

WASHINGTON REAL ESTATE INVESTMENT TRUST
Form 10-K
February 20, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For fiscal year ended December 31, 2017

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

COMMISSION FILE NO. 001-06622

WASHINGTON REAL ESTATE INVESTMENT TRUST
(Exact name of registrant as specified in its charter)

MARYLAND 53-0261100
(State of incorporation) (IRS Employer Identification Number)
1775 EYE STREET, NW, SUITE 1000, WASHINGTON, DC 20006
(Address of principal executive office) (Zip code)
Registrant's telephone number, including area code: (202) 774-3200

Securities registered pursuant to Section 12(b) of the Act:
Title of Each Class Name of exchange on which registered
Shares of Beneficial Interest New York Stock Exchange
Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

YES NO

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 such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past ninety (90) days. YES NO

Indicate by checkmark 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). YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 definition of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES NO

As of June 30, 2017, the aggregate market value of such shares held by non-affiliates of the registrant was \$2,436,739,462 (based on the closing price of the stock on June 30, 2017).

As of February 15, 2018, 78,497,963 common shares were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our definitive Proxy Statement relating to the 2018 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission, are incorporated by reference in Part III, Items 10-14 of this Annual Report on Form 10-K as indicated herein.

WASHINGTON REAL ESTATE INVESTMENT TRUST
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PART I

ITEM 1: BUSINESS

Washington REIT Overview

Washington Real Estate Investment Trust (“Washington REIT”) is a self-administered equity real estate investment trust (“REIT”) successor to a trust organized in 1960. Our business consists of the ownership and operation of income-producing real property in the greater Washington metro region. We own a diversified portfolio of office buildings, multifamily buildings and retail centers.

Our current strategy is to generate returns and maximize shareholder value through proactive asset management and prudent capital allocation decisions. Consistent with this strategy, we invest in additional income-producing properties through acquisitions, development and redevelopment. We invest in properties where we believe we will be able to improve the operating results and increase the value of the property. We focus on properties inside the Washington metro region’s Beltway, near major transportation nodes and in areas with strong employment drivers and superior growth demographics. We will seek to continue to upgrade our portfolio as opportunities arise, funding acquisitions with a combination of cash, equity, debt and proceeds from property sales.

While we have historically focused most of our investments in the greater Washington metro region, in order to maximize acquisition opportunities we also may consider opportunities to replicate our Washington-focused approach in other geographic markets which meet the criteria described above.

All of our officers and employees live and work in or near the greater Washington metro region.

Our Regional Economy and Real Estate Markets

The Washington metro region experienced moderate job growth during 2017 with approximately 48,900 net job additions, according to Delta Associates / Transwestern Commercial Services (“Delta”), a national full service real estate firm that provides market research and evaluation services for commercial property. This job growth is higher than the region's 20-year annual average of 44,100 new jobs, with growth in the private sector partially offset by net job losses of 4,200 in the Federal government. Current estimates by Delta indicate that the region's unemployment rate was 3.6% as of November 2017, unchanged from the prior year and lower than the national average of 3.9%. Delta expects the job growth in the Washington metro region to remain steady in 2018 as strong consumer spending and higher corporate profits in the private sector are offset by public sector uncertainty. Certain market statistics and information from several third party providers for the Washington metro region are set forth below:

Office

	2017	2016
Average asking rent per square foot	\$42.14	\$37.25
Total vacancy rate at year end	17.0 %	16.1 %
Net absorption (in millions of square feet) ⁽¹⁾	(0.1)	1.1
Office space under construction at year end (in millions of square feet)	11.8	10.0

Source: Jones Lang LaSalle, "JLL," a commercial real estate services firm

⁽¹⁾ Net absorption is defined as the change in occupied, standing inventory from one year to the next.

According to JLL, a commercial real estate firm, the increase in average asking rents in the Washington metro region was primarily due to higher demand throughout the region, particularly in areas close to Metro stations. The 2017 total vacancy rate is higher than the prior year, and above the national average of 14.9%. The higher vacancy rate is

primarily due to the delivery of 3.5 million square feet of new office space, primarily in Washington, DC and Northern Virginia, over the last year. JLL projects downward pressure on occupancy and effective rents in 2018 due to the influx of new space.

Multifamily

	2017		2016	
Increase in net effective rents (Class A and B)	1.3	%	1.6	%
(Decrease) increase in net effective rents (Class A)	(0.1))%	1.1	%
Increase in net effective rents (Class B)	1.8	%	2.1	%
Stabilized vacancy rate (Class A and B)	4.9	%	4.7	%
Stabilized vacancy rate (Class A)	5.2	%	4.8	%
Stabilized vacancy rate (Class B)	4.8	%	4.5	%
New apartment deliveries (# of units)	15,592		12,105	

Source: MPF Research, a division of RealPage, a commercial real estate management software company that provides market research

According to MPF Research, the multifamily real estate market's low vacancy rate reflects the region's strong demand, though the large influx of new supply has kept rental rate growth below the national average. New apartment deliveries are projected to increase to approximately 16,400 units in 2018, which is expected to negatively impact occupancy and suppress rental rate growth, particularly for Class A properties.

Retail

	2017		2016	
Increase (decrease) in rental rates at neighborhood centers	3.0	%	(0.1)	%
Vacancy at neighborhood centers at year-end	5.6	%	5.4	%
Net absorption (in millions of square feet)	(0.3)		0.6	

Source: CoStar, a provider of real estate market research and analytics

The retail real estate market in the Washington metro region was mixed in 2017, with higher rental rates offset by higher vacancy and negative absorption, according to CoStar. CoStar projects strong demand to continue in 2018 due to increasing average household income in the Washington metro region.

Our Portfolio

As of December 31, 2017, we owned a diversified portfolio of 49 properties, totaling approximately 6.4 million square feet of commercial space and 4,268 residential units, and land held for development. These 49 properties consist of 20 office properties, 13 multifamily properties and 16 retail centers. The percentage of total real estate rental revenue by segment for the years ended December 31, 2017, 2016 and 2015, and the percent leased as of December 31, 2017, were as follows:

Percent Leased December 31, 2017 ⁽¹⁾		% of Total Real Estate Rental Revenue		
		2017	2016	2015
95%	Office	52 %	53 %	57 %
97%	Multifamily	29 %	27 %	22 %
94%	Retail	19 %	20 %	21 %
		100 %	100 %	100 %

Calculated as the percentage of physical net rentable area leased, except for multifamily, which is calculated as the ⁽¹⁾ percentage of units leased. The net rentable area leased for office and retail properties includes temporary lease agreements.

On a combined basis, our commercial portfolio (i.e., our office and retail properties) was 95% leased at December 31, 2017, 93% leased at December 31, 2016 and 93% leased at December 31, 2015.

Total real estate rental revenue from continuing operations for each of the three years ended December 31, 2017 was \$325.1 million, \$313.3 million and \$306.4 million, respectively. During the three years ended December 31, 2017, we acquired one office property and two multifamily properties (including parcels for development) and substantially completed major construction activities at two office redevelopment projects. During that same period, we sold six office properties, three multifamily properties, one retail property and interests in land held for development. See note 14 to the consolidated financial statements for further discussion of our operating results by segment.

The commercial lease expirations for the next ten years and thereafter are as follows:

	# of Leases	Square Feet	Gross Annual Rent (in thousands)	Percentage of Total Gross Annual Rent	
Office:					
2018	46	213,500	\$ 8,508	5	%
2019	62	636,587	28,561	17	%
2020	49	428,210	20,482	12	%
2021	62	444,032	19,074	11	%
2022	37	370,262	16,758	10	%
2023	42	245,704	11,423	7	%
2024	33	192,129	9,017	5	%
2025	25	173,365	8,688	5	%
2026	20	321,856	11,547	7	%
2027	25	294,905	18,641	11	%
Thereafter	18	399,621	19,314	10	%
Total	419	3,720,171	\$ 172,013	100	%

Retail:					
2018	26	236,324	\$ 2,741	5	%
2019	31	118,833	3,665	7	%
2020	40	385,014	7,163	14	%
2021	23	218,039	3,892	7	%
2022	45	298,518	8,170	16	%
2023	30	224,601	6,691	13	%
2024	28	219,049	6,045	12	%
2025	20	106,811	3,163	6	%
2026	17	136,245	4,877	9	%
2027	14	98,086	3,569	6	%
Thereafter	8	29,562	2,464	5	%
Total	282	2,071,082	\$ 52,440	100	%

According to Delta, the professional/business services and government sectors constituted over 40% of payroll jobs in the Washington metro area at the end of 2017. Due to our geographic concentration in the Washington metro area, a significant number of our tenants have historically been concentrated in the professional/business services and government sectors, although the exact amount will vary from time to time. As a result of this concentration, we are susceptible to business trends (both positive and negative) that affect the outlook for these sectors.

No single tenant accounted for more than 5% of real estate rental revenue in 2017, 2016 or 2015. All federal government tenants in the aggregate accounted for less than 1% of our real estate rental revenue in 2017.

Our ten largest tenants, in terms of real estate rental revenue for 2017, are as follows:

1. Advisory Board Company
2. World Bank
3. Booz Allen Hamilton, Inc.
4. Atlantic Media, Inc.
5. Capital One, N.A.
6. Blank Rome LLP
7. Engility Corporation
8. Hughes Hubbard & Reed LLP
9. Epstein Becker & Green, P.C.
10. Morgan Stanley, Smith Barney

We enter into arrangements from time to time by which various service providers conduct day-to-day property management and/or leasing activities at our properties. Bozzuto Management Company ("Bozzuto") began conducting property management and leasing services at our multifamily properties in 2014. Bozzuto provides such services under individual property management agreements for each property, each of which is separately terminable by us or Bozzuto. Although they vary by property, on average, the fees charged by Bozzuto under each agreement are approximately 3% of revenues at the property.

We expect to continue investing in additional income-producing properties through acquisitions, development and redevelopment. We invest in properties where we believe we will be able to improve the operating results and increase the value of the property. Our properties typically compete for tenants with other properties on the basis of location, quality and rental rates.

We make capital improvements to our properties on an ongoing basis for the purpose of maintaining and increasing their value and income. Major improvements and/or renovations to the properties during the three years ended December 31, 2017 are discussed in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, under the heading "Capital Improvements and Development Costs."

Further description of the property groups is contained in Item 2, Properties, and Note 14 to the consolidated financial statements, Segment Information, and in Schedule III. Reference is also made to Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

On February 15, 2018, we had 149 employees including 74 persons engaged in property management functions and 75 persons engaged in corporate, financial, leasing, asset management and other functions.

REIT Tax Status

We believe that we qualify as a REIT under Sections 856-860 of the Internal Revenue Code of 1986, as amended (the "Code"), and intend to continue to qualify as such. To maintain our status as a REIT, we are among other things required to distribute 90% of our REIT taxable income (determined before the deduction for dividends paid and excluding net capital gains), to our shareholders on an annual basis. When selling a property, we generally have the option of (a) reinvesting the sales proceeds of property sold, in a way that allows us to defer recognition of some or all taxable gain realized on the sale, (b) distributing gains to the shareholders with no tax to us or (c) treating net long-term capital gains as having been distributed to our shareholders, paying the tax on the gain deemed distributed and allocating the tax paid as a credit to our shareholders.

Generally, and subject to our ongoing qualification as a REIT, no provisions for income taxes are necessary except for taxes on undistributed taxable income and taxes on the income generated by our taxable REIT subsidiaries ("TRSs").

Our TRSs are subject to corporate U.S. federal, state and local income tax on their taxable income at regular statutory rates (see note 1 to the consolidated financial statements for further disclosure).

Tax Treatment of Recent Disposition Activity

We sold our interests in the following properties during the three years ended December 31, 2017:

Property	Type	# of units	Rentable Square Feet	Contract Sales Price (in thousands)	Gain on Sale (in thousands)
2017:					
Walker House Apartments	Multifamily	212	N/A	\$ 32,200	\$ 23,838
2016:					
Dulles Station, Phase II ⁽¹⁾	Office	N/A	N/A	\$ 12,100	\$ 527
Maryland Office Portfolio Transaction I ⁽²⁾	Office	N/A	692,000	111,500	23,585
Maryland Office Portfolio Transaction II ⁽³⁾	Office	N/A	491,000	128,500	77,592
	Total 2016		1,183,000	\$ 252,100	\$ 101,704
2015:					
Country Club Towers	Multifamily	227	N/A	\$ 37,800	\$ 30,277
1225 First Street ⁽⁴⁾	Multifamily	N/A	N/A	14,500	—
Munson Hill Towers	Multifamily	279	N/A	57,050	51,395
Montgomery Village Center	Retail	N/A	197,000	27,750	7,981
	Total 2015	506	197,000	\$ 137,100	\$ 89,653

⁽¹⁾ Land held for future development and an interest in a parking garage.

⁽²⁾ Maryland Office Portfolio Transaction I consists of 6110 Executive Boulevard, 600 Jefferson Plaza, Wayne Plaza and West Gude Drive.

⁽³⁾ Maryland Office Portfolio Transaction II consists of 51 Monroe Street and One Central Plaza.

⁽⁴⁾ 95% interest in land held for future development.

All disclosed gains on sale are calculated in accordance with U.S. generally accepted accounting principles (“GAAP”). We reinvested a portion of the Maryland Office Portfolio, Medical Office Portfolio, Country Club Towers, Munson Hill Towers and Montgomery Village Center sales proceeds in replacement properties through deferred tax exchanges.

We distributed all of our ordinary taxable income and capital gains for the three years ended December 31, 2017 to our shareholders.

Availability of Reports

Copies of this Annual Report on Form 10-K, as well as our Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to such reports are available, free of charge, on the Internet on our website www.washreit.com. All required reports are made available on the website as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission. The reference to our website address does not constitute incorporation by reference of the information contained in the website and such information should not be considered part of this document.

ITEM 1A: RISK FACTORS

Set forth below are the risks that we believe are material to our shareholders. We refer to the shares of beneficial interest in Washington REIT as our “common shares,” and the investors who own shares as our “shareholders.” This section includes or refers to certain forward-looking statements. You should refer to the explanation of the qualifications and limitations on such forward-looking statements beginning on page [47](#).

Risks Related to our Business and Operations

Our performance and value are subject to risks associated with our real estate assets and with the real estate industry, which could adversely affect our cash flow and ability to pay distributions to our shareholders.

Our financial performance and the value of our real estate assets are subject to the risk that if our office, retail and multifamily properties do not generate revenues sufficient to meet our operating expenses, debt service and capital expenditures, our cash flow and ability to pay distributions to our shareholders will be adversely affected. The following factors, among others, may adversely affect the cash flow generated by our commercial and multifamily properties:

- downturns in the national, regional and local economic climate;
- declines in the financial condition of our tenants;
- declines in consumer confidence, unemployment rates and consumer tastes and preferences;
- significant job losses in the professional/business services industries or government;
- competition from similar asset type properties;
- the inability or unwillingness of our tenants to pay rent increases;
- changes in market rental rates and related concessions granted to tenants including, but not limited to, free rent and tenant improvement allowances;
- local real estate market conditions, such as oversupply or reduction in demand for office, retail and multifamily properties;
- changes in interest rates and availability of financing;
- increased operating costs, including insurance premiums, utilities and real estate taxes;
- vacancies, changes in market rental rates and the need to periodically repair, renovate and re-let space;
- inflation;
- civil disturbances, earthquakes and other natural disasters, terrorist acts or acts of war; and
- decreases in the underlying value of our real estate.

We are dependent upon the economic and regulatory climate of the Washington metropolitan region, which may impact our profitability.

All of the properties in our portfolio are located in the Washington metro region and such concentration may expose us to a greater amount of market dependent risk than if we were geographically diverse. General economic conditions and local real estate conditions in the Washington metro region are dependent upon various industries that are predominant in our area (such as government and professional/business services). A downturn in one or more of these industries may have a particularly strong effect on the economic climate of our region. Additionally, we are susceptible to adverse developments in the Washington D.C. regulatory environment, such as increases in real estate and other taxes and the costs of complying with governmental regulations or increased regulations. In the event of negative economic and/or regulatory changes in our region, we may experience a negative impact to our profitability and may be limited in our ability to meet our financial obligations when due and/or make distributions to our shareholders.

We may be adversely affected by any significant reductions in federal government spending, which could have an adverse effect on our financial condition and results of operations.

As a REIT focused on the Washington metro region, a significant portion of our properties is occupied by tenants that are directly or indirectly serving the U. S. Government as federal contractors or otherwise. A significant reduction in federal government spending, particularly a sudden decrease due to a sequestration process, such as occurred in recent years, or due to extended uncertainty in the political climate in a way that affects the federal appropriations process by decreasing, delaying or making uncertain the results and stability of federal appropriations, could adversely affect the ability of these tenants to fulfill lease obligations or decrease the likelihood that they will renew their leases with us. Further, economic conditions in the Washington metro region are significantly dependent upon the level of federal government spending in the region as a whole. In the event of an actual or anticipated significant reduction in federal government spending, there could be negative economic changes in our

region, which could adversely impact the ability of our tenants to perform their financial obligations under our leases or the likelihood of their lease renewals. As a result, if such a reduction in federal government spending were to occur or be anticipated for an extended period, we could experience an adverse effect on our financial condition, results of operations, cash flows and ability to make distributions to our shareholders.

We face risks associated with property development/redevelopment.

We may, from time to time, engage in development and redevelopment activities, some of which may be significant. Developing or redeveloping properties presents a number of risks for us, including risks that:

- if we are unable to obtain all necessary zoning and other required governmental permits and authorizations or cease development of the project for any other reason, the development opportunity may be abandoned or postponed after expending significant resources, resulting in the loss of deposits or failure to recover expenses already incurred;
- the development and construction costs of the project may exceed original estimates due to increased interest rates and increased cost of materials, labor, leasing or other expenditures, which could make the completion of the project less profitable because market rents may not increase sufficiently to compensate for the increase in construction costs; construction and/or permanent financing may not be available on favorable terms or may not be available at all, which may cause the cost of the project to increase and lower the expected return;
- the project may not be completed on schedule, or at all, as a result of a variety of factors, many of which are beyond our control, such as weather, labor conditions and material shortages, which would result in increases in construction costs and debt service expenses;
- the time between commencement of a development project and the stabilization of the completed property exposes us to risks associated with fluctuations in local and regional economic conditions;
- occupancy rates and rents at the completed property may not meet the expected levels and could be insufficient to make the property profitable; and
- there may not be sufficient development opportunities available.

Properties developed or acquired for development may generate little or no cash flow from the date of acquisition through the date of completion of development. In addition, new development activities, regardless of whether or not they are ultimately successful, may require a substantial portion of management's time and attention.

These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of development activities once undertaken. Any of the foregoing could have an adverse effect on our financial condition, results of operations or ability to satisfy our debt service obligations.

We face risks associated with property acquisitions.

