our parent company has declared and paid the following dividends on its common and preferred stock for the three months ended March 31, 2014 (in thousands):

Date dividend declared	Dividend payable date	Series E Preferred Stock ⁽¹⁾	Series F Preferred Stock ⁽²⁾	Series G Preferred Stock ⁽³⁾	Common Stock ⁽⁴⁾
February 11, 2014	March 31, 2014	\$ 5,031	\$ 3,023	\$ 3,672	\$ 106,743
		\$ 5,031	\$ 3,023	\$ 3,672	\$ 106,743

(1) \$1.750 annual rate of dividend per share.

(2) \$1.656 annual rate of dividend per share.

(3) \$1.469 annual rate of dividend per share.

(4) \$3.320 annual rate of dividend per share.

Distributions out of our parent company's current or accumulated earnings and profits are generally classified as ordinary income whereas distributions in excess of our company's current and accumulated earnings and profits, to the extent of a stockholder's U.S. federal income tax basis in our parent company's stock, are generally classified as a return of capital. Distributions in excess of a stockholder's U.S. federal income tax basis in our parent company's stock are generally characterized as capital gain. Cash provided by operating activities has been generally sufficient to fund distributions on an annual basis, however, we may also need to utilize borrowings under the global revolving credit facility to fund distributions.

Liquidity and Capital Resources of the Operating Partnership

In this Liquidity and Capital Resources of the Operating Partnership section, the terms we, our and us refer to our operating partnership together with its consolidated subsidiaries or our operating partnership and our parent company together with their consolidated subsidiaries, as the context requires.

Analysis of Liquidity and Capital Resources

Our parent company is our sole general partner and consolidates our results of operations for financial reporting purposes. Because we operate on a consolidated basis with our parent company, the section entitled Liquidity and Capital Resources of the Parent Company should be read in conjunction with this section to understand our liquidity and capital resources on a consolidated basis.

As of March 31, 2014, we had \$70.2 million of cash and cash equivalents, excluding \$42.8 million of restricted cash. Restricted cash primarily consists of interest-bearing cash deposits required by the terms of several of our mortgage loans for a variety of purposes, including real estate taxes, insurance, anticipated or contractually obligated tenant improvements, as well as capital expenditures.

Our short-term liquidity requirements primarily consist of operating expenses, development costs and other expenditures associated with our properties, distributions to our parent company in order for it to make dividend payments on its preferred stock, distributions to our parent company in order for it to make dividend payments to its stockholders required to maintain its REIT status, distributions to the unitholders in our operating partnership, capital expenditures, debt service on our loans and, potentially, acquisitions. We expect to meet our short-term liquidity requirements through net cash provided by operations, restricted cash accounts established for certain future payments and by drawing upon our global revolving credit facility.

On August 15, 2013, we refinanced our revolving credit facility, which we refer to as the global revolving credit facility, increasing our total borrowing capacity to \$2.0 billion from \$1.8 billion. The global revolving credit facility has an accordion feature that would enable us to increase the borrowing capacity of the credit facility to \$2.55 billion, subject to the receipt of lender commitments and other conditions precedent. The refinanced facility matures on November 3, 2017, with two six-month extension options. The interest rate for borrowings under the expanded facility equals the applicable index plus a margin which is based on the credit rating of our long-term debt and is currently 110 basis points. An annual facility fee on the total commitment amount of the facility, based on the credit rating of our long-term debt, is currently 20 basis points, and payable quarterly. Funds may be drawn in U.S., Canadian, Singapore, Australian and Hong Kong dollars, as well as Euro,

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British pound sterling, Swiss franc, Japanese yen and Mexican peso denominations. As of March 31, 2014, borrowings under the global revolving credit facility bore interest at an overall blended rate of 1.61% comprised of 1.25% (U.S. dollars), 1.60% (British pound sterling), 1.33% (Euros), 3.73% (Australian dollars), 1.31% (Hong Kong dollars), 1.20% (Japanese yen) and 2.32% (Canadian dollars). The interest rates are based on 1-month LIBOR, 1-month GBP LIBOR, 1-month EURIBOR, 1-month BBR, 1-month HIBOR, 1-month JPY LIBOR and 1-month CDOR, respectively, plus a margin of 1.10%. The facility also bore a base borrowing rate of 3.35% (USD) which is based on U.S. Prime Rate plus a margin

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of 0.10%. We have used and intend to use available borrowings under the global revolving credit facility to acquire additional properties, fund development opportunities and to provide for working capital and other corporate purposes, including potentially for the repurchase, redemption or retirement of outstanding debt or equity securities. As of March 31, 2014, we have capitalized approximately \$18.0 million of financing costs related to the global revolving credit facility. As of March 31, 2014, approximately \$790.5 million was drawn under this facility and \$23.1 million of letters of credit were issued, leaving approximately \$1.2 billion available for use.

On August 15, 2013, we refinanced the senior unsecured multi-currency term loan facility, increasing its total borrowing capacity to \$1.0 billion from \$750.0 million, and pursuant to the accordion feature total commitments can be increased up to \$1.1 billion, subject to the receipt of lender commitments and other conditions precedent. The facility matures on April 16, 2017, with two six-month extension options. Interest rates are based on our senior unsecured debt ratings and are currently 120 basis points over the applicable index for floating rate advances. Funds may be drawn in U.S, Singapore and Australian dollars, as well as Euro and British pound sterling denominations with the option to add Hong Kong dollars and Japanese yen upon an accordion exercise. Based on exchange rates in effect at March 31, 2014, the balance outstanding is approximately \$1,026.9 million. We have used borrowings under the term loan for acquisitions, repayment of indebtedness, development, working capital and general corporate purposes. As of March 31, 2014, we have capitalized approximately \$8.4 million of financing costs related to the unsecured term loan.

For a discussion of the potential impact of current global economic and market conditions on our liquidity and capital resources, see [Factors Which May Influence Future Results of Operations - Global market and economic conditions](#) above.

On June 29, 2011, our parent company commenced its At-the-Market equity distribution program discussed under [Liquidity and Capital Resources of the Parent Company](#) above. To date, our parent company has generated net proceeds of approximately \$342.7 million from the issuance of approximately 5.7 million shares of common stock under the program at an average price of \$60.35 per share after payment of approximately \$3.5 million of commissions to the sales agents before offering expenses. The proceeds from the issuances were contributed to us in exchange for the issuance of approximately 5.7 million common units to our parent company. No sales were made under the program during the three months ended March 31, 2014 and 2013. As of March 31, 2014, shares of common stock having an aggregate offering price of \$53.8 million remained available for offer and sale under the program.

The growing acceptance by private institutional investors of the data center asset class has generally pushed capitalization rates lower, as such private investors typically have lower return expectations than us. As a result, we anticipate that near-term acquisitions activity will comprise a smaller percentage of our growth until seller price expectations realign with our return requirements.

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(dollars in thousands)	Net Rentable Square Feet	As of March 31, 2014			Total Cost	As of December 31, 2013			Total Cost
		Current Investment (1)	Future Investment (2)			Current Investment (3)	Future Investment (2)		
Development Lifecycle									
Land Inventory		\$ 113,543	\$	\$ 113,543		\$ 106,327	\$	\$ 106,327	
Space Held for Development	1,422,244	390,477		390,477	1,331,685	340,076		340,076	
Base Building Construction	803,624	155,546	79,978	235,524	1,062,647	207,568	120,808	328,376	
Datacenter Construction	531,734								