We intend to continue to acquire properties which would increase our size and could alter our capital structure. Our acquisition activities and results may be exposed to the following risks:

- we may have difficulty finding properties that are consistent with our strategies and that meet our standards;
- we may have difficulty negotiating with new or existing tenants;
- we may be unable to finance acquisitions on favorable terms or at all;
- the occupancy levels, lease-up timing and rental rates may not meet our expectations;
- even if we enter into an acquisition agreement for a property, we may be unable to complete that acquisition after making a non-refundable deposit and incurring certain other acquisition-related costs;
- competition from other real estate investors may significantly increase the purchase price;
-

we may be unable to acquire a desired property because of competition from other real estate investors, including publicly traded real estate investment trusts, institutional investment funds and private investors;

- even if we enter into an acquisition agreement for a property, it is subject to customary conditions to closing, including completion of due diligence investigations which may have findings that are unacceptable;
- the timing of property acquisitions may lag the timing of property dispositions, leading to periods of time where projects' proceeds are not invested as profitably as we desire;
- the acquired properties may fail to perform as we expected in analyzing our investments;
- the actual returns realized on acquired properties may not exceed our cost of capital;
- we may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into our existing operations;
- our estimates of capital expenditures required for an acquired property, including the costs of repositioning or redeveloping, may be inaccurate; and

we could experience a decline in value of the acquired assets after acquisition.

We may acquire properties subject to liabilities and without recourse, or with limited recourse with respect to unknown liabilities. As a result, if liability were asserted against us based upon the acquisition of a property, we may have to pay substantial sums to settle it, which could adversely affect our cash flow. Unknown liabilities with respect to properties acquired might include:

- liabilities for clean-up of undisclosed environmental contamination;
- claims by tenants, vendors or other persons dealing with the former owners of the properties;
- liabilities incurred in the ordinary course of business; and
- claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties.

We face risks associated with third-party service providers, which could negatively impact our profitability.

We enter into arrangements from time to time by which various service providers conduct day-to-day property management and/or leasing activities at our properties. Failure of such service providers to adequately perform their contracted services could negatively impact our ability to retain tenants or lease vacant space. As a result, any such failure could negatively impact our profitability.

We may not be able to control our operating expenses or our operating expenses may remain constant or increase, even if our revenues do not increase, causing our financial condition, results of operations, cash flow, per share trading price of our common shares and ability to make distributions to our shareholders to be adversely affected.

Operating expenses associated with owning a property include real estate taxes, insurance, loan payments maintenance, repair and renovation costs, the cost of compliance with governmental regulation (including zoning) and the potential for liability under applicable laws. If our operating expenses increase, our results of operations may be adversely affected. Moreover, operating expenses are not necessarily reduced when circumstances such as market factors, competition or reduced occupancy cause a reduction in revenues from the property. As a result, if revenues decline, we may not be able to reduce our operating expenses associated with the property. If we are unable to control or adjust our operating expenses accordingly, our financial condition, results of operations, cash flow, per share trading price of our common shares and ability to make distributions to our shareholders may be adversely affected.

Our real estate taxes could increase due to property tax rate changes or reassessment, which could impact our cash flows.

Even though we qualify as a REIT for U.S. federal income tax purposes, we are required to pay state and local taxes on our properties. The real property taxes on our properties may increase as property tax rates change or as our properties are assessed or reassessed by taxing authorities. Therefore, the amount of property taxes we pay in the future may increase substantially from what we have paid in the past. If the property taxes we pay increase, our financial condition, results of operations, cash flows, per share market price of our common shares and our ability to satisfy our principal and interest obligations and to make distributions to our shareholders could be adversely affected.

Real estate investments are illiquid, and we may not be able to sell our properties on a timely basis when we determine it is appropriate to do so which could negatively impact our profitability.

Real estate investments can be difficult to sell and convert to cash quickly, especially if market conditions are not favorable. Such illiquidity could limit our ability to quickly change our portfolio of properties in response to changes in economic or other conditions. Moreover, the tax laws applicable to REITs require that we hold our properties for

investment, rather than primarily for sale in the ordinary course of business, which may cause us to forego or defer sales of properties that otherwise would be in our best interest. Due to these factors, we may be unable to sell a property at an advantageous time which could negatively impact our profitability.

We face potential difficulties or delays renewing leases or re-leasing space which could impact our financial condition and ability to make distributions.

As of December 31, 2017, the percentage of leased square footage of our commercial properties will expire as set forth in the lease expiration tables on page 6.

Multifamily properties are leased under operating leases with terms of generally one year or less. For each the three years ended December 31, 2017, the multifamily tenant retention rate was 59%, 63% and 62%, respectively.

We derive substantially all of our income from rent received from tenants. If our tenants decide not to renew their leases, we may not be able to re-lease the space. If tenants decide to renew their leases, the terms of renewals, including the cost of required improvements or concessions, may be less favorable than current lease terms. If the rental rates of our properties decrease, our existing tenants do not renew their leases (refer to the list of our ten largest tenants as of December 31, 2017 on page 7) or we do not re-lease a significant portion of our available and soon-to-be-available space, our financial condition, results of operations, cash flow and our ability to satisfy our principal and interest obligations and to make distributions to our shareholders could be adversely affected.

We face potential adverse effects from major tenants' bankruptcies or insolvencies which could adversely affect our cash flow and results of operations.

The bankruptcy or insolvency of a major tenant may adversely affect the income produced by a property. We cannot evict a tenant solely because of its bankruptcy. On the other hand, a court might authorize the tenant to reject and terminate its lease. In such case, our claim against the bankrupt tenant for unpaid, future rent would be subject to a statutory cap that might be substantially less than the remaining rent actually owed under the lease. As a result, our claim for unpaid rent would likely not be paid in full. This shortfall could adversely affect our cash flow and results of operations. If a tenant experiences a downturn in its business or other types of financial distress, it may be unable to make timely rental payments.

We may suffer economic harm as a result of the actions of our partners in real estate joint ventures and other investments which may adversely affect our operations.

While we have no interests in joint ventures following our purchase of the remaining 10% interest in The Maxwell during the fourth quarter of 2017, we may from time to time invest in joint ventures in which we are not the exclusive investor or the only decision maker. Investments in such entities may involve risks not present when a third party is not involved, including the possibility that the other parties to these investments might become bankrupt or fail to fund their share of required capital contributions, and we may be forced to make contributions to maintain the value of the property. Our partners in these entities may have economic, tax or other business interests or goals that are inconsistent with our business interests or goals, and may be in a position to take actions contrary to our policies or objectives. Such investments may also lead to impasses, for example, as to whether to sell a property, because neither we nor the other parties to these investments may have full control over the entity. In addition, we may in certain circumstances be liable for the actions of the other parties to these investments. Each of these factors could have an adverse effect on our financial condition, results of operations, cash flows and ability to make distributions to our shareholders. In some instances, joint venture partners may have competing interests that could create conflicts of interest. These conflicts may include compliance with the REIT requirements, and our REIT status could be jeopardized if any of our joint ventures do not operate in compliance with the REIT requirements. To the extent our joint venture partners do not meet their obligations to us or they take action inconsistent with our interests in the joint venture, we may be adversely affected.

Our properties face significant competition which could adversely affect our ability to lease our properties and result in lower cash flows.

We face significant competition from developers, owners and operators of office, retail, multifamily and other commercial real estate. Substantially all of our properties face competition from similar properties in the same market. Such competition may affect our ability to attract and retain tenants and may reduce the rents we are able to charge. These competing properties may have vacancy rates higher than our properties, which may result in their owners being willing to make space available at lower rents than the space in our properties. As a result, it may be more difficult for us to lease our space, which would result in lower cash flows.

Increased affordability of residential homes and other competition for tenants of our multifamily properties could affect our ability to retain current residents of our multifamily properties, attract new ones or increase or maintain rents, which could adversely affect our results of operations and our financial condition.

Our multifamily properties compete with numerous housing alternatives in attracting residents, including owner occupied single and multifamily homes. Competitive housing in a particular area and increased affordability of owner occupied single and multifamily homes caused by lower housing prices, an influx of supply of such housing alternatives, attractive mortgage interest rates and government programs to promote home ownership could adversely affect our ability to retain our current residents, attract new ones or increase or maintain rents, which could adversely affect our results of operations and our financial condition.

A shift in retail shopping from brick and mortar stores to e-commerce and any resulting decrease in size or number of retail locations may have an adverse impact on our results of operations and our financial condition.

Our retail properties are typically grocery store-anchored neighborhood centers that include other small shop tenants or regional power centers with several junior box tenants. Many retailers operating brick and mortar stores have made and continue to make e-commerce sales an important piece of their business. This shift to e-commerce sales may result in a decrease in our retail tenants' sales causing those retailers to decrease the size or number of retail locations in the future. This shift could adversely impact our occupancy and rental rates, which would adversely affect our results of operations and our financial condition.

We face risks associated with short-term liquid investments which could adversely affect our results of operations or financial condition.

We periodically may have cash balances that we invest in a variety of short-term investments that are intended to preserve principal value and maintain a high degree of liquidity while providing current income. From time to time, these investments may include (either directly or indirectly):

- direct obligations issued by the U.S. Treasury;
- obligations issued or guaranteed by the U.S. government or its agencies;
- taxable municipal securities;
- obligations (including certificates of deposit) of banks and thrifts;
- commercial paper and other instruments consisting of short-term U.S. dollar denominated obligations issued by corporations and banks;
 - repurchase agreements collateralized by corporate and asset-backed obligations;
- registered and unregistered money market funds; and
- other highly-rated short-term securities.

Investments in these securities and funds are not insured against loss of principal. Under certain circumstances, we may be required to redeem all or part of our investment, and our right to redeem some or all of our investment may be delayed or suspended. In addition, there is no guarantee that our investments in these securities or funds will be redeemable at par value. A decline in the value of our investment or a delay or suspension of our right to redeem may have a material adverse effect on our results of operations or financial condition.

Compliance or failure to comply with the Americans with Disabilities Act and other laws and regulations could result in substantial costs and adversely affect our results of operations.

The Americans with Disabilities Act generally requires that public buildings, including commercial and multifamily properties, be made accessible to disabled persons. Noncompliance could result in imposition of fines by the federal government or the award of damages to private litigants. If, pursuant to the Americans with Disabilities Act, we are required to make substantial alterations and capital expenditures in one or more of our properties, including the removal of access barriers, it could adversely affect our results of operations.

We may also incur significant costs complying with other regulations. Our properties are subject to various federal, state and local regulatory requirements, such as state and local fair housing, rent control and fire and life safety requirements. If we fail to comply with these requirements, we may incur fines or private damage awards. We believe that our properties are currently in material compliance with regulatory requirements. However, we do not know whether existing requirements will change in the future or whether compliance with future requirements will require significant unanticipated expenditures that will adversely affect our results of operations.

Some potential losses are not covered by insurance, which could adversely affect our financial condition or cash flow.

We carry insurance coverage on our properties of types and in amounts that we believe are in line with coverage customarily obtained by owners of similar properties. We believe all of our properties are adequately insured. The property insurance that we maintain for our properties has historically been on an “all risk” basis, which is in full force and effect until renewal in August 2018. There are other types of losses, such as from wars or catastrophic events, for which we cannot obtain insurance at all or at a reasonable cost.

We have an insurance policy that has no terrorism exclusion, except for non-certified nuclear, chemical and biological acts of terrorism. Our financial condition and results of operations are subject to the risks associated with acts of terrorism and the potential for uninsured losses as the result of any such acts. Effective November 26, 2002, under this existing coverage, any losses caused

by certified acts of terrorism would be partially reimbursed by the United States under a formula established by federal law. Under this formula, the United States pays 85% of covered terrorism losses exceeding the statutorily established deductible paid by the insurance provider, and insurers pay 10% until aggregate insured losses from all insurers reach \$100 billion in a calendar year. If the aggregate amount of insured losses under this program exceeds \$100 billion during the applicable period for all insured and insurers combined, then each insurance provider will not be liable for payment of any amount which exceeds the aggregate amount of \$100 billion. On January 12, 2015, The Terrorism Risk Insurance Program Reauthorization Act of 2015 was signed into law, extending the program through December 31, 2020. We continue to monitor the state of the insurance market in general, and the scope and costs of coverage for acts of terrorism in particular, but we cannot anticipate what amount of coverage will be available on commercially reasonable terms in future policy years.

In the event of an uninsured loss or a loss in excess of our insurance limits, we could lose both the revenues generated from the affected property and the capital we have invested in the affected property. Depending on the specific circumstances of the affected property it is possible that we could be liable for any mortgage indebtedness or other obligations related to the property. Any such loss could adversely affect our business and financial condition and results of operations.

In most cases, we have to renew our policies on an annual basis and negotiate acceptable terms for coverage, exposing us to the volatility of the insurance markets, including the possibility of rate increases. Any material increase in insurance rates or decrease in available coverage in the future could adversely affect our results of operations and financial condition.

Property ownership also involves potential liability to third parties for such matters as personal injuries occurring on the property. Such losses may not be fully insured. In addition to uninsured losses, various government authorities may condemn all or parts of operating properties. Such condemnations could adversely affect the viability of such projects. Any such uninsured loss would adversely affect our cash flow.

Actual or threatened terrorist attacks may adversely affect our ability to generate revenues and the value of our properties.

All of the properties in our portfolio are located in or near Washington, DC, a metropolitan area that has been and may in the future be the target of actual or threatened terrorism attacks. As a result, some tenants in our market may choose to relocate their businesses to other markets. This could result in an overall decrease in the demand for commercial space in this market generally, which could increase vacancies in our properties or necessitate that we lease our properties on less favorable terms, or both. In addition, future terrorist attacks in or near Washington, DC could directly or indirectly damage such properties, both physically and financially, or cause losses that materially exceed our insurance coverage. As a result of the foregoing, our ability to generate revenues and the value of our properties could decline materially which would negatively affect our results of operations.

Potential liability for environmental matters could result in substantial costs, which would reduce the cash available for our operations and for distributions to our shareholders.

Under U.S. federal, state and local environmental laws, ordinances and regulations, we may be liable for costs and damages resulting from the presence or release of hazardous or toxic substances, wastes or petroleum products at our properties, including investigation or cleanup costs, personal or property damage, natural resource damages, or we may be required to pay for such costs and damages incurred by a government entity or third party regardless of our knowledge or responsibility, simply because of our current or past ownership or operation of the real estate. If environmental contamination issues arise, we may have to make substantial payments, which could adversely affect our cash flow and our ability to make distributions to our shareholders, because (1) as a current or former owner or

operator of real property we may have to pay for property damage and for investigation and clean-up costs incurred in connection with the contamination; (2) the law typically imposes clean-up responsibility and liability regardless of whether the owner or operator knew of or caused the contamination; (3) even if more than one person may be responsible for the contamination, each person who shares legal liability under such environmental laws may be held responsible for all of the clean-up costs; and (4) governmental entities and third parties may sue the owner or operator of a contaminated site for damages and costs. We also may be liable for the costs of removal or remediation of hazardous substances or waste at disposal or treatment facilities if we arranged for disposal or treatment of hazardous substances at such facilities, whether or not we own such facility.

In addition, the U.S. Environmental Protection Agency, the U.S. Occupational Safety and Health Administration and other state and local governmental authorities are increasingly imposing indoor air quality standards, especially with respect to asbestos, mold, and lead-based paint. The clean up or abatement of any of these environmental conditions, including for asbestos and mold, can be costly. For example, laws applicable to buildings containing certain asbestos-containing materials (“ACM”) impose multiple requirements, including:

properly managing and maintaining the ACM;

notifying and training those who may come into contact with the ACM; and
undertaking special precautions, including removal or other abatement, if the ACM would be disturbed during renovation or demolition of a building.

Such laws may impose fines and penalties on building owners or operators who fail to comply with these requirements and may allow third parties to seek recovery from owners or operators for personal injury or property damage associated with exposure to asbestos fibers.

Inquiries about indoor air quality may necessitate special investigation and, depending on the results, remediation beyond our regular indoor air quality testing and maintenance programs. Indoor air quality issues can stem from inadequate ventilation, chemical contaminants from indoor or outdoor sources, and biological contaminants such as molds, pollen, viruses and bacteria. Indoor exposure to chemical or biological contaminants above certain levels can be alleged to be connected to allergic reactions or other health effects and symptoms in susceptible individuals. If these conditions were to occur at one of our properties, we may be subject to third-party claims for personal injury, or may need to undertake a targeted remediation program, including without limitation, steps to increase indoor ventilation rates and eliminate sources of contaminants. Such remediation programs could be costly, necessitate the temporary relocation of some or all of the property's tenants or require rehabilitation of the affected property.

The costs associated with these issues could be substantial and, in extreme cases, could exceed the value of the contaminated property. The presence of hazardous or toxic substances or petroleum products or the failure to properly remediate contamination may adversely affect our ability to borrow against, sell or rent an affected property. In addition, applicable environmental laws may create liens on contaminated sites in favor of the government for damages and costs it incurs in connection with a contamination. Moreover, if contamination is discovered on our properties, environmental laws may impose restrictions on the manner in which property may be used or businesses may be operated, and these restrictions may result in substantial expenditures or liabilities.

It is our policy to retain independent environmental consultants to conduct Phase I environmental site assessments and asbestos surveys with respect to our acquisition of properties. These assessments generally include a visual inspection of the properties and the surrounding areas, an examination of current and historical uses of the properties and the surrounding areas and a review of relevant state, federal and historical documents. However, they do not always involve invasive techniques such as soil and ground water sampling. When appropriate, on a property-by-property basis, our general practice is to have these consultants conduct additional testing. However, even though these additional assessments may be conducted, there is still the risk that:

- the environmental assessments and updates did not identify all potential environmental liabilities;
- a prior owner created a material environmental condition that is not known to us or the independent consultants preparing the assessments;
- new environmental liabilities have developed since the environmental assessments were conducted; and
- future uses or conditions or changes in applicable environmental laws and regulations could result in environmental liability to us.

In addition, our properties are subject to various U.S. federal, state, and local environmental, health and safety regulatory requirements that address a wide variety of issues. Noncompliance with these environmental and health and safety laws and regulations could subject us or our tenants to liability, including significant fines or penalties. These liabilities could affect a tenant's ability to make rental payments to us. Moreover, changes in laws could increase the potential costs of compliance with such laws and regulations or increase liability for noncompliance. This may result in significant unanticipated expenditures or may otherwise adversely affect our operations, or those of our tenants, which could in turn have an adverse effect on us.

We cannot assure you that costs or liabilities incurred as a result of environmental issues will not affect our ability to make distributions to our shareholders or that such costs, liabilities or other remedial measures will not have an adverse effect on our financial condition and results of operations.

We face risks associated with security breaches through cyber-attacks, cyber intrusions, or otherwise, which could materially harm our financial condition, cash flows and the market price of our common shares.

We face risks associated with security breaches or disruptions, whether through cyber-attacks or cyber intrusions over the Internet, malware, computer viruses, attachments to emails, or persons inside our organization. The risk of a security breach or disruption, particularly through cyber-attacks or cyber intrusion, including by computer hackers, foreign governments, and cyber terrorists, has generally increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. In the normal course of business we and our service providers (including service providers engaged in providing property management, leasing, accounting and/or payroll services) collect and retain certain personal information provided by our tenants, employees and vendors. We also rely extensively on computer systems to process transactions and manage our business. While

we and our service providers employ a variety of data security measures to protect confidential information on our systems and periodically review and improve our data security measures, we cannot assure that we or our service providers will be able to prevent unauthorized access to this personal information. There can be no assurance that our efforts to maintain the security and integrity of the information we and our service providers collect and our and their computer systems will be effective or that attempted security breaches or disruptions would not be successful or damaging. Even the most well protected information, networks, systems and facilities remain potentially vulnerable because the techniques used in such attempted security breaches evolve and generally are not recognized until launched against a target, and in some cases are designed not be detected and, in fact, may not be detected. Accordingly, we and our service providers may be unable to anticipate these techniques or to implement adequate security barriers or other preventative measures, and thus it is impossible for us and our service providers to entirely mitigate this risk. A security breach or other significant disruption involving computer networks and related systems could adversely impact our financial condition, cash flows and the market price of our common shares.

We are subject to risks from natural disasters and severe weather which could increase our operating costs and reduce our cash flow.

Natural disasters and severe weather such as earthquakes, hurricanes, floods or blizzards may result in significant damage to our properties. The extent of our casualty losses and loss in operating income in connection with such events is a function of the severity of the event and the total amount of exposure in the affected area. Because the properties in our portfolio are concentrated in a single region, a single catastrophe or destructive weather event may have a significant negative effect on our financial condition and results of operations. As a result, our operating and financial results may vary significantly from one period to the next. We are also exposed to risks associated with inclement winter weather, including increased need for maintenance and repair of our buildings. In addition, climate change, to the extent it causes changes in weather patterns, could have effects on our business by increasing the cost of property insurance, energy and/or snow removal at our properties. As a result, the consequences of natural disasters, severe weather and climate change could increase our costs and reduce our cash flow.

We may experience a decline in the fair value of our assets, which may have a material impact on our financial condition, liquidity and results of operations and adversely impact the market value of our securities.

A decline in the fair market value of our assets may require us to recognize an other-than-temporary impairment against such assets under GAAP if we were to determine that we do not have the ability and intent to hold any assets in unrealized loss positions to maturity or for a period of time sufficient to allow for recovery to the amortized cost of such assets. In such event, we would recognize unrealized losses through earnings and write down the amortized cost of such assets to a new cost basis, based on the fair value of such assets on the date they are considered to be other-than-temporarily impaired. Such impairment charges reflect non-cash losses at the time of recognition. Subsequent disposition or sale of such assets could further affect our future losses or gains, as they are based on the difference between the sale price received and adjusted amortized cost of such assets at the time of sale, which may adversely affect our financial condition, liquidity and results of operations. In addition, a significant economic downturn over a period of time could result in an event or change in circumstances that results in an impairment in the value of our properties or our investments in joint ventures. An impairment loss is recognized if the carrying amount of the asset is not recoverable over its expected holding period and exceeds its fair value. There can be no assurance that we will not take charges in the future related to the impairment of our assets or investments. Any future impairment could have a material adverse effect on our financial condition, liquidity or results of operations.

Rent control or rent stabilization legislation and other regulatory restrictions may limit our ability to increase rents and pass through new or increased operating costs to our tenants.

Certain states and municipalities, including Washington, DC, have adopted laws and regulations imposing restrictions on the timing or amount of rent increases or have imposed regulations relating to low- and moderate-income housing. Such laws and regulations limit our ability to charge market rents, increase rents, evict tenants or recover increases in our operating expenses and could make it more difficult for us to dispose of properties in certain circumstances. Similarly, compliance procedures associated with rent control statutes and low- and moderate-income housing regulations could have a negative impact on our operating costs, and any failure to comply with low- and moderate-income housing regulations could result in the loss of certain tax benefits and the forfeiture of rent payments. In addition, such low- and moderate-income housing regulations often require us to rent a certain number of units at below-market rents, which has a negative impact on our ability to increase cash flows from our properties subject to such regulations. Furthermore, such regulations may negatively impact our ability to attract higher-paying tenants to such properties.

We are dependent on key personnel and the loss of such personnel could adversely affect our results of operations and financial condition.

The execution of our investment strategy and management of our operations, depend to a significant degree on our senior management team. If we are unable to attract and retain skilled executives, our results of operations and financial condition could be adversely affected.

Risks Related to Financing

We face risks associated with the use of debt, including refinancing risk.

We rely on borrowings under our credit facility, mortgage notes, and may rely on offerings of debt securities to finance acquisitions and development activities and for general corporate purposes. In the past, the commercial real estate debt markets have experienced significant volatility due to a number of factors, including the tightening of underwriting standards by lenders and credit rating agencies and the reported significant inventory of unsold mortgage-backed securities in the market. The volatility resulted in investors decreasing the availability of debt financing as well as increasing the cost of debt financing. Circumstances could again arise in which we may not be able to obtain debt financing in the future on favorable terms, or at all. If we were unable to borrow under our credit facility or to refinance existing debt financing, our financial condition and results of operations would likely be adversely affected.

We are subject to the risks normally associated with debt, including the risk that our cash flow may be insufficient to meet required payments of principal and interest. We anticipate that only a small portion of the principal of our debt will be repaid prior to maturity. Therefore, we are likely to need to refinance a significant portion of our outstanding debt as it matures. There is a risk that we may not be able to refinance existing debt or that the terms of any refinancing will not be as favorable as the terms of the existing debt. If principal payments due at maturity cannot be refinanced, extended or repaid with proceeds from other sources, such as new equity capital, our cash flow may not be sufficient to repay all maturing debt in years when significant “balloon” payments come due. In addition, we may rely on debt to fund a portion of our new investments such as our acquisition and development activity. There is a risk that we may be unable to finance these activities on favorable terms or at all. These conditions, which increase the cost and reduce the availability of debt, may continue or worsen in the future. If any of these risks were to happen, it would adversely affect our financial condition and results of operations.

Our degree of leverage could limit our ability to obtain additional financing, affect the market price of our common shares or debt securities or otherwise adversely affect our financial condition.

On February 15, 2018, our total consolidated debt was approximately \$1.3 billion. Consolidated debt to consolidated market capitalization ratio, which measures total consolidated debt as a percentage of the aggregate of total consolidated debt plus the market value of outstanding equity securities, is often used by analysts to assess leverage for equity REITs such as us. Our market value is calculated using the price per share of our common shares. Using the closing share price of \$26.57 per share of our common shares on February 15, 2018, multiplied by the number of our common shares, our consolidated debt to total consolidated market capitalization ratio was approximately 39% as of February 15, 2018.

Our degree of leverage could affect our ability to obtain additional financing for working capital, capital expenditures, acquisitions, development or other general corporate purposes. Our senior unsecured debt is currently rated investment grade by two major rating agencies. However, there can be no assurance that we will be able to maintain this rating, and in the event our senior debt is downgraded from its current rating, we would likely incur higher borrowing costs and/or difficulty in obtaining additional financing. Our degree of leverage could also make us more

vulnerable to a downturn in business or the economy generally. There is a risk that changes in our debt to market capitalization ratio, which is in part a function of our share price, or our ratio of indebtedness to other measures of asset value used by financial analysts, may have an adverse effect on the market price of our equity or debt securities.

Payments of principal and interest on borrowings may leave us with insufficient cash resources to operate our properties, fully implement our capital expenditure, acquisition and redevelopment activities, or meet the REIT distribution requirements imposed by the Code. Our level of debt and the limitations imposed on us by our debt agreements could have significant adverse consequences, including the following:

- require us to dedicate a substantial portion of cash flow from operations to the payment of principal, and interest on, indebtedness, thereby reducing the funds available for other purposes;
- make it more difficult for us to borrow additional funds as needed or on favorable terms, which could, among other things, adversely affect our ability to meet operational needs;

- restrict us from making strategic acquisitions, developing properties or exploiting business opportunities;
- force us to dispose of one or more of our properties, possibly on unfavorable terms (including the possible application of the 100% tax on income from prohibited transactions or in violation of certain covenants to which we may be subject);
- subject us to increased sensitivity to interest rate increases;
- make us more vulnerable to economic downturns, adverse industry conditions or catastrophic external events;
- limit our ability to withstand competitive pressures;
- limit our ability to refinance our indebtedness at maturity or the refinancing terms may be less favorable than the terms of our original indebtedness;
- reduce our flexibility in planning for or responding to changing business, industry and economic conditions; and/or
- place us at a competitive disadvantage to competitors that have relatively less debt than we have.

If any one of these events were to occur, our financial condition, results of operations, cash flow and market price of our common shares could be adversely affected.

Rising interest rates would increase our interest costs which could adversely affect our cash flow and ability to pay distributions.

We incur indebtedness that bears interest at variable rates. Accordingly, if interest rates increase, so will our interest costs, which could adversely affect our cash flow and our ability to service debt. As a protection against rising interest rates, we may enter into agreements such as interest rate swaps, caps, floors and other interest rate exchange contracts. These agreements, however, increase our risks that other parties to the agreements may not perform or that the agreements may be unenforceable. In addition, an increase in interest rates could decrease the amounts third-parties are willing to pay for our assets, thereby limiting our ability to change our portfolio promptly in response to changes in economic or other conditions.

Mortgage debt obligations expose us to the possibility of foreclosure, which could result in the loss of our investment in a property or group of properties subject to mortgage debt.

Incurring mortgage and other secured debt obligations increases our risk of property losses because defaults on indebtedness secured by properties may result in foreclosure actions initiated by lenders and ultimately our loss of the property securing any loans for which we are in default. Any foreclosure on a mortgaged property or group of properties could adversely affect the overall value of our portfolio of properties (or portions thereof). For tax purposes, a foreclosure of any of our properties that is subject to a nonrecourse mortgage loan generally would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure, but would not receive any cash proceeds, which could hinder our ability to satisfy the distribution requirements applicable to REITs under the Code.

Disruptions in the financial markets could affect our ability to obtain financing or have other adverse effects on us or the market price of our common shares.

In recent years, the United States and global equity and credit markets have experienced significant price volatility and liquidity disruptions which caused the market prices of shares to fluctuate substantially and the spreads on prospective debt financings to widen considerably. These circumstances significantly and negatively impacted liquidity in the financial markets, making terms for certain financings less attractive or unavailable. Any disruption in the equity and credit markets could negatively impact our ability to access additional financing at reasonable terms or at all. If such disruption were to occur, in the event of a debt financing, our cost of borrowing in the future would likely be significantly higher than historical levels. Additionally, in the case of a common equity financing, the

disruptions in the financial markets could have a material adverse effect on the market value of our common shares, potentially requiring us to issue more shares than we would otherwise have issued with a higher market value for our common shares. Disruption in the financial markets also could negatively affect our ability to make acquisitions, undertake new development projects and refinance our debt. In addition, it could also make it more difficult for us to sell properties and could adversely affect the price we receive for properties that we do sell, as prospective buyers experience increased costs of financing and difficulties in obtaining financing. If economic conditions deteriorate, the ability of lenders to fulfill their obligations under working capital or other credit facilities that we may have in the future may be adversely impacted.

Disruptions in the financial markets also could adversely affect many of our tenants and their businesses, including their ability to pay rents when due and renew their leases at rates at least as favorable as their current rates. As well, our ability to attract prospective new tenants in the future could be adversely affected by disruption in the financial markets. Each of these disruptions could have adverse effects on us or the market price of our common shares.

Covenants in our debt agreements could adversely affect our financial condition.

Our credit facility contains customary restrictions, requirements and other limitations on our ability to incur indebtedness. We must maintain certain ratios, including a maximum of total indebtedness to total asset value, a maximum of secured indebtedness to total asset value, a minimum of quarterly adjusted EBITDA to fixed charges, a minimum net operating income from unencumbered properties to unsecured interest expense and a maximum of unsecured indebtedness to unencumbered asset value. Our ability to borrow under our credit facility is subject to compliance with our financial and other covenants.

Failure to comply with any of the covenants under our unsecured credit facility or other debt instruments could result in a default under one or more of our debt instruments. In particular, we could suffer a default under one of our secured debt instruments that could exceed a cross-default threshold under our unsecured credit facility, causing an event of default under the unsecured credit facility. Under those circumstances, other sources of capital may not be available to us or be available only on unattractive terms. In addition, if we breach covenants in our debt agreements, the lenders can declare a default and, if the debt is secured, take possession of the property securing the defaulted loan.

Alternatively, even if a secured debt instrument is below the cross-default threshold for non-recourse secured debt under our unsecured credit facility, a default under such secured debt instrument may still cause a cross default under our unsecured credit facility because such secured debt instrument may not qualify as “non-recourse” under the definition in our unsecured credit facility. Another possible cross default could occur between our unsecured credit facility and any senior unsecured notes that we issue. Any of the foregoing default or cross-default events could cause our lenders to accelerate the timing of payments and/or prohibit future borrowings, either of which would have a material adverse effect on our business, operations, financial condition and liquidity.

Failure to effectively hedge against interest rate changes may adversely affect our financial condition, results of operations, cash flow, per share market price of our common shares and ability to make distributions to our shareholders.

We enter into hedging transactions to protect ourselves from the effects of interest rate fluctuations on floating rate debt. Our hedging transactions include entering into interest rate cap agreements or interest rate swap agreements. These agreements involve risks, such as the risk that such arrangements would not be effective in reducing our exposure to interest rate changes or that a court could rule that such an agreement is not legally enforceable. In addition, interest rate hedging can be expensive, particularly during periods of rising and volatile interest rates. Failure to hedge effectively against interest rate changes could materially adversely affect our financial condition, results of operations, cash flow, per share trading price of our common shares and ability to make distributions to our shareholders. In addition, while such agreements would be intended to lessen the impact of rising interest rates on us, they could also expose us to the risk that the other parties to the agreements would not perform, and that the hedging arrangements may not be effective in reducing our exposure to interest rate changes. In addition, the REIT provisions of the Code impose certain restrictions on our ability to utilize hedges, swaps and other types of derivatives to hedge our liabilities. Moreover, there can be no assurance that our hedging arrangements will qualify as highly effective cash flow hedges under Financial Accounting Standards Board ("FASB"), Accounting Standards Codification ("ASC") Topic 815, Derivatives and Hedging, or that our hedging activities will have the desired beneficial impact on our results of operations. Should we desire to terminate a hedging agreement, there could be significant costs and cash requirements involved to fulfill our obligation under the hedging agreement.

Risks Related to Our Organizational Structure

Our charter and Maryland law contain provisions that may delay, defer or prevent a change in control of Washington REIT, even if such a change in control may be in the best interest of our shareholders, and as a result may depress the

market price of our common shares.

Provisions of the Maryland General Corporation Law ("MGCL") may limit a change in control which could prevent holders of our common shares from profiting as a result of such change in control. These provisions include:

a provision where a corporation is not permitted to engage in any business combination with any "interested stockholder," defined as any holder or affiliate of any holder of 10% or more of the corporation's stock, for a period of five years after that holder becomes an "interested stockholder," and
a provision where the voting rights of "control shares" acquired in a "control share acquisition," as defined in the MGCL, may be restricted, such that the "control shares" have no voting rights, except to the extent approved by a vote of holders of two-thirds of the common shares entitled to vote on the matter.

Additionally, we are subject to the "business combination" and "unsolicited takeover" provisions of the MGCL. These provisions may delay, defer, or prevent a transaction or a change in control that may involve a premium price for holders of our shares or

otherwise be in their best interests. Our bylaws currently provide that the foregoing provision regarding "control share acquisitions" will not apply to Washington REIT. However, our board of trustees could, in the future, modify our bylaws such that the foregoing provision regarding "control share acquisitions" would be applicable to Washington REIT.

The stock ownership limits imposed by the Code for REITs and imposed by our charter may restrict our business combination opportunities that might involve a premium price for our common shares or otherwise be in the best interest of our shareholders.

In order for us to maintain our qualification as a REIT under the Code, not more than 50% in value of our outstanding equity shares may be owned, directly or indirectly, by five or fewer individuals (defined in the Code to include certain entities) at any time during the last half of each taxable year following our first year. Our charter authorizes our board of trustees to take the actions that are necessary or appropriate to preserve our qualification as a REIT. Our charter provides that no person (other than an excepted holder, as defined in our charter) may actually or constructively own more than 9.8% of the aggregate of our outstanding common shares by value or by number of shares, whichever is more restrictive, or 9.8% of the aggregate of the outstanding shares of all classes and series ("equity shares") by value.

Our board of trustees may, in its sole discretion, grant exemptions to the share ownership limits, subject to such conditions and the receipt by our board of trustees of certain representations and undertakings. In addition, our board of trustees has the authority under our charter to reduce these share ownership limits.

In addition to the share ownership limits discussed above, our charter also prohibits any person from (a) beneficially or constructively owning, as determined by applying certain attribution rules of the Code, our equity shares that would result in us being "closely held" under Section 856(h) of the Code (regardless of whether the interest is held during the last half of a taxable year) or that would otherwise cause us to fail to qualify as a REIT, or (b) transferring equity shares if such transfer would result in our equity shares being owned by fewer than 100 persons. The share ownership limits contained in our charter are based on the ownership at any time by any "person," which term includes entities and certain groups. The share ownership limitations in our charter are common in REIT charters and are intended to provide added assurance of compliance with the tax law requirements, and to minimize administrative burdens. However, the share ownership limits on our shares also might delay, defer, prevent, or otherwise inhibit a transaction or a change in control of Washington REIT that might involve a premium price for our common shares or otherwise be in the best interest of our shareholders.

Our rights and the rights of our shareholders to take action against our trustees and officers are limited, which could limit your recourse in the event of actions that you do not believe are in your best interests.

Maryland law provides that a trustee has no liability in that capacity if he or she satisfies his or her duties to us and our shareholders. Under current Maryland law, our trustees and officers will not have any liability to us or our shareholders for money damages, except for liability resulting from:

- actual receipt of an improper benefit or profit in money, property or services; or
- a final judgment based upon a finding of active and deliberate dishonesty by the trustee or officer that was material to the cause of action adjudicated.

In addition, our charter authorizes and our bylaws require us to indemnify our trustees for actions taken by them in those capacities to the maximum extent permitted by Maryland law. Our bylaws also authorize us to indemnify our officers for actions taken by them in those capacities to the maximum extent permitted by Maryland law. As a result, we and our shareholders may have more limited rights against our trustees and officers than might otherwise exist. Accordingly, in the event that actions taken in good faith by any of our trustees or officers impede the performance of

Washington REIT, your ability to recover damages from such trustees or officers will be limited with respect to trustees and may be limited with respect to officers. In addition, we will be obligated to advance the defense costs incurred by our trustees and our executive officers, and may, in the discretion of our board of trustees, advance the defense costs incurred by our officers, our employees and other agents, in connection with legal proceedings.

Risks Related to Our Common Shares

We cannot assure you we will continue to pay dividends at current rates.

Cash flows from operations are an important factor in our ability to sustain our dividend at its current rate. If our cash flows from operations were to decline significantly, we may have to borrow on our lines of credit to sustain the dividend rate or reduce our dividend. Our ability to continue to pay dividends on our common shares at their current rate or to increase our common share dividend rate will depend on a number of factors, including, among others, the following:

- our future financial condition and results of operations;
- real estate market conditions in the Washington metro region;
- the performance of lease terms by tenants;
- the terms of our loan covenants; and
- our ability to acquire, finance, develop or redevelop and lease additional properties at attractive rates.

Our board of trustees considers, among other factors, trends in our levels of funds from operations, together with associated recurring capital improvements, tenant improvements, leasing commissions and incentives, and adjustments to straight-line rents to reflect cash rents received. If some or all of these factors were to trend downward for a sustained period of time, our board of trustees could determine to reduce our dividend rate. If we do not maintain or increase the dividend rate on our common shares in the future, it could have an adverse effect on the market price of our common shares.

Further issuances of equity securities may be dilutive to current shareholders.

The interests of our existing shareholders could be diluted if additional equity securities are issued, including to finance future developments and acquisitions, instead of incurring additional debt. Our ability to execute our business strategy depends on our access to an appropriate blend of debt financing, including unsecured lines of credit and other forms of secured and unsecured debt and equity financing.

The market value of our securities can be adversely affected by many factors.

As with any public company, a number of factors may adversely influence the public market price of our common shares. These factors include:

- level of institutional interest in us;
- perceived attractiveness of investment in us, in comparison to other REITs;
- perceived attractiveness of the Washington metro region, particularly if investors have a negative sentiment about the impact of election results on the region's economy;
- attractiveness of securities of REITs in comparison to other asset classes taking into account, among other things, that a substantial portion of REITs' dividends may be taxed as ordinary income;
- our financial condition and performance;
- the market's perception of our growth potential and potential future cash dividends;
- investor confidence in the stock and bond markets generally;
- national economic conditions and general stock and bond market conditions;
- government uncertainty, action or regulation, including changes in tax law;
- increases in market interest rates, which may lead investors to expect a higher annual yield from our distributions in relation to the price of our shares;
- changes in federal tax laws;
- changes in our credit ratings; and
- any negative change in the level of our dividend or the partial payment thereof in common shares.

Risks Related to our Status as a REIT

Loss of our tax status as a REIT would have significant adverse consequences to us and the value of our common shares.

We believe that we qualify as a REIT and intend to continue to operate in a manner that will allow us to continue to qualify as a REIT. However, we cannot assure you that we are qualified as such, or that we will remain qualified as

such in the future. This is because qualification as a REIT involves the application of highly technical and complex provisions of the Code which include:

- maintaining ownership of specified minimum levels of real estate related assets;
- generating specified minimum levels of real estate related income;
- maintaining certain diversity of ownership with respect to our shares; and
- distributing at least 90% of our "REIT taxable income" (determined before the deduction for dividends paid and excluding net capital gains) on an annual basis.

The distribution requirement noted above could adversely affect our ability to use earnings for improvements or acquisitions because funds distributed to shareholders will not be available for capital improvements to existing properties or for acquiring additional properties.

Only limited judicial and administrative interpretations of the REIT rules exist. In addition, qualification as a REIT involves the determination of various factual matters and circumstances not entirely within our control. Future legislation, new regulations, administrative interpretations or court decisions may significantly change the tax laws or the application of the tax laws with respect to qualification as a REIT for U.S. federal income tax purposes or the U.S. federal income tax consequences of such qualification. For example, the Tax Cuts and Jobs Act (the "TCJA"), which was signed into law on December 22, 2017 and which generally takes effect for taxable years beginning on or after January 1, 2018, makes fundamental changes to the U.S. federal income tax laws applicable to businesses and their owners, including REITs and their shareholders.

If we fail to qualify as a REIT, we could face serious tax consequences that could substantially reduce our funds available for payment of dividends for each of the years involved because:

- we would be subject to U.S. federal income tax at regular corporate rates, without any deduction for dividends paid to shareholders in computing our taxable income;
- we could be subject to the federal alternative minimum tax and possibly increased state and local taxes (for our tax years that began prior to December 31, 2017); and
- unless we are entitled to relief under statutory provisions, we could not elect to be subject to tax as a REIT for four taxable years following the year during which we are disqualified.

This treatment would reduce net earnings available for investment or distribution to shareholders because of the additional tax liability for the year (or years) involved. To the extent that distributions to shareholders had been made based on the assumption of our qualification as a REIT, we might be required to borrow funds or to liquidate certain of our investments to pay the applicable tax. As a result of these factors, our failure to qualify as a REIT could have a material adverse impact on our results of operations, financial condition and liquidity. If we fail to qualify as a REIT but are eligible for certain relief provisions, then we may retain our status as a REIT but may be required to pay a penalty tax, which could be substantial.

Complying with the REIT requirements may cause us to forego and/or liquidate otherwise attractive investments.

To qualify as a REIT, we must ensure that we meet the REIT gross income tests annually. In addition, we must ensure that, at the end of each calendar quarter, at least 75% of the value of our total assets consists of cash, cash items, government securities and qualifying real estate assets, including certain mortgage loans (the "75% asset test"). The remainder of our investment in securities (other than government securities, securities treated as real estate assets and securities issued by a TRS) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than government securities, securities treated as real estate assets and securities issued by a TRS) can consist of the securities of any one issuer, and no more than 20% (25% for our tax years that began prior to December 31, 2017) of the value of our total securities can be represented by securities of one or more TRSs. Effective for our taxable years that began after December 31, 2015, we can treat debt instruments issued by publicly offered REITs, to the extent not secured by real property or interests in real property, as "real estate assets" for purposes of the 75% test (and, thus, not subject to the 10% and 5% asset tests), but the total value of such debt instruments cannot exceed 25% of the value of our total assets. If we fail to comply with these asset requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences.

To meet these tests, we may be required to take or forego taking actions that we would otherwise consider advantageous. For instance, in order to satisfy the gross income or asset tests applicable to REITs under the Code, we may be required to forego investments that we otherwise would make. Furthermore, we may be required to liquidate

from our portfolio (or to contribute to a TRS) otherwise attractive investments. In addition, we may be required to make distributions to shareholders at disadvantageous times or when we do not have funds readily available for distribution. These actions could have the effect of reducing our income and amounts available for distribution to our shareholders. Thus, compliance with the REIT requirements may hinder our ability to make, or, in certain cases, maintain ownership of, certain attractive investments.

The requirements necessary to maintain our REIT status limit our ability to earn fee income at the REIT level, which causes us to conduct certain fee-generating activities through a TRS.

The REIT provisions of the Code limit our ability to earn fee income from joint ventures and third parties. Our aggregate gross income from fees and certain other non-qualifying sources cannot exceed 5% of our annual gross income. As a result, our ability to increase the amount of fee income we earn at the REIT level is limited and, therefore, we conduct certain fee-generating activities through a TRS. Any fee income we earn through a TRS is subject to U.S. federal, state, and local income tax at regular corporate rates, which reduces our cash available for distribution to shareholders.

Our ability to own stock and securities of TRSs is limited and our transactions with our TRS will cause us to be subject to a 100% penalty tax on certain income or deductions if those transactions are not conducted on arm's-length terms.

A REIT may own up to 100% of the stock of one or more TRSs. A TRS may hold assets and earn income that would not be qualifying assets or income if held or earned directly by a REIT. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. A corporation of which a TRS directly or indirectly owns more than 35% of the voting power or value of the stock will automatically be treated as a TRS. Overall, no more than 20% (25% for tax years that began prior to December 31, 2017) of the value of a REIT's assets may consist of stock or securities of one or more TRSs. In addition, the rules applicable to TRSs limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. The rules also impose a 100% excise tax on the parent REIT with respect to certain transactions involving a TRS that are not conducted on an arm's-length basis.

Our TRSs will pay U.S. federal, state and local income tax on its taxable income. The after-tax net income of our TRSs will be available for distribution to us but generally is not required to be distributed. We believe that the aggregate value of the stock and securities of our TRSs is less than 20% (25% for tax years that began prior to December 31, 2017) of the value of our total assets (including the stock and securities of our TRS). Furthermore, we monitor the value of our respective investments in our TRSs for the purpose of ensuring compliance with the ownership limitations applicable to TRSs. We scrutinize all of our transactions involving our TRSs to ensure that they are entered into on arm's-length terms to avoid incurring the 100% excise tax described above. There can be no assurance, however, that we will be able to comply with the 20% (25% for tax years that began prior to December 31, 2017) limitation discussed above or avoid application of the 100% excise tax discussed above.

Complying with REIT requirements may limit our ability to hedge effectively and may cause us to incur tax liabilities.

The REIT provisions of the Code may limit our ability to hedge our assets and operations. Under these provisions, income that we generate from transactions we enter into to manage risk of interest rate changes with respect to borrowings made or to be made to acquire or carry real estate assets, or manage the risk of certain currency fluctuations, and such instrument is properly identified under applicable Treasury Regulations, does not constitute "gross income" for purposes of the 75% or 95% gross income tests. As a result of these rules, we may have to limit our use of hedging techniques that might otherwise be advantageous or implement those hedges through a TRS. This could increase the cost of our hedging activities because our TRS would be subject to tax on gains or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear. In addition, losses in our TRS will generally not provide any current tax benefit, except to the extent that they may be carried back to prior years or forward to future years and offset against taxable income in the TRS, provided, however, losses in our TRS arising in taxable years beginning after December 31, 2017, may only be carried forward and may only be deducted against 80% of future taxable income in the TRS.

Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends.

The maximum tax rate applicable to income from "qualified dividends" payable by non-REIT "C" corporations to U.S. shareholders that are individuals, trusts and estates generally is 20% (excluding the 3.8% net investment income tax). Dividends payable by REITs, however, generally are not eligible for the maximum 20% reduced rate and are taxed at applicable ordinary income tax rates, except to the extent that certain holding requirements have been met and a REIT's dividends are attributable to dividends received by a REIT from taxable corporations (such as a TRS), to income that was subject to tax at the REIT/corporate level, or to dividends properly designated by the REIT as "capital gain dividends." Effective for taxable years beginning after December 31, 2017 and before January 1, 2026, those U.S. shareholders may deduct 20% of their dividends from REITs (excluding qualified dividend income and capital gains

dividends). For those U.S. shareholders in the top marginal tax bracket of 37%, the deduction for REIT dividends yields an effective income tax rate of 29.6% (exclusive of the net investment income tax) on REIT dividends, which is higher than the 20% tax rate on qualified dividend income paid by non-REIT "C" corporations (although the maximum effective rate applicable to such dividends, after taking into account the 21% federal income tax rate applicable to non-REIT "C" corporations is 36.8% (exclusive of the 3.8% net investment income tax)). Although the reduced rates applicable to dividend income from non-REIT "C" corporations does not adversely affect the taxation of REITs or dividends payable by REITs could cause investors who are non-corporate taxpayers to perceive investments in REITs to be relatively less attractive than investments in the shares of non-REIT "C" corporations that pay dividends, which could adversely affect the value of the stock of REITs, including our common shares.

Gains from sales of properties are potentially subject to the "prohibited transactions tax" or a corporate level income tax and could require us to make additional distributions to our shareholders that would reduce our capital available for investment in other properties or require us to obtain additional funds to pay such taxes or make such distributions.

A REIT's net income from prohibited transactions is subject to a 100% penalty tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, held primarily for sale to customers in the ordinary course of business. Although we do not intend to hold any properties that would be characterized as held for sale to customers in the ordinary course of our business, unless a sale or disposition qualifies under certain statutory safe harbors, such characterization is a factual determination and no guarantee can be given that the Internal Revenue Service ("IRS") would agree with our characterization of our properties or that we will be able to make use of the otherwise available safe harbors. In addition, the sale of properties may generate gains for tax purposes which, if not adequately deferred through "like-kind exchanges" under Section 1031 of the Code ("Section 1031 Exchanges"), could require us to pay more taxes or make additional distributions to our shareholders, thus reducing our capital available for investment in other properties, or if the proceeds of such sales are already invested in other properties, require us to obtain additional funds to pay such taxes or make such distributions. From time to time, we dispose of properties in transactions intended to qualify as Section 1031 Exchanges. Intermediary agents of Section 1031 Exchanges typically handle large sums of money in trust. It is possible that the qualification of a transaction as a Section 1031 Exchange could be successfully challenged and determined to be currently taxable. In such case, our taxable income and earnings and profits would increase. This could increase the dividend income to our shareholders by reducing any return of capital they received. In some circumstances, we may be required to pay additional dividends or, in lieu of that, corporate income tax, possibly including interest and penalties. As a result, we may be required to borrow funds in order to pay additional dividends or taxes, and the payment of such taxes could cause us to have less cash available to distribute to our shareholders. In addition, if a Section 1031 Exchange were later to be determined to be taxable, we may be required to amend our tax returns for the applicable year in question, including any information reports we sent our shareholders. Moreover, it is possible that legislation could be enacted that could modify or repeal the laws with respect to Section 1031 Exchanges, which could make it more difficult or not possible for us to dispose of properties on a tax deferred basis.

The REIT distribution requirements could require us to borrow funds during unfavorable market conditions or subject us to tax, which would reduce the cash available for distribution to our shareholders.

In order to qualify as a REIT, we generally must distribute to our shareholders, on an annual basis, at least 90% of our "REIT taxable income," determined without regard to the deduction for dividends paid and excluding net capital gains. In addition, we will be subject to U.S. federal income tax at regular corporate rates to the extent that we distribute less than 100% of our net taxable income (including net capital gains) and will be subject to a 4% nondeductible excise tax on the amount by which our distributions in any calendar year are less than a minimum amount specified under U.S. federal income tax laws. We intend to continue to distribute our net income to our shareholders in a manner intended to satisfy the REIT 90% distribution requirement and to avoid U.S. federal income tax and the 4% nondeductible excise tax.

In addition, from time to time our taxable income may exceed our net income as determined by GAAP. This may occur, for instance, because realized capital losses are deducted in determining our GAAP net income, but may not be deductible in computing our taxable income. In addition, we may incur nondeductible capital expenditures or be required to make debt or amortization payments. As a result of the foregoing, we may generate less cash flow than taxable income in a particular year and we may incur U.S. federal income tax and the 4% nondeductible excise tax on that income if we do not distribute such income to shareholders in that year. In that event, we may be required to (i) use cash reserves, (ii) incur debt at rates or times that we regard as unfavorable, (iii) sell assets in adverse market conditions, (iv) distribute amounts that would otherwise be invested in future acquisitions, capital expenditures or repayment of debt, or (v) make a taxable distribution of our shares as part of a distribution in which shareholders may

elect to receive our shares or (subject to a limit measured as a percentage of the total distribution) cash in order to satisfy the REIT 90% distribution requirement and to avoid U.S. federal income tax and the 4% nondeductible excise tax in that year. These alternatives could increase our costs or reduce our equity. Thus, compliance with the REIT requirements may hinder our ability to grow, which could adversely affect our business, financial condition and results of operations.

The ability of our board of trustees to revoke our REIT qualification without shareholder approval may cause adverse consequences to our shareholders.

Our charter provides that our board of trustees may revoke or otherwise terminate our REIT election, without the approval of our shareholders, if it determines that it is no longer in our best interest to continue to qualify as a REIT. If we cease to be a REIT, we will not be allowed a deduction for dividends paid to shareholders in computing our taxable income, will be subject to U.S. federal, state and local income tax at regular corporate rates, and generally would no longer be required to distribute any of our net taxable income to our shareholders, which may have adverse consequences on our total return to our shareholders.

Even if we qualify as a REIT, we may face other tax liabilities that reduce our cash flow.

Even if we qualify for taxation as a REIT, we may be subject to certain U.S. federal, state and local taxes on our income, property or net worth, including taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, and state or local income, property and transfer taxes. Moreover, if we have net income from "prohibited transactions," that income will be subject to a 100% tax. The need to avoid prohibited transactions could cause us to forego or defer sales of properties that might otherwise be in our best interest to sell. In addition, we could, in certain circumstances, be required to pay an excise or penalty tax (which could be significant in amount) in order to utilize one or more relief provisions under the Code to maintain our qualification as a REIT. Any of these taxes would decrease cash available for the payment of our debt obligations and distributions to shareholders. Our TRSs generally will be subject to U.S. federal, state and local corporate income tax on their net taxable income.

Recent legislative changes to our ability to deduct for tax purposes compensation paid to our executives could require us to increase our distributions to stockholders in order to maintain REIT status or to avoid entity-level taxes.

Section 162(m) of the Code prohibits publicly held corporations from taking a tax deduction for annual compensation in excess of \$1 million paid to any of the corporation's "covered employees." Prior to the enactment of the TCJA, a publicly held corporation's covered employees included its chief executive officer and the three other most highly compensated executive officers (other than the chief financial officer), and certain "performance-based compensation" was excluded from the \$1 million cap. The TCJA made certain changes to Section 162(m), effective for taxable years beginning after December 31, 2017. These changes include, among others, expanding the definition of "covered employee" to include the chief financial officer and repealing the performance-based compensation exception to the \$1 million cap, subject to a transition rule for remuneration provided pursuant to a written binding contract which was in effect on November 2, 2017, and which was not modified in any material respect on or after that date.

Since we qualify as a REIT under the Code and we are generally not subject to U.S. federal income taxes, if compensation did not qualify for deduction under Section 162(m), the payment of compensation that fails to satisfy the requirements of Section 162(m) would not have a material adverse consequence to us, provided we continue to distribute 100% of our taxable income. Based on our current taxable income and distributions, we do not believe that we will be required to increase our rate of distributions in order to maintain our status as a REIT (or to avoid paying corporate or excise taxes at the entity level) if a portion of our payment of compensation fails to satisfy the requirements of Section 162(m). However, in that case, a larger portion of shareholder distributions that would otherwise have been treated as a return of capital will be subject to federal income tax as dividend income. In the future, if we make compensation payments subject to Section 162(m) limitations on deductibility, we may be required to make additional distributions to shareholders to comply with REIT distribution requirements and eliminate U.S. federal income tax liability at the entity level. Any such compensation allocated to our TRSs whose income is subject to U.S. federal income tax would result in an increase in income taxes due to the inability to deduct such compensation.

There is a risk of changes in the tax law applicable to REITs which may adversely affect our taxation as a REIT and taxation of our shareholders.

The IRS, the United States Treasury Department and Congress frequently review U.S. federal income tax legislation, regulations and other guidance. We cannot predict whether, when or to what extent new U.S. federal tax laws, regulations, interpretations or rulings will be adopted. Any legislative action may prospectively or retroactively modify our tax treatment and, therefore, may adversely affect our taxation or taxation of our shareholders. In particular, the TCJA makes many significant changes to the U.S. federal income tax laws that will profoundly impact the taxation of individuals and corporations (both regular non-REIT C corporations as well as corporations that have elected to be taxed as REITs). A number of changes that affect noncorporate taxpayers will expire at the end of 2025

unless Congress acts to extend them. These changes will impact us and our shareholders in various ways, some of which are adverse or potentially adverse compared to prior law. To date, the IRS has issued only limited guidance with respect to certain of the new provisions, and there are numerous interpretive issues that will require guidance. It is highly likely that technical corrections legislation will be needed to clarify certain aspects of the new law and give proper effect to Congressional intent. There can be no assurance, however, that technical clarifications or changes needed to prevent unintended or unforeseen tax consequences will be enacted by Congress in the near future.

ITEM 1B: UNRESOLVED STAFF COMMENTS

None.

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ITEM 2: PROPERTIES

The schedule on the following pages lists our real estate investment portfolio as of December 31, 2017, which consisted of 49 properties and land held for development.

As of December 31, 2017, the percent leased is (i) for commercial properties, the percentage of net rentable area for which fully executed leases exist and may include signed leases for space not yet occupied by the tenant, and (ii) for multifamily properties, the percentage of units leased. Cost information is included in Schedule III to our financial statements included in this Annual Report on Form 10-K.

Schedule of Properties

Properties	Location	Year Acquired	Year Constructed/Renovated	Net Rentable Square Feet	Percent Leased, as of December 31, 2017 ⁽¹⁾	Ending Occupancy, as of December 31, 2017 ⁽¹⁾
Office Buildings						
1901 Pennsylvania Avenue	Washington, DC	1977	1960	100,000	97 %	87 %
515 King Street	Alexandria, VA	1992	1966	75,000	94 %	94 %
1220 19 th Street	Washington, DC	1995	1976	105,000	99 %	97 %
1600 Wilson Boulevard	Arlington, VA	1997	1973	170,000	100 %	98 %
Silverline Center	Tysons, VA	1997	1972/2015	549,000	97 %	96 %
Courthouse Square	Alexandria, VA	2000	1979	118,000	93 %	91 %
1776 G Street	Washington, DC	2003	1979	264,000	100 %	100 %
Monument II	Herndon, VA	2007	2000	208,000	88 %	84 %
2000 M Street	Washington, DC	2007	1971	233,000	100 %	99 %
2445 M Street	Washington, DC	2008	1986	292,000	100 %	99 %
925 Corporate Drive	Stafford, VA	2010	2007	135,000	69 %	69 %
1000 Corporate Drive	Stafford, VA	2010	2009	136,000	63 %	63 %
1140 Connecticut Avenue	Washington, DC	2011	1966	184,000	92 %	91 %
1227 25 th Street	Washington, DC	2011	1988	137,000	95 %	94 %
Braddock Metro Center	Alexandria, VA	2011	1985	356,000	97 %	60 %
John Marshall II	Tysons, VA	2011	1996/2010	223,000	100 %	100 %
Fairgate at Ballston	Arlington, VA	2012	1988	146,000	94 %	92 %
Army Navy Building	Washington, DC	2014	1912/1987	109,000	91 %	79 %
1775 Eye Street, NW	Washington, DC	2014	1964	188,000	100 %	99 %
Watergate 600	Washington, DC	2017	1972/1997	293,000	100 %	98 %

Subtotal 4,021,000 95 % 90 %

⁽¹⁾ Leased percentage and ending occupancy calculations are based on square feet for office buildings and retail centers and on units for multifamily buildings.

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Properties	Location	Year Acquired	Year Constructed/Renovated	# of Units	Net Rentable Square Feet	Percent Leased, as of December 31, 2017 ⁽¹⁾	Ending Occupancy, as of December 31, 2017 ⁽¹⁾		
Retail Centers									
Takoma Park	Takoma Park, MD	1963	1962		51,000	100 %	100 %		
Westminster	Westminster, MD	1972	1969		150,000	98 %	95 %		
Concord Centre	Springfield, VA	1973	1960		75,000	77 %	77 %		
Wheaton Park	Wheaton, MD	1977	1967		74,000	92 %	92 %		
Bradlee Shopping Center	Alexandria, VA	1984	1955		172,000	97 %	97 %		
Chevy Chase Metro Plaza	Washington, DC	1985	1975		49,000	89 %	89 %		
Shoppes of Foxchase	Alexandria, VA	1994	1960/2006		134,000	98 %	97 %		
Frederick County Square	Frederick, MD	1995	1973		228,000	93 %	93 %		
800 S. Washington Street	Alexandria, VA	1998	1951/1959		46,000	93 %	93 %		
Centre at Hagerstown	Hagerstown, MD	2002	2000		333,000	95 %	86 %		
Frederick Crossing	Frederick, MD	2005	1999/2003		295,000	89 %	89 %		
Randolph Shopping Center	Rockville, MD	2006	1972		83,000	88 %	67 %		
Montrose Shopping Center	Rockville, MD	2006	1970		147,000	97 %	97 %		
Gateway Overlook	Columbia, MD	2010	2007		220,000	100 %	98 %		
Olney Village Center	Olney, MD	2011	1979/2003		198,000	99 %	95 %		
Spring Valley Village	Washington, DC	2014	1941/1950		78,000	86 %	82 %		
Subtotal					2,333,000	94 %	91 %		
Multifamily Buildings									
3801 Connecticut Avenue	Washington, DC	1963	1951	307	178,000	97 %	94 %		
Roosevelt Towers	Falls Church, VA	1965	1964	191	170,000	95 %	94 %		
Park Adams	Arlington, VA	1969	1959	200	173,000	96 %	94 %		
The Ashby at McLean	McLean, VA	1996	1982	256	274,000	96 %	96 %		
Bethesda Hill Apartments	Bethesda, MD	1997	1986	195	225,000	95 %	95 %		
Bennett Park	Arlington, VA	2001	2007	224	215,000	96 %	96 %		

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Clayborne	Alexandria, VA	2003	2008	74	60,000	95	%	95	%
Kenmore Apartments	Washington, DC	2008	1948	374	268,000	95	%	92	%
The Paramount	Arlington, VA	2013	1984	135	141,000	96	%	96	%
Yale West	Washington, DC	2014	2011	216	173,000	97	%	96	%
The Maxwell	Arlington, VA	2011	2014	163	116,000	98	%	98	%
The Wellington	Arlington, VA	2015	1960	711	600,000	97	%	95	%
Riverside Apartments	Alexandria, VA	2016	1971	1,222	1,001,000	97	%	96	%
Subtotal				4,268	3,594,000	97	%	95	%
TOTAL					9,948,000				

⁽¹⁾ Leased percentage and ending occupancy calculations are based on square feet for office buildings and retail centers and on units for multifamily buildings.

ITEM 3: LEGAL PROCEEDINGS

None.

ITEM 4: MINE SAFETY DISCLOSURES

N/A.

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PART II

ITEM 5: MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our shares trade on the New York Stock Exchange. As of February 15, 2018, there are 3,775 shareholders of record.

The high and low intraday price for our shares for 2017 and 2016, by quarter, and the amount of dividends we declared per share are as follows:

Quarter	Dividends Per Share	Quarterly Share Price Range	
		High	Low
2017			
Fourth	0.30000	\$ 33.75	\$ 30.84
Third	0.30000	\$ 33.96	\$ 30.90
Second	0.30000	\$ 33.30	\$ 30.59
First	0.30000	\$ 33.63	\$ 29.90
2016			
Fourth	0.30000	\$ 32.98	\$ 27.65
Third	0.30000	\$ 34.61	\$ 29.84
Second	0.30000	\$ 31.47	\$ 27.88
First	0.30000	\$ 29.52	\$ 23.89

We have historically declared dividends on a quarterly basis. The maintenance of our dividend level is subject to various factors reviewed by the board of trustees in its discretion. These factors include our results of operations, the availability of cash and the REIT distribution requirements, which require at least 90% of our REIT taxable income to be distributed to shareholders on an annual basis. For further discussion, please refer to:

"Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Dividends"; and

"Item 1A - Risk Factors - Risks Related to Our Common Shares - We cannot assure you we will continue to pay dividends at current rates."

On April 4, 2017, our consolidated subsidiary, WashREIT Watergate 600 OP LP ("Watergate 600 OP") issued a total of 12,124 operating partnership units ("Operating Partnership Units") to the two contributors of the Watergate 600 property as part of the 2017 acquisition of that property. Under the Watergate 600 OP partnership agreement, each partnership unit held by the limited partners of Watergate 600 OP may be redeemed for either cash equal to the fair market value of a share of Washington REIT common stock at the time of redemption (based on a 20-day average price) or, at the option of Washington REIT, one share of Washington REIT common stock. The Operating Partnership Units were issued to the contributors of the Watergate 600 property and were issued in reliance upon an exemption from registration pursuant to Section 4(a)(2) under the Securities Act of 1933, as amended, which exempts transactions by an issuer not involving any public offering. This issuance was not a "public offering" because only two contributors were involved in the transaction, we did not engage in a general solicitation or advertising in connection with such issuance or transaction and we have not offered securities to the public in connection with such issuance and transaction.

A summary of our repurchases of shares of our common stock for the three months ended December 31, 2017 was as follows:

Issuer Purchases of Equity Securities
Period

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	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased
October 1 - October 31, 2017	—	\$	N/A	N/A
November 1 - November 30, 2017	63	32.77	N/A	N/A
December 1 - December 31, 2017	31,277	31.12	N/A	N/A
Total	31,340	31.12	N/A	N/A

(1) Represents restricted shares surrendered by employees to Washington REIT to satisfy such employees' applicable statutory minimum tax withholding obligations in connection with the vesting of restricted shares.

ITEM 6: SELECTED FINANCIAL DATA

The following table sets forth our selected financial data on a historical basis. The following data should be read in conjunction with our financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Form 10-K.

	2017	2016	2015	2014	2013
	(in thousands, except per share data)				
Real estate rental revenue	\$325,078	\$313,264	\$306,427	\$288,637	\$263,024
Income (loss) from continuing operations	\$19,612	\$119,288	\$89,187	\$5,070	\$(193)
Discontinued operations:					
Income from operations of properties sold or held for sale	\$—	\$—	\$—	\$546	\$15,395
Gain on sale of real estate	\$—	\$—	\$—	\$105,985	\$22,144
Net income	\$19,612	\$119,288	\$89,187	\$111,601	\$37,346
Net income attributable to the controlling interests	\$19,668	\$119,339	\$89,740	\$111,639	\$37,346
Income from continuing operations attributable to the controlling interests per share – diluted	\$0.25	\$1.65	\$1.31	\$0.08	\$—
Net income attributable to the controlling interests per share – diluted	\$0.25	\$1.65	\$1.31	\$1.67	\$0.55
Total assets	\$2,359,426	\$2,253,619	\$2,191,168	\$2,108,317	\$1,969,343
Lines of credit payable	\$166,000	\$120,000	\$105,000	\$50,000	\$—
Mortgage notes payable, net	\$95,141	\$148,540	\$418,052	\$417,194	\$293,307
Notes payable, net	\$894,358	\$843,084	\$743,181	\$743,149	\$841,917
Shareholders' equity	\$1,094,971	\$1,050,946	\$835,649	\$819,555	\$754,959
Cash dividends declared	\$92,834	\$87,570	\$82,003	\$80,277	\$80,104
Cash dividends declared per share	\$1.20	\$1.20	\$1.20	\$1.20	\$1.20

ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We provide Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") in addition to the accompanying consolidated financial statements and notes to assist readers in understanding our results of operations and financial condition. We organize the MD&A as follows:

- **Overview.** Discussion of our operating results, investment activity, financing activity and capital requirements to provide context for the remainder of MD&A.
- **Results of Operations.** Discussion of our financial results comparing 2017 to 2016 and comparing 2016 to 2015.
- **Liquidity and Capital Resources.** Discussion of our financial condition and analysis of changes in our capital structure and cash flows.
- **Critical Accounting Policies and Estimates.** Descriptions of accounting policies that reflect significant judgments and estimates used in the preparation of our consolidated financial statements.

When evaluating our financial condition and operating performance, we focus on the following financial and non-financial indicators:

- **Net operating income ("NOI"),** calculated as set forth below under the caption "Results of Operations - Net Operating Income." NOI is a non-GAAP supplemental measure to net income.
- **Funds From Operations ("NAREIT FFO"),** calculated as set forth below under the caption "Funds from Operations." NAREIT FFO is a non-GAAP supplemental measure to net income.
- **Occupancy,** calculated as occupied square footage as a percentage of total square footage as of the last day of that period.
- **Leased percentage,** calculated as the percentage of available physical net rentable area leased for our office and retail segments and percentage of apartments leased for our multifamily segment.
- **Leasing activity,** including new leases, renewals and expirations.

For purposes of evaluating comparative operating performance, we categorize our properties as "same-store", "non-same-store" or discontinued operations. Same-store properties include properties that were owned for the entirety of the years being compared, and exclude properties under redevelopment or development and properties acquired, sold or classified as held for sale during the years being compared. We define development properties as those for which we have planned or ongoing major construction activities on existing or acquired land pursuant to an authorized development plan. We consider a property's development activities to be complete when the property is ready for its intended use. The property is categorized as same-store when it has been ready for its intended use for the entirety of the years being compared. We define redevelopment properties as those for which we have planned or ongoing significant development and construction activities on existing or acquired buildings pursuant to an authorized plan, which has an impact on current operating results, occupancy and the ability to lease space with the intended result of a higher economic return on the property. We categorize a redevelopment property as same-store when redevelopment activities have been complete for the majority of each year being compared.

Overview

Operating Results

Net income attributable to the controlling interests, NOI and NAREIT FFO for the years ended December 31, 2017 and 2016 were as follows (in thousands):

Year Ended
December 31,

	2017	2016	Change
Net income attributable to the controlling interests	\$19,668	\$119,339	\$(99,671)
NOI ⁽¹⁾	\$209,428	\$198,251	\$11,177
NAREIT FFO ⁽²⁾	\$140,982	\$125,990	\$14,992

⁽¹⁾ See pages 32 and 36 of the MD&A for reconciliations of NOI to net income.

⁽²⁾ See page 48 of the MD&A for reconciliations of NAREIT FFO to net income.

The decrease in net income attributable to the controlling interests is primarily due to lower gains on sale of real estate (\$76.8 million), real estate impairment charges (\$33.2 million), higher general and administrative expenses (\$3.0 million) and higher depreciation and amortization expenses (\$3.7 million) in 2017, partially offset by higher NOI (\$11.2 million) and lower interest expense (\$5.6 million).

The higher NOI is primarily due to income associated with acquisitions (\$15.3 million) and higher same-store NOI (\$10.0 million), partially offset by properties sold during 2016 and 2017 (\$13.2 million). The higher same-store NOI is explained in further detail beginning on page 32 (Results of Operations - 2017 Compared to 2016).

The increase in NAREIT FFO primarily reflects higher NOI (\$11.2 million) and lower interest expense (\$5.6 million), partially offset by higher general and administrative expenses (\$3.0 million).

Investment Activity

Significant investment transactions during 2017 included the following:

The acquisition of Watergate 600, which we refer to as the 2017 acquisition, a 293,000 net rentable square foot office building in Washington, DC, for a contract purchase price of \$135.0 million. The purchase transaction was structured to include the issuance of 12,124 operating partnership units in WashREIT Watergate 600 OP LP, a consolidated subsidiary of Washington REIT, representing \$0.4 million of the purchase price. We incurred \$2.8 million of acquisition costs related to this transaction.

The sale of Walker House Apartments, a 212-unit multifamily property in Gaithersburg, Maryland, for a contract sale price of \$32.2 million. We recognized a gain on sale of real estate of \$23.8 million.

The execution of a purchase and sale agreement for the sale of Braddock Metro Center, a 356,000 square foot office property in Alexandria, Virginia, for a contract sale price of \$93.0 million.

Subsequent to the end of 2017, we acquired Arlington Tower, a 398,000 square foot office building in Rosslyn, Virginia for a contract purchase price of \$250.0 million. We funded the acquisition with borrowings on our Revolving Credit Facility (as defined below) and proceeds from the sale of Braddock Metro Center. We also executed a purchase and sale agreement for the sale of 2445 M Street, a 292,000 square foot office building in Washington, DC, for a contract sale price of \$100.0 million. We currently expect to close on the sale during the third quarter of 2018. However, there can be no assurance that this proposed sale will be consummated. Additionally, we subsequently closed on the sale transaction of Braddock Metro Center, described above, in January 2018.

Financing Activity

Significant financing transactions during 2017 included the following:

The prepayment at par of the remaining \$49.6 million of the mortgage note secured by the Army Navy Building in February 2017.

The draw of the remaining \$50.0 million on the seven year, \$150 million unsecured term loan agreement maturing on July 21, 2023. We used the borrowing to refinance maturing secured debt.

The issuance of approximately 3.6 million common shares under our ATM program at a weighted average price to the public of \$32.06 per share, for net proceeds of approximately \$113.2 million.

As of February 15, 2018, our Revolving Credit Facility (as defined below) has a borrowing capacity of \$257.0 million. As of December 31, 2017, the interest rate on the facility is LIBOR plus 1.0% and the LIBOR was 1.56% as of that date.

Capital Requirements

We do not have any debt maturities during 2018, but expect to prepay without penalty the \$32.2 million mortgage note secured by Kenmore Apartments during the third quarter of 2018. We expect to have the additional capital requirements as set forth on page 40 (Liquidity and Capital Resources - Capital Structure).

Results of Operations

The discussion that follows is based on our consolidated results of operations for the three years ended December 31, 2017. The ability to compare one period to another is significantly affected by acquisitions completed and dispositions made during those years (see note 3 to the consolidated financial statements).

Net Operating Income

NOI, defined as real estate rental revenue less real estate expenses, is a non-GAAP measure. NOI is calculated as net income, less non-real estate revenue and the results of discontinued operations (including the gain on sale, if any), plus interest expense, depreciation and amortization, general and administrative expenses, acquisition costs, real estate impairment and gain or loss on extinguishment of

debt. We believe that NOI is useful as a performance measure because, when compared across periods, NOI reflects the impact on operations of trends in occupancy rates, rental rates and operating costs on an unleveraged basis, providing perspective not immediately apparent from net income. NOI excludes certain components from net income in order to provide results more closely related to a property's results of operations. For example, interest expense is not necessarily linked to the operating performance of a real estate asset. In addition, depreciation and amortization, because of historical cost accounting and useful life estimates, may distort operating performance at the property level. As a result of the foregoing, we provide NOI as a supplement to net income, calculated in accordance with GAAP. NOI does not represent net income or income from continuing operations, in either case calculated in accordance with GAAP. As such, it should not be considered an alternative to these measures as an indication of our operating performance. A reconciliation of NOI to net income follows.

2017 Compared to 2016

The following tables reconcile NOI to net income attributable to the controlling interests and provide the basis for our discussion of our consolidated results of operations and NOI in 2017 compared to 2016. All amounts are in thousands except percentage amounts.

	Same-Store				Non-Same-Store		Development/Redevelopment or		Retrofits or		All Properties		\$
	2017	2016	\$ Change	% Change	2017	2016	2017	2016	2017	2016	2017	2016	
Real estate rental revenue	\$270,040	\$259,555	\$10,485	4.0%	\$36,800	\$13,113	\$4,559	\$4,926	\$13,679	\$35,670	\$325,078	\$313,264	\$1
Real estate expenses	94,150	93,674	476	0.5%	13,826	5,475	2,639	2,787	5,035	13,077	115,650	115,013	63
NOI	\$175,890	\$165,881	\$10,009	6.0%	\$22,974	\$7,638	\$1,920	\$2,139	\$8,644	\$22,593	\$209,428	\$198,251	\$1
Reconciliation to net income attributable to the controlling interests:													
Depreciation and amortization											(112,056)	(108,406)	(3)
Acquisition costs											—	(1,178)	1,
General and administrative expenses											(22,580)	(19,545)	(3)
Real estate (impairment) and casualty gain, net											(33,152)	676	(3)
Gain on sale of real estate											24,915	101,704	(7)
Interest expense											(47,534)	(53,126)	5,
Other income											507	297	21
Income tax benefit											84	615	(5)
Net income											19,612	119,288	(9)
Less: Net income attributable to noncontrolling interests											56	51	5
Net income attributable to the controlling interests											\$19,668	\$119,339	\$(

(1) Acquisitions:

2017 Office – Watergate 600

2016 Multifamily – Riverside Apartments

(2) Development/redevelopment properties:

Office redevelopment properties – Army Navy Building

(3) Held for Sale:

2017 Office – Braddock Metro Center

Sold:

2017 Multifamily – Walker House Apartments

2016 Office – Maryland Office Portfolio (6110 Executive Boulevard, 600 Jefferson Plaza, Wayne Plaza, West Gude Drive, 51 Monroe Street and One Central Plaza)

Real Estate Rental Revenue

Real estate rental revenue is comprised of (a) minimum base rent, which includes rental revenues recognized on a straight-line basis, (b) revenue from the recovery of operating expenses from our tenants, (c) provisions for doubtful accounts in the same quarter that we established the receivable, which include provisions for straight-line receivables, (d) revenue from the collection of lease termination fees and (e) parking and other tenant charges such as percentage rents.

Real estate rental revenue for same-store properties for the two years ended December 31, 2017 was as follows (in thousands, except percentage amounts):

	Year Ended		\$ Change	% Change	
	December 31,				
	2017	2016			
Minimum base rent	\$227,661	\$218,769	\$8,892	4.1	%
Recoveries from tenants	31,297	31,064	233	0.8	%
Provision for doubtful accounts	(1,191)	(960)	(231)	24.1	%
Lease termination fees	1,881	1,350	531	39.3	%
Parking and other tenant charges	10,392	9,332	1,060	11.4	%
Total same-store real estate rental revenue	\$270,040	\$259,555	\$10,485	4.0	%

• **Minimum base rent:** Increase primarily due to higher rental income (\$10.3 million), partially offset by higher abatements (\$1.1 million) and amortization of capitalized lease incentives (\$0.3 million).

• **Recoveries from tenants:** Increase primarily due to higher reimbursements for operating expenses (\$0.4 million), partially offset by lower reimbursements for real estate taxes (\$0.1 million).

• **Provision for doubtful accounts:** Increase primarily due to higher provisions in the retail segment (\$0.2 million).

• **Lease termination fees:** Increase primarily due to higher fees in the retail (\$0.3 million) and office (\$0.2 million) segments.

• **Parking and other tenant charges:** Increase primarily due to higher parking income.

Real estate rental revenue from same-store properties by segment for the two years ended December 31, 2017 was as follows (in thousands, except percentage amounts):

	Year Ended		\$ Change	% Change	
	December 31,				
	2017	2016			
Office	\$137,447	\$128,815	\$8,632	6.7	%
Multifamily	70,203	69,174	1,029	1.5	%
Retail	62,390	61,566	824	1.3	%
Total same-store real estate rental revenue	\$270,040	\$259,555	\$10,485	4.0	%

• **Office:** Increase primarily due to higher rental income (\$9.2 million), parking income (\$0.4 million) and lease termination fees (\$0.2 million), partially offset by higher rent abatements (\$1.5 million).

• **Multifamily:** Increase primarily due to higher rental income (\$1.0 million).

• **Retail:** Increase primarily due to higher reimbursements (\$0.3 million) and lease termination fees (\$0.3 million).

Real estate rental revenue from acquisitions increased due to the acquisition of Watergate 600 (\$14.5 million) in 2017 and having the full year impact of the Riverside Apartments acquisition (\$9.2 million) in 2016.

Real estate rental revenue from development/redevelopment properties decreased primarily due to lower revenue (\$0.4 million) at the Army Navy Building, which was under redevelopment and substantially completed redevelopment activities during 2017.

Real estate rental revenue from held for sale or sold properties decreased primarily due to the sale of the Maryland Office Portfolio (\$20.3 million) in 2016, the non-renewal of a large tenant at Braddock Metro Center (\$1.0 million) and the sale of Walker House Apartments (\$0.7 million) in 2017.

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Ending occupancy represents occupied square footage indicated as a percentage of total square footage as of the last day of that period. Ending occupancy for properties classified as continuing operations by segment for the two years ended December 31, 2017 was as follows:

Segment	December 31, 2017			December 31, 2016			Increase (decrease)		
	Same-Store	Non-Same-Store	Total	Same-Store	Non-Same-Store	Total	Same-Store	Non-Same-Store	Total
Office	93.1%	77.3%	90.1%	91.7%	87.3%	91.1%	1.4%	(10.0)%	(1.0)%
Multifamily	93.6%	95.3%	94.1%	95.3%	92.5%	94.5%	(1.7)%	2.8%	(0.4)%
Retail	91.2%	N/A	91.2%	95.7%	N/A	95.7%	(4.5)%	N/A	(4.5)%
Total	92.7%	87.5%	91.8%	94.0%	91.0%	93.5%	(1.3)%	(3.5)%	(1.7)%

Office: The increase in same-store ending occupancy was primarily due to higher ending occupancy at Fairgate at Ballston, 1776 G Street and Silverline Center, partially offset by lower ending occupancy at Quantico Corporate Center. The decrease in non-same-store ending occupancy was primarily due to the non-renewal of a large tenant at Braddock Metro Center.

Multifamily: The decrease in same-store ending occupancy was primarily due to lower ending occupancy at The Ashby at McLean and Kenmore Apartments.

Retail: The decrease in same-store ending occupancy was primarily due to lower ending occupancy at Frederick Crossing and Centre at Hagerstown.

During 2017, we executed new and renewal leases in our office and retail segments as follows:

Square Feet (in millions)	Average Rental		Leasing Costs		Free Rent (weighted average months)	Retention Rate
	Rate (per square foot)	% Rental Increase	(⁽¹⁾ per square foot)	(⁽¹⁾ per square foot)		
Office 0.5	\$ 43.63	8.8 %	\$ 81.25	9.2 %	9.2	51.4 %
Retail 0.3	29.20	16.5 %	12.81	1.4 %	1.4	66.9 %
Total 0.8	38.35	10.8 %	56.18	7.0 %	7.0	57.2 %

⁽¹⁾ Consist of tenant improvements and leasing commissions.

The low retention rate in the office segment is primarily due to the non-renewal of a large tenant at Braddock Metro Center. We executed a lease with a new tenant for that space, and subsequently sold the property during the first quarter of 2018.

Real Estate Expenses

Real estate expenses as a percentage of revenue for the two years ended December 31, 2017 were 35.6% and 36.7%, respectively.

Real estate expenses from same-store properties by segment for the two years ended December 31, 2017 were as follows (in thousands):

	Year Ended December 31,			
	2017	2016	\$ Change	% Change
Office	\$51,761	\$50,159	\$ 1,602	3.2 %
Multifamily	27,203	27,655	(452)	(1.6)%
Retail	15,186	15,860	(674)	(4.2)%
Total same-store real estate expenses	\$94,150	\$93,674	\$ 476	0.5 %

Office: Increase primarily due to higher real estate tax (\$0.9 million), custodial (\$0.5 million) and administrative (\$0.3 million) expenses.

Multifamily: Decrease primarily due to lower utilities (\$0.2 million), repairs and maintenance (\$0.2 million) and snow removal (\$0.1 million) expenses.

Retail: Decrease primarily due to lower bad debt (\$0.4 million) and snow removal (\$0.3 million) expenses.

Other Expenses

Depreciation and Amortization: Increase primarily due to the Watergate 600 acquisition (\$7.6 million) and higher depreciation and amortization at same-store properties (\$2.0 million), partially offset by dispositions (\$3.8 million) and lower depreciation and amortization at Riverside Apartments (\$1.6 million), Braddock Metro Center (\$0.4 million) and Army Navy Building (\$0.2 million) due to lower amortization of acquired intangible lease assets.

Acquisition Costs: The acquisition costs in 2016 are related to the acquisition of Riverside Apartments. We capitalized the costs associated with the acquisition of Watergate 600 in 2017 due to accounting for the transaction as an asset acquisition in accordance with the adoption of ASU No. 2017-01, Business Combinations (Topic 805) - Clarifying the Definition of a Business.

General and Administrative Expenses: Increase primarily due to higher share based compensation expense (\$1.4 million) due to a higher volume of forfeitures in 2016, higher non-share based incentive compensation (\$1.3 million) due to improved forecasted operating results, and higher expenses related to an information systems upgrade (\$1.0 million), partially offset by lower professional fees (\$0.5 million).

Real estate (impairment) and casualty gain, net: The real estate impairment losses of \$24.1 million and \$9.1 million in 2017 reduced the carrying values of 2445 M Street and Braddock Metro Center, respectively (see note 3 to the consolidated financial statements). The casualty gain in 2016 represents the gain recognized upon the receipt of insurance proceeds related to damage from a fire at Bethesda Hill Towers during the first quarter of 2015 that damaged four units.

Gain on sale of real estate: Decrease due to completion of the sales of Dulles Station II, 6110 Executive Boulevard, 51 Monroe Street, 600 Jefferson Plaza, West Gude Drive, 51 Monroe Street and One Central Plaza during 2016, as compared to the sale of Walker House Apartments in 2017.

Interest Expense: Interest expense by debt type for the two years ended December 31, 2017 was as follows (in thousands, except percentage amounts):

Debt Type	Year Ended December 31,		\$ Change	% Change
	2017	2016		
Notes payable	\$37,487	\$33,439	\$4,048	12.1 %
Mortgage notes payable	4,804	14,654	(9,850)	(67.2)%
Lines of credit	6,207	5,701	506	8.9 %
Capitalized interest	(964)	(668)	(296)	44.3 %
Total	\$47,534	\$53,126	\$(5,592)	(10.5)%

Notes payable: Increase primarily due to executing the \$150.0 million term loan in 2016, which has a floating interest rate effectively fixed at 2.9% by interest rate swaps. We borrowed \$100.0 million on the term loan in the fourth quarter of 2016, and borrowed the remaining \$50.0 million during the first quarter of 2017.

Mortgage notes payable: Decrease primarily due to the repayment of the mortgage notes secured by John Marshall II, 3801 Connecticut Avenue, Bethesda Hill Apartments, Walker House Apartments, 2445 M Street and the Army Navy Building in 2017 and 2016.

Lines of credit: Increase primarily due to a weighted average interest rate of 2.54% during 2017, as compared to 1.64% during 2016.

Capitalized interest: Increase primarily due to capitalization of interest on spending related to the Trove, the multifamily development adjacent to The Wellington.

Income tax benefit: The income tax benefit in 2016 resulted from a reduction of the valuation allowance on a deferred tax asset at one of our taxable REIT subsidiaries due to a net operating loss as a result of the sale of Dulles Station II. The income tax benefit in 2017 results from the anticipated income at the TRS and the corresponding usage of the net operating loss.

2016 Compared to 2015

The following tables reconcile NOI to net income attributable to the controlling interests and provide the basis for our discussion of our consolidated results of operations and NOI in 2016 compared to 2015. All amounts are in thousands except percentage amounts.

	Same-Store				Non-Same-Store		Development/Redevelopment		Held for Sale or Sold (3)		All Properties		\$
	2016	2015	\$ Change	% Change	2016	2015	2016	2015	2016	2015	2016	2015	
Real estate rental revenue	\$243,858	\$239,865	\$3,993	1.7%	\$26,477	\$6,797	\$22,662	\$18,952	\$20,267	\$40,813	\$313,264	\$306,427	\$6
Real estate expenses	86,814	84,708	2,106	2.5%	10,706	2,708	9,997	9,394	7,496	15,424	115,013	112,234	2,779
NOI	\$157,044	\$155,157	\$1,887	1.2%	\$15,771	\$4,089	\$12,665	\$9,558	\$12,771	\$25,389	\$198,251	\$194,193	\$4,058
Reconciliation to net income attributable to the controlling interests:													
Depreciation and amortization											(108,406)	(108,935)	529
Acquisition costs											(1,178)	(2,056)	878
General and administrative expenses											(19,545)	(20,123)	578
Casualty gain and real estate (impairment), net											676	(5,909)	6,585
Gain on sale of real estate											101,704	91,107	10,597
Interest expense											(53,126)	(59,546)	6,420
Other income											297	709	(412)
Loss on extinguishment of debt											—	(119)	119
Income tax benefit (expense)											615	(134)	749
Net income											119,288	89,187	30,101
Less: Net income attributable to noncontrolling interests											51	553	(502)
Net income attributable to the controlling interests											\$119,339	\$89,740	\$29,599

(1) Acquisitions:

2016 Multifamily – Riverside Apartments

2015 Multifamily – The Wellington

(2) Development/redevelopment properties:

Multifamily development property – The Maxwell

Office redevelopment properties – Silverline Center and Army Navy Building

(3) Sold:

2016 Office – 6110 Executive Boulevard, 600 Jefferson Plaza, Wayne Plaza, West Gude Drive, 51 Monroe Street and One Central Plaza

2015 Multifamily – Country Club Towers and Munson Hill Towers

2015 Retail – Montgomery Village Center

Real Estate Rental Revenue

Real estate rental revenue for same-store properties for the two years ended December 31, 2016 was as follows (in thousands, except percentage amounts):

	Year Ended December 31,		\$ Change	% Change
	2016	2015		
Minimum base rent	\$202,965	\$201,571	\$ 1,394	0.7 %
Recoveries from tenants	29,642	28,558	1,084	3.8 %
Provision for doubtful accounts	(909)	(1,455)	546	(37.5)%
Lease termination fees	1,032	1,196	(164)	(13.7)%
Parking and other tenant charges	11,128	9,995	1,133	11.3 %
Total same-store real estate rental revenue	\$243,858	\$239,865	\$ 3,993	1.7 %

Minimum base rent: Increase primarily due to higher rental rates (\$3.5 million), partially offset by lower occupancy (\$1.2 million), higher abatements (\$0.6 million) and lower amortization of net intangible lease liabilities (\$0.3 million).

Recoveries from tenants: Increase primarily due to higher reimbursements for operating expenses (\$0.7 million) and real estate taxes (\$0.3 million) due to higher expenses.

Provision for doubtful accounts: Decrease primarily due to lower provisions in the office segment (\$0.6 million).

Lease termination fees: Decrease primarily due to lower fees in the retail (\$0.2 million) and office (\$0.1 million) segments, partially offset by higher fees in the multifamily (\$0.2 million) segment.

Parking and other tenant charges: Increase primarily due to higher parking income (\$0.6 million) primarily in the office segment, move-in charges (\$0.1 million) in the multifamily segment and short term rent (\$0.1 million) and percentage rent (\$0.1 million) in the retail segment.

Real estate rental revenue from same-store properties by segment for the two years ended December 31, 2016 was as follows (in thousands, except percentage amounts):

	Year Ended			
	December 31,			
	2016	2015	\$ Change	% Change
Office	\$126,959	\$124,963	\$ 1,996	1.6 %
Multifamily	55,333	54,502	831	1.5 %
Retail	61,566	60,400	1,166	1.9 %
Total same-store real estate rental revenue	\$243,858	\$239,865	\$ 3,993	1.7 %

Office: Increase primarily due to higher rental rates (\$2.1 million), lower provisions for uncollectible accounts (\$0.6 million), and higher parking income (\$0.4 million), partially offset by higher rent abatements (\$1.0 million) and lower occupancy (\$0.1 million).

Multifamily: Increase primarily due to higher occupancy (\$0.3 million), lower rent abatements (\$0.3 million) and higher rental rates (\$0.2 million).

Retail: Increase primarily due to higher rental rates (\$1.2 million), reimbursements (\$1.1 million), percentage rent (\$0.1 million) and parking income (\$0.1 million), partially offset by lower occupancy (\$1.4 million).

Real estate rental revenue from acquisitions increased due to the acquisition of Riverside Apartments (\$13.1 million) in 2016 and having the full year impact of The Wellington acquisition (\$6.6 million) in 2015.

Real estate rental revenue from development/redevelopment properties increased primarily due to higher occupancy at Silverline Center (\$3.1 million) and The Maxwell (\$2.3 million), partially offset by lower occupancy (\$1.6 million) at the Army Navy Building, which was under redevelopment.

Ending occupancy represents occupied square footage indicated as a percentage of total square footage as of the last day of that period. Ending occupancy for properties classified as continuing operations by segment for the two years ended December 31, 2016 was as follows:

Segment	December 31, 2016			December 31, 2015			Increase (decrease)		
	Same-Store	Non-Same-Store	Total	Same-Store	Non-Same-Store	Total	Same-Store	Non-Same-Store	Total
Office	92.1 %	86.5 %	91.1 %	91.0 %	82.0 %	87.6 %	1.1 %	4.5 %	3.5 %
Multifamily	96.0 %	92.9 %	94.5 %	94.3 %	91.6 %	93.4 %	1.7 %	1.3 %	1.1 %
Retail	95.7 %	N/A	95.7 %	91.5 %	N/A	91.5 %	4.2 %	N/A	4.2 %
Total	94.3 %	91.3 %	93.5 %	92.1 %	85.4 %	90.2 %	2.2 %	5.9 %	3.3 %

Office: The increase in same-store ending occupancy was primarily due to higher occupancy at 1775 Eye Street, 1600 Wilson Boulevard and 1776 G Street, partially offset by lower occupancy at Monument II. The increase in non-same-store ending occupancy was primarily due to higher occupancy at Silverline Center, partially offset by lower occupancy at the Army Navy Building.

Multifamily: The increase in same-store ending occupancy was primarily due to higher occupancy at 3801 Connecticut Avenue and The Ashby. The increase in non-same-store ending occupancy was primarily due to the lease-up of The Maxwell.

Retail: The increase in same-store ending occupancy was primarily due to higher occupancy at Chevy Chase Metro Center, Bradlee Shopping Center and Montrose Shopping Center.

During 2016, we executed new and renewal leases in our office and retail segments as follows:

Square Feet (in millions)	Average Rental		Leasing Costs		Free Rent (weighted average months)	Retention Rate
	Rate (per square foot)	% Rental Increase	(⁽¹⁾ per square foot)	(⁽¹⁾ per square foot)		
Office 0.6	\$ 41.67	13.2 %	\$ 41.24	5.3	67.1	%
Retail 0.2	31.32	19.4 %	11.89	1.2	82.4	%
Total 0.8	38.96	14.5 %	33.54	4.4	71.4	%

⁽¹⁾ Consist of tenant improvements and leasing commissions.

Real Estate Expenses

Real estate expenses as a percentage of revenue for the two years ended December 31, 2016 were 36.7% and 36.6%, respectively.

Real estate expenses from same-store properties by segment for the two years ended December 31, 2016 were as follows (in thousands):

	Year Ended December 31,			
	2016	2015	\$ Change	% Change
Office	\$48,312	\$47,385	\$ 927	2.0 %
Multifamily	22,642	22,660	(18)	(0.1)%
Retail	15,860	14,663	1,197	8.2 %
Total same-store real estate expenses	\$86,814	\$84,708	\$ 2,106	2.5 %

Office: Increase primarily due to higher real estate taxes (\$0.3 million), repairs and maintenance (\$0.3 million), operating services and supplies (\$0.3 million) and bad debt (\$0.2 million) expenses, partially offset by lower utilities expenses (\$0.4 million) due to lower usage of electricity.

Multifamily: Slight decrease primarily due to lower property management (\$0.2 million) and administrative (\$0.2 million) expenses, offset by higher bad debt expense (\$0.3 million) related to a retail restaurant tenant at Bennett Park.

Retail: Increase primarily due to higher real estate tax (\$0.7 million), legal (\$0.1 million), advertising (\$0.1 million), repairs and maintenance (\$0.1 million) and common area maintenance (\$0.1 million) expenses.

Other Expenses

Depreciation and Amortization: Decrease primarily due to dispositions (\$8.2 million), partially offset by acquisitions (\$7.0 million) and higher depreciation at development/redevelopment properties (\$0.8 million).

Acquisition Costs: Decrease primarily due to lower costs associated with the Riverside Apartments acquisition in 2016 as compared to The Wellington acquisition in 2015.

General and Administrative Expenses: Decrease primarily due to lower share-based compensation (\$1.5 million) primarily due to a higher number of forfeitures during 2016 and lower consulting fees (\$0.3 million), partially offset by a higher estimate of short-term incentive compensation (\$0.8 million) and severance and retention expenses (\$0.6 million) associated with the disposition of the Maryland Office Portfolio.

Real estate impairment and casualty (gain), net: The casualty gain in 2016 represents the gain recognized upon the receipt of insurance proceeds related to damage from a fire at Bethesda Hill Towers during the first quarter of 2015 that damaged four units. An impairment loss in the second quarter of 2015 reduced the carrying value of our interest in a joint venture to develop a multifamily property at 1225 First Street to its estimated fair value. We subsequently disposed of our interest in the joint venture during 2015.

Gain on sale of real estate: Increase due to completion of the sales of Dulles Station II and the Maryland Office Portfolio during 2016, as compared to the gains on the sale of Country Club Towers, Munson Hill Towers and Montgomery Village Center during 2015.

Interest Expense: Interest expense by debt type for the two years ended December 31, 2016 was as follows (in thousands, except percentage amounts):

Debt Type	Year Ended December 31,		\$ Change	% Change
	2016	2015		
Notes payable	\$33,439	\$32,730	\$709	2.2 %
Mortgage notes payable	14,654	22,684	(8,030)	(35.4)%
Lines of credit	5,701	4,790	911	19.0 %
Capitalized interest	(668)	(658)	(10)	1.5 %
Total	\$53,126	\$59,546	\$(6,420)	(10.8)%

Notes payable: Increase primarily due to executing a \$150.0 million term loan in September 2015 and borrowing \$100.0 million on another term loan facility in December 2016, partially offset by the repayment of \$150.0 million of our 5.35% senior notes in May 2015.

Mortgage notes payable: Decrease primarily due to the repayment of the mortgage notes secured by John Marshall II, 3801 Connecticut Avenue, Bethesda Hill Apartments, Walker House Apartments and 2445 M Street, and the purchase of the construction loan secured by The Maxwell (a consolidated entity) during 2016.

Lines of credit: Increase primarily due to weighted average daily borrowings of \$215.0 million during 2017, as compared to \$167.6 million during 2016.

Capitalized interest: Small increase primarily due to capitalization of interest on spending related to the multifamily development adjacent to The Wellington, offset by placing into service our development project at The Maxwell and redevelopment project at Silverline Center.

Income tax benefit (expense): The income tax benefit in 2016 resulted from a reduction of the valuation allowance on a deferred tax asset at one of our taxable REIT subsidiaries due to a net operating loss as a result of the sale of Dulles Station II.

Liquidity and Capital Resources

Capital Structure

We manage our capital structure to reflect a long-term investment approach, generally seeking to match the cash flow of our assets with a mix of equity and various debt instruments. We expect that our capital structure will allow us to obtain additional capital from diverse sources that could include additional equity offerings of common shares, public and private secured and unsecured debt financings, asset dispositions, operating units and joint venture equity. Our ability to raise funds through the incurrence of debt and issuance of equity securities is dependent on, among other things, general economic conditions, general market conditions for REITs, our operating performance, our debt rating and the current trading price of our common shares. We analyze which source of capital we believe to be most advantageous to us at any particular point in time.

As of February 15, 2018, we had cash and cash equivalents of approximately \$19.1 million and availability under our Revolving Credit Facility of \$257.0 million. We currently expect that our potential sources of liquidity for acquisitions, development, redevelopment, expansion and renovation of properties, and operating and administrative expenses, may include:

- Cash flow from operations;
- Borrowings under our Revolving Credit Facility or other new short-term facilities;
- Issuances of our equity securities and/or common units in operating partnerships;
- Issuances of preferred shares;
- Proceeds from long-term secured or unsecured debt financings, including construction loans and term loans;
- Investment from joint venture partners; and
- Net proceeds from the sale of assets.

During 2018, we expect that we will have significant capital requirements, including the following items:

- Funding dividends and distributions to our shareholders;
- \$31.6 million to repay or refinance a secured note that is prepayable without penalty in 2018;
- Approximately \$85 - \$95 million to invest in our existing portfolio of operating assets, including approximately \$30 - \$35 million to fund tenant-related capital requirements and leasing commissions;
- Approximately \$45 - \$50 million to invest in our development and redevelopment projects; and
- Funding for potential property acquisitions throughout 2018, offset by proceeds from potential property dispositions.

There can be no assurance that our capital requirements will not be materially higher or lower than the above expectations. We currently believe that we will generate sufficient cash flow from operations and expected property sales and have access to the capital resources necessary to fund our requirements in 2018. However, as a result of general market conditions in the greater Washington metro region, economic conditions affecting the ability to attract and retain tenants, rising interest rates or declines in our share price, unfavorable changes in the supply of competing properties, or our properties not performing as expected, we may not generate sufficient cash flow from operations and property sales or otherwise have access to capital on favorable terms, or at all. If we are unable to obtain capital from other sources, we may need to alter capital spending to be materially different than what is stated in the prior paragraph. If capital were not available, we may be unable to satisfy the distribution requirement applicable to REITs, make required principal and interest payments, make strategic acquisitions or make necessary and/or routine capital improvements or undertake improvement/redevelopment opportunities with respect to our existing portfolio of operating assets.

Debt Financing

We generally use secured or unsecured, corporate-level debt, including unsecured notes, our Revolving Credit Facility, bank term loans and mortgages, to meet our borrowing needs. Long-term, we generally use fixed rate debt instruments in order to match the returns from our real estate assets. We also utilize variable rate debt for short-term financing purposes. At times, our mix of variable and fixed rate debt may not suit our needs. At those times, we may use derivative financial instruments including interest rate swaps and caps, forward interest rate options or interest rate options in order to assist us in managing our debt mix. We may either hedge our variable rate debt to give it an effective fixed interest rate or hedge fixed rate debt to give it an effective variable interest rate.

At December 31, 2017 and 2016, our debt was as follows (in thousands):

	December 31,	
	2017	2016
Mortgage notes payable, net ⁽¹⁾	\$95,141	\$148,540
Unsecured lines of credit payable ⁽¹⁾	166,000	120,000
Unsecured notes payable, net ⁽¹⁾	894,358	843,084
	\$1,155,499	\$1,111,624

⁽¹⁾ See notes 4, 5 and 6 to the consolidated financial statements for further detail on our debt.

Our future debt principal payments are scheduled as follows (in thousands):

Year	Mortgage Notes Payable	Unsecured Notes Payable	Unsecured Line of Credit Payable	Total Debt
2018 ⁽¹⁾	\$34,544	\$—	\$—	\$34,544
2019	2,500	—	—	2,500
2020	2,659	250,000	166,000	418,659
2021	2,829	150,000	—	152,829
2022	46,984	300,000	—	346,984
Thereafter	2,398	200,000	—	202,398
	91,914	900,000	166,000	1,157,914
Premiums and discounts, net	3,385	(1,580)	—	1,805
Debt issuance costs, net	(158)	(4,062)	—	(4,220)
Total	\$95,141	\$894,358	\$166,000	\$1,155,499

⁽¹⁾ The maturity date of the mortgage note secured by Kenmore Apartments is March 1, 2019, but can be prepaid, without penalty, beginning on September 1, 2018.

If principal amounts due at maturity cannot be refinanced, extended or paid with proceeds of other capital transactions, such as new equity capital, our cash flow may be insufficient to repay all maturing debt. Prevailing interest rates or other factors at the time of a refinancing, such as possible reluctance of lenders to make commercial real estate loans, may result in higher interest rates and increased interest expense or inhibit our ability to finance our obligations.

Mortgage Debt

At December 31, 2017, our mortgage notes payable bore an effective weighted average fair value interest rate of 4.5% and had a weighted average maturity of 3.3 years. We may either initiate secured mortgage debt or assume mortgage debt from time-to-time in conjunction with property acquisitions.

Unsecured Credit Facility and Term Loan

During the second quarter of 2015, we terminated our \$100.0 million unsecured line of credit maturing in June 2015 and our \$400.0 million unsecured line of credit maturing in July 2016, and executed a new \$600.0 million unsecured credit agreement ("Revolving Credit Facility") that matures in June 2019, unless extended pursuant to one or both of the two six-month extension options. The Revolving Credit Facility is our primary source of liquidity. We can borrow up to \$600.0 million under this line, which bears interest at an adjustable spread over LIBOR based on our public debt rating. The Revolving Credit Facility has an accordion feature that allows us to increase the facility to \$1.0 billion, subject to the extent the lenders agree to provide additional revolving loan commitments or term loans. The Revolving Credit Facility bears interest at a rate of either LIBOR plus a margin ranging from 0.875% to 1.55% or the base rate

plus a margin ranging from 0.0% to 0.55% (in each case depending upon our credit rating). The base rate is the highest of the administrative agent's prime rate, the federal funds rate plus 0.5% and the LIBOR market index rate plus 1.0%. In addition, the Revolving Credit Facility requires the payment of a facility fee ranging from 0.125% to 0.30% (depending on our credit rating) on the \$600.0 million committed capacity, without regard to usage. As of December 31, 2017, the interest rate on the facility is LIBOR plus 1.00% and the facility fee is 0.20%.

During the third quarter of 2015, we executed a \$150.0 million unsecured term loan by exercising a portion of the accordion feature under the Revolving Credit Facility. The term loan has a 5.5 year term scheduled to mature on March 15, 2021 and currently has an interest rate of LIBOR plus 110 basis points, based on our current unsecured debt ratings. We entered into two interest rate

swap arrangements with a total notional amount of \$150.0 million to swap the floating interest rate to an all-in fixed interest rate of 2.72% starting on October 15, 2015 and extending until the maturity of the term loan on March 15, 2021.

Our Revolving Credit Facility contains financial and other covenants with which we must comply. Some of these covenants include:

- A maximum ratio of 60.0% of consolidated total indebtedness to consolidated total asset value, calculated using an estimate of fair market value of our assets;
- A maximum ratio of 40.0% of secured indebtedness to consolidated total asset value, calculated using an estimate of fair market value of our assets;
- A minimum ratio of 1.50 of quarterly adjusted EBITDA (earnings before noncontrolling interests, interest expense, income tax expense, depreciation, amortization, acquisition costs, and extraordinary, unusual or nonrecurring gains and losses) to consolidated fixed charges, including interest expense;
- A minimum ratio of 1.75 of adjusted net operating income from our unencumbered properties to consolidated unsecured interest expense; and
- A maximum ratio of 60.0% of total unsecured indebtedness to unencumbered asset value, calculated using an estimate of fair market value of our assets.

Failure to comply with any of the covenants under our Revolving Credit Facility or other debt instruments could result in a default under one or more of our Revolving Credit Facility's covenants. This could cause our lenders to accelerate the timing of payments and would therefore have a material adverse effect on our business, operations, financial condition and liquidity. In addition, our ability to draw on our Revolving Credit Facility or incur other unsecured debt in the future could be restricted by the Revolving Credit Facility's covenants. As of December 31, 2017, we were in compliance with the Revolving Credit Facility's covenants.

Unsecured Notes

We generally issue unsecured notes to fund our real estate assets long-term. In issuing future unsecured notes, we seek to ladder the maturities of our debt to mitigate exposure to interest rate risk in any particular future year.

During the third quarter of 2016, we entered into a seven year, \$150.0 million unsecured term loan ("2016 Term Loan") maturing on July 21, 2023 with a deferred draw period of up to six months commencing on July 22, 2016. The 2016 Term Loan bears interest at a rate of either LIBOR plus a margin ranging from 1.50% to 2.45% or the base rate plus a margin ranging from 0.5% to 1.45% (in each case depending upon Washington REIT's credit rating). The base rate is the highest of the administrative agent's prime rate, the federal funds rate plus 0.50% and the one-month LIBOR rate plus 1.0%. The 2016 Term Loan currently has an interest rate of one month LIBOR plus 165 basis points, based on Washington REIT's current unsecured debt ratings. We borrowed \$100.0 million on the term loan in the fourth quarter of 2016, and borrowed the remaining \$50.0 million in the first quarter of 2017. We used the proceeds to refinance maturing secured debt. We also entered into forward interest rate derivatives commencing on March 31, 2017 to effectively fix the interest rate on the 2016 Term Loan at 2.86% (see note 7 to the consolidated financial statements).

Depending upon market conditions, opportunities to issue unsecured notes on attractive terms may not be available. During periods in the recent past, debt capital was essentially unavailable for extended periods of time. While debt markets have improved, it is difficult to predict if the improvement is sustainable.

Our unsecured notes contain covenants with which we must comply, including:

- ✦ A maximum ratio of 65.0% of total indebtedness to total assets;
- ✦ A maximum ratio of 40.0% of secured indebtedness to total assets;
- ✦ A maximum ratio of 1.50 of our income available for debt service payments to required debt service payments; and
- ✦ A maximum ratio of 1.50 of total unencumbered assets to total unsecured indebtedness.

Failure to comply with any of the covenants under our unsecured notes or other debt instruments could result in a default under one or more of our unsecured note covenants. This could cause our debt holders to accelerate the timing of payments and would therefore have a material adverse effect on our business, operations, financial condition and liquidity. As of December 31, 2017, we were in compliance with our unsecured note covenants. In addition, our ability to draw on our Revolving Credit Facility or incur other unsecured debt in the future could be restricted by our unsecured note covenants.

From time to time, we may seek to repurchase and cancel our outstanding unsecured notes through open market purchases, privately negotiated transactions or otherwise. Such repurchases, if any, will depend on prevailing market conditions, our liquidity

requirements, contractual restrictions and other factors. The amounts involved may be material.

Common Equity

We have authorized for issuance 100.0 million common shares, of which approximately 78.5 million shares were outstanding at December 31, 2017.

On June 23, 2015, we entered into four separate equity distribution agreements (collectively, the “Equity Distribution Agreements”) with each of Wells Fargo Securities, LLC, BNY Mellon Capital Markets, LLC, Citigroup Global Markets Inc. and RBC Capital Markets, LLC relating to the issuance and sale of up to \$200.0 million of our common shares from time to time. Sales of our common shares are made at market prices prevailing at the time of sale. We intend to use net proceeds from the sale of common shares under this program for general corporate purposes, including, without limitation, working capital, the acquisition, renovation, expansion, improvement, development or redevelopment of income producing properties or the repayment of debt. As of December 31, 2017, we had issued 4.5 million common shares under this program at a weighted average share price of \$32.31 for net proceeds of \$142.8 million.

During the second quarter of 2016, we issued approximately 5.3 million common shares, including 0.7 million shares issued pursuant to the underwriters' over-allotment option, at a price to the public of \$28.20 per share. We received net proceeds of approximately \$143.4 million.

The Equity Distribution Agreements replace Washington REIT's prior sales agency financing agreement with BNY Mellon Capital Markets, LLC, which expired by its terms in June 2015. During 2015, Washington REIT issued 0.2 million common shares at a weighted average price of \$28.34, for net proceeds of \$5.2 million.

We have a dividend reinvestment program, whereby shareholders may use their dividends and optional cash payments to purchase common shares. The common shares sold under this program may either be common shares issued by us or common shares purchased in the open market. During 2017, we issued approximately 80,000 common shares under this program at a weighted average share price of \$32.25 for gross proceeds of \$2.6 million.

Preferred Equity

Our board of trustees can, at its discretion, authorize the issuance of up to 10.0 million preferred shares. The ability to issue preferred equity provides Washington REIT an additional financing tool that may be used to raise capital for future acquisitions or other business purposes. As of December 31, 2017, no preferred shares had been authorized or issued.

Dividends

We currently declare dividends quarterly at a rate of \$0.30 per share. The maintenance of our dividend level is subject to various factors reviewed by the board of trustees in its discretion. These factors include our results of operations, the availability of cash and the REIT distribution requirements, which require at least 90% of our REIT taxable income to be distributed to shareholders on an annual basis. When setting the dividend level, our board of trustees looks in particular at trends in our level of funds from operations, together with associated recurring capital improvements, tenant improvements, leasing commissions and incentives, and adjustments to straight-line rents to reflect cash rents received.

Our dividend and distribution payments for the three years ended December 31, 2017 were as follows (in thousands):
Year Ended December 31,

	2017	2016	2015
Common dividends	\$91,666	\$85,648	\$61,510
Noncontrolling interest distributions	4,199	196	—
	\$95,865	\$85,844	\$61,510

Dividends paid during 2017 increased from 2016 primarily due to the issuance of approximately 3.6 million common shares during 2017.

Dividends paid during 2016 increased from 2015 primarily due to the payment on January 5, 2016 of the \$22.4 million of dividends declared and accrued during the fourth quarter of 2015.

The \$4.2 million distribution to noncontrolling interests in 2017 is primarily related to our purchase of the remaining 10% joint venture interest in The Maxwell (see note 3 to the consolidated financial statements).

Capital Commitments

We will require capital for development and redevelopment projects currently underway and in the future. We are currently engaged in development activities for the ground-up development of a multifamily property (The Trove) on land adjacent to The Wellington, the redevelopment of Spring Valley Village to add rentable space and predevelopment activities for the ground-up development of a multifamily property on land adjacent to Riverside Apartments. As of December 31, 2017, we had no outstanding contractual commitments related to our development and redevelopment projects, and expect to fund approximately \$45.0 - \$50.0 million of total development/redevelopment spending during 2018.

In addition to our development and redevelopment projects, we anticipate funding several major renovation projects in our portfolios during 2018, as follows (in thousands):

Office	\$6,100
Multifamily	16,500
Retail	1,900
Total	\$24,500

These projects include unit renovations, common area and roof replacements at multifamily properties; elevator modernizations, HVAC replacements and restroom upgrades at office properties; and roof replacements at retail properties. Not all of the anticipated spending had been committed via executed construction contracts at December 31, 2017. We expect to fund these projects using cash generated by our real estate operations, through borrowings on our Revolving Credit Facility, or raising additional debt or equity capital in the public market.

Contractual Obligations

As of December 31, 2017, certain contractual obligations will require significant capital as follows (in thousands):

	Payments due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt ⁽¹⁾	\$1,345,893	\$76,629	\$676,950	\$526,002	\$66,312
Purchase obligations ⁽²⁾	7,255	3,589	3,666	—	—
Tenant-related capital ⁽³⁾	23,610	23,610	—	—	—
Building capital ⁽⁴⁾	5,706	5,706	—	—	—
Operating leases	13,865	327	863	520	12,155

⁽¹⁾ See notes 4, 5 and 6 of our consolidated financial statements. Amounts include principal, interest and facility fees.

⁽²⁾ Represents electricity purchase agreements with terms through 2018 and natural gas purchase agreements with terms through 2017.

⁽³⁾ Committed tenant-related capital based on executed leases as of December 31, 2017.

⁽⁴⁾ Committed building capital additions based on contracts in place as of December 31, 2017.

We have various standing or renewable contracts with vendors. The majority of these contracts can be canceled with immaterial or no cancellation penalties, with the exception of our elevator maintenance and electricity and natural gas purchase agreements, which are included above on the purchase obligations line. Contract terms on leases that can be canceled are generally one year or less. We are currently committed to fund tenant-related capital improvements as described in the table above for executed leases. However, expected leasing levels could require additional

tenant-related capital improvements which are not currently committed. We expect that total tenant-related capital improvements, including those already committed, will be approximately \$28 million in 2018.

Historical Cash Flows

Cash flows from operations are an important factor in our ability to sustain our dividend at its current rate. If our cash flows from operations were to decline significantly, we may have to reduce our dividend. Consolidated cash flows for the three years ended December 31, 2017 were as follows (in thousands):

	Year ended December 31,			Variance	
	2017	2016	2015	2017 vs. 2016	2016 vs. 2015
Cash provided by operating activities	\$130,626	\$114,725	\$109,318	\$15,901	\$5,407
Cash used in investing activities	(196,354)	(63,492)	(89,826)	(132,862)	26,334
Cash provided by (used in) financing activities	60,729	(70,819)	(8,410)	131,548	(62,409)

Net cash provided by operating activities increased in 2017 primarily due to income from acquisitions executed in 2016 and 2017 and lower interest payments in 2017, partially offset by dispositions in 2016 and 2017. Net cash provided by operating activities increased in 2016 primarily due to income from acquisitions executed in 2015 and 2016 and lower interest payments in 2016, partially offset by dispositions in 2016.

Net cash used in investing activities increased in 2017 primarily due to a lower volume of disposition activity in 2017, partially offset by executing a smaller acquisition during 2017. Net cash used in investing activities decreased in 2016 primarily due to a higher volume of disposition activity in 2016, partially offset by executing a larger acquisition during 2016.

Net cash provided by financing activities increased in 2017 as compared to 2016 primarily due to lower debt repayments and higher net borrowings on the Revolving Credit Facility, partially offset by lower proceeds from equity issuances. Net cash used in financing activities increased in 2016 as compared to 2015 primarily due to higher debt repayments and dividends paid during 2016, partially offset by proceeds from equity issuances.

Capital Improvements and Development Costs

Our capital improvement, development and redevelopment costs for the three years ended December 31, 2017 were as follows (in thousands):

	Year Ended December 31,		
	2017	2016	2015
Accretive capital improvements and development costs:			
Acquisition related	\$24,556	\$8,644	\$3,077
Expansions and major renovations	14,629	10,869	10,722
Development/redevelopment	18,150	22,572	31,203
Tenant improvements (including first generation leases)	16,926	29,657	21,208
Total accretive capital improvements ⁽¹⁾	74,261	71,742	66,210
Other capital improvements:	4,404	7,924	6,500
Total	\$78,665	\$79,666	\$72,710

⁽¹⁾ We consider these capital improvements to be accretive to revenue and not necessarily to net income.

Included in the capital improvement and development costs listed above are capitalized interest in the amount of \$1.0 million, \$0.7 million and \$0.7 million for the three years ended December 31, 2017, respectively, and capitalized employee compensation in the amount of \$2.5 million, \$1.6 million and \$2.0 million for the three years ended December 31, 2017, respectively.

Accretive Capital Improvements

Acquisition Related Improvements: Acquisition related improvements are capital improvements to properties acquired during the preceding three years which were anticipated at the time we acquired the properties. These types of improvements were made in 2017 to Watergate 600, Riverside Apartments and The Wellington.

Expansions and Major Renovations: Expansion projects increase the rentable area of a property, while major renovation projects are improvements sufficient to increase the income otherwise achievable at a property. Expansions and major renovations during

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2017 included unit renovations and roof replacement at The Wellington; facade restoration at The Ashby; unit renovations and common area renovations at 3801 Connecticut Avenue; unit renovations at The Kenmore; fitness center upgrades and elevator modernization at 1227 25th Street; elevator modernization at 1140 Connecticut Avenue; common area renovations at Park Adams and office and gym renovations at Bethesda Hill Apartments.

Development/Redevelopment: Development costs represent expenditures for ground up development of new operating properties. Redevelopment costs represent expenditures for improvements intended to reposition properties in their markets and increase income that would be otherwise achievable. Development/redevelopment costs in 2017 primarily include development costs for the Trove, a multifamily development adjacent to The Wellington, predevelopment costs for a future multifamily development adjacent to Riverside Apartments, and redevelopment costs at the Army Navy Building and Spring Valley Village. The Army Navy Building redevelopment was placed into service during 2017.

Tenant Improvements: Tenant improvements are costs, such as space build-out, associated with commercial lease transactions. Our average tenant improvement costs per square foot of space leased, excluding first generation leases, during the three years ended December 31, 2017 were as follows:

	Year Ended		
	December 31,		
	2017	2016	2015
Office	\$62.28	\$28.96	\$30.37
Retail	\$8.69	\$5.53	\$15.36

The \$33.32 increase in 2017 in tenant improvement costs per square foot of office space leased was primarily due new tenant leases executed at Braddock Metro Center and Army Navy Building, as well as due to a large lease renewal at 1775 Eye Street. The \$1.41 decrease in 2016 in tenant improvement costs per square foot of office space leased were primarily due to leases executed in 2015 at Silverline Center.

The \$3.16 increase in 2017 tenant improvements costs per square foot of retail space leased was primarily due to new leases executed at Gateway Overlook. The \$9.83 decrease in 2016 tenant improvement costs per square foot of retail space leased was primarily due to large tenant leases executed at Chevy Chase Metro and Bradlee Shopping Center in 2015.

Tenant improvement costs for retail tenants are substantially lower than for office tenants because the improvements required for retail tenants tend to be substantially less extensive than for office tenants.

Other Capital Improvements

Other capital improvements, also referred to as recurring capital improvements, are those not included in the above categories. Over time these costs will be recurring in nature to maintain a property's income and value. In our multifamily properties, these include new appliances, flooring, cabinets and bathroom fixtures. These improvements, which are made as needed upon vacancy of an apartment, totaled \$1.7 million in 2017, averaging approximately \$900 per apartment for the 41% of apartments turned over relative to our total portfolio of apartment units. In our commercial properties and multifamily properties (aside from improvements related to apartment turnover), improvements include facade repairs, installation of new heating and air conditioning equipment, asphalt replacement, permanent landscaping, new lighting and new finishes. In addition, we incurred repair and maintenance expense of \$5.6 million during 2017 to maintain the quality of our buildings.

Off Balance Sheet Arrangements

We have no off-balance sheet arrangements as of December 31, 2017 that are reasonably likely to have a current or future material effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Forward-Looking Statements

This Form 10-K contains forward-looking statements which involve risks and uncertainties. Such forward-looking statements include each of the statements in “Item 1: Business” and “Item 7: Management’s Discussion and Analysis of Financial Conditions and Results of Operations” concerning the Washington metro region’s economy, gross regional product, unemployment and job growth and real estate market performance. Such forward-looking statements also include the following statements with respect to Washington REIT:

- (a) our intention to invest in properties that we believe will increase in income and value;
- (b) our belief that external sources of capital will continue to be available and that additional sources of capital will be available from the sale of common shares or notes;
- (c) our belief that we have the liquidity and capital resources necessary to meet our known obligations and to make additional property acquisitions and capital improvements when appropriate to enhance long-term growth; and
- (d) our plans to complete any contemplated acquisitions or dispositions.

Forward-looking statements also include other statements in this report preceded by, followed by or that include the words “believe,” “expect,” “intend,” “anticipate,” “potential,” “project,” “will” and other similar expressions.

We claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for the foregoing statements. The following important factors, in addition to those discussed elsewhere in this Form 10-K, could affect our future results and could cause those results to differ materially from those expressed in the forward-looking statements:

- (a) the effect of credit and financial market conditions;
- (b) the availability and cost of capital;
- (c) fluctuations in interest rates;
- (d) the economic health of our tenants;
- (e) the timing and pricing of lease transactions;
- (f) the economic health of the greater Washington Metro region, or other markets we may enter;
- (g) the risks associated with ownership of real estate in general and our real estate assets in particular;
- (h) the effects of changes in federal government spending;
- (i) the supply of competing properties;
- (j) compliance with applicable laws, including those concerning the environment and access by persons with disabilities;
- (k) governmental or regulatory actions and initiatives;
- (l) terrorist attacks or actions;
- (m) weather conditions and natural disasters;
- (n) failure to qualify as a REIT;
- (o) the availability of and our ability to attract and retain qualified personnel;
- (p) uncertainty in our ability to continue to pay dividends at the current rates; and
- (q) other factors discussed under the caption “Risk Factors.”

We undertake no obligation to update our forward-looking statements or risk factors to reflect new information, future events, or otherwise.

Funds From Operations

NAREIT FFO is a widely used measure of operating performance for real estate companies. We provide NAREIT FFO as a supplemental measure to net income calculated in accordance with GAAP. Although NAREIT FFO is a widely used measure of operating performance for REITs, NAREIT FFO does not represent net income calculated in accordance with GAAP. As such, it should not be considered an alternative to net income as an indication of our operating performance. In addition, NAREIT FFO does not represent cash generated from operating activities in accordance with GAAP, nor does it represent cash available to pay distributions and should not be considered as an alternative to cash flow from operating activities, determined in accordance with GAAP, as a measure of our liquidity. In its April, 2002 White Paper, the National Association of Real Estate Investment Trusts, Inc. (“NAREIT”) defines NAREIT FFO as net income (computed in accordance with GAAP) excluding gains (or losses) associated with sales of properties; impairments of depreciable real estate, and real estate depreciation and amortization. We consider NAREIT FFO to be a standard supplemental measure for REITs because it facilitates an understanding of the operating performance of our properties without giving effect to real estate depreciation and amortization, which historically assumes that the value of real estate assets diminishes predictably over time. Since real estate values have instead historically risen or fallen with market conditions, we believe that NAREIT FFO more accurately provides investors an indication of our ability to incur and service debt, make capital expenditures and fund other needs. Our NAREIT FFO may not be comparable to FFO reported by other REITs. These other REITs may not define the term in accordance with the current NAREIT definition or may interpret the current NAREIT definition differently.

The following table provides the calculation of our NAREIT FFO and a reconciliation of NAREIT FFO to net income for the three years ended December 31, 2017 (in thousands):

	Year Ended December 31,		
	2017	2016	2015
Net income	\$19,612	\$119,288	\$89,187
Adjustments:			
Depreciation and amortization	112,056	108,406	108,935
Impairment of depreciable real estate	33,152	—	—
Gain on sale of depreciable real estate	(23,838)	(101,704)	(89,653)
NAREIT FFO	\$140,982	\$125,990	\$108,469

Critical Accounting Policies and Estimates

We base the discussion and analysis of our financial condition and results of operations upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. We evaluate these estimates on an on-going basis, including those related to estimated useful lives of real estate assets, estimated fair value of acquired leases, cost reimbursement income, bad debts, contingencies and litigation. We base the estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. We cannot assure you that actual results will not differ from those estimates.

We believe the following accounting estimates are the most critical to aid in fully understanding our reported financial results, and they require our most difficult, subjective or complex judgments, resulting from the need to make estimates about the effect of matters that are inherently uncertain.

Accounting for Real Estate Acquisitions

We record acquired or assumed assets, including physical assets and in-place leases, and liabilities, based on their fair values. We determine the estimated fair values of the assets and liabilities in accordance with current GAAP fair value provisions. We determine the fair values of acquired buildings on an “as-if-vacant” basis considering a variety of factors, including the replacement cost of the property, estimated rental and absorption rates, estimated future cash flows and valuation assumptions consistent with current market conditions. We determine the fair value of land acquired based on comparisons to similar properties that have been recently marketed for sale or sold.

The fair value of in-place leases consists of the following components: (a) the estimated cost to us to replace the leases, including

foregone rents during the period of finding a new tenant and foregone recovery of tenant pass-throughs (referred to as “absorption cost”); (b) the estimated cost of tenant improvements, and other direct costs associated with obtaining a new tenant (referred to as “tenant origination cost”); (c) estimated leasing commissions associated with obtaining a new tenant (referred to as “leasing commissions”); (d) the above/at/below market cash flow of the leases, determined by comparing the projected cash flows of the leases in place, including consideration of renewal options, to projected cash flows of comparable market-rate leases (referred to as “net lease intangible”); and (e) the value, if any, of customer relationships, determined based on our evaluation of the specific characteristics of each tenant’s lease and our overall relationship with the tenant (referred to as “customer relationship value”).

We discount the amounts used to calculate net lease intangibles using an interest rate which reflects the risks associated with the leases acquired. We include tenant origination costs in income producing property on our balance sheet and amortize the tenant origination costs as depreciation expense on a straight-line basis over the useful life of the asset, which is typically the remaining life of the underlying leases. We classify leasing commissions and absorption costs as other assets and amortize leasing commissions and absorption costs as amortization expense on a straight-line basis over the remaining life of the underlying leases. We classify above market net lease intangible assets as other assets and amortize them on a straight-line basis as a decrease to real estate rental revenue over the remaining term of the underlying leases. We classify below market net lease intangible liabilities as other liabilities and amortize them on a straight-line basis as an increase to real estate rental revenue over the remaining term of the underlying leases. If any of the fair value of below market lease intangibles includes fair value associated with a renewal option, such amounts are not amortized until the renewal option is executed, else the related value is expensed at that time. Should a tenant terminate its lease, we accelerate the amortization of the unamortized portion of the tenant origination cost (if it has no future value), leasing commissions, absorption costs and net lease intangible associated with that lease over its new shorter term.

Allowance for Doubtful Accounts

We recognize rental income and rental abatements from our multifamily and commercial leases when earned on a straight-line basis over the lease term. We record a provision for losses on accounts receivable equal to the estimated uncollectible amounts. We base this estimate on our historical experience and a monthly review of the current status of our receivables. We consider factors such as the age of the receivable, the payment history of our tenants and our assessment of our tenants’ ability to perform under their lease obligations, among other things. In addition to rents due currently, accounts receivable include amounts representing minimum rental income accrued on a straight-line basis to be paid by tenants over the remaining term of their respective leases. Our estimate of uncollectible accounts is subject to revision as these factors change and is sensitive to the impact of economic and market conditions on tenants.

Capitalized Interest

We capitalize interest costs incurred on borrowing obligations while qualifying assets are being readied for their intended use. We amortize capitalized interest over the useful life of the related underlying assets upon those assets being placed into service.

Real Estate Impairment

We recognize impairment losses on long-lived assets used in operations, development assets or land held for future development, if indicators of impairment are present and the net undiscounted cash flows estimated to be generated by those assets are less than the assets’ carrying amount and estimated undiscounted cash flows associated with future development expenditures. If such carrying amount is in excess of the estimated cash flows from the operation and disposal of the property, we would recognize an impairment loss equivalent to an amount required to adjust the carrying amount to the estimated fair value. Assets held for sale are recorded at the lower of cost or fair value less costs to sell.

Stock Based Compensation

We recognize compensation expense for service-based share awards ratably over the period from the service inception date through the vesting period based on the fair market value of the shares on the date of grant. We initially measure compensation expense for awards with performance conditions at fair value at the service inception date based on probability of payout, and we remeasure compensation expense at subsequent reporting dates until all of the award's key terms and conditions are known and the grant date is established. We amortize awards with performance conditions using the graded expense method. We measure compensation expense for awards with market conditions based on the grant date fair value, as determined using a Monte Carlo simulation, and we amortize the expense ratably over the requisite service period, regardless of whether the market conditions are achieved and the awards ultimately vest. Compensation expense for the trustee grants, which fully vest immediately, is fully recognized upon issuance based upon the fair market value of the shares on the date of grant.

Federal Income Taxes

Generally, and subject to our ongoing qualification as a REIT, no provisions for income taxes are necessary except for taxes on undistributed taxable income and taxes on the income generated by our taxable REIT subsidiaries (“TRSs”). Our TRSs are subject to corporate federal and state income tax on their taxable income at regular statutory rates, or as calculated under the alternative minimum tax, as appropriate. During the second quarter of 2016, we recognized an income tax benefit of \$0.7 million from a reduction of the valuation allowance for a deferred tax asset at one of our taxable REIT subsidiaries. As of December 31, 2017, our TRSs deferred tax asset of \$1.4 million was fully reserved and there was no deferred tax liability. As of December 31, 2016, our TRSs had a deferred tax asset of \$0.5 million, net of a valuation allowance of \$2.9 million. As of December 31, 2017 and 2016, our TRSs had deferred tax liabilities of \$0.0 million and \$0.4 million, respectively. Additionally, in connection with the acquisition of Watergate 600, we recorded a deferred state and local tax liability of approximately \$0.6 million. These deferred tax liabilities are primarily related to temporary differences in the timing of the recognition of revenue, amortization and depreciation.

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The principal material financial market risk to which we are exposed is interest rate risk. Our exposure to interest rate risk relates primarily to refinancing long-term fixed rate obligations, the opportunity cost of fixed rate obligations in a falling interest rate environment and our variable rate line of credit. We primarily enter into debt obligations to support general corporate purposes, including acquisition of real estate properties, capital improvements and working capital needs. We use interest rate swap arrangements to reduce our exposure to the variability in future cash flows attributable to changes in interest rates.

The table below presents principal, interest and related weighted average fair value interest rates by year of maturity, with respect to debt outstanding on December 31, 2017.

	2018	2019	2020	2021	2022	Thereafter	Total	Fair Value
(In thousands)								
Unsecured fixed rate debt								
(1)								
Principal	\$—	\$—	\$250,000	\$150,000	\$300,000	\$200,000	\$900,000	\$931,377
Interest payments	\$36,224	\$36,224	\$36,224	\$20,786	\$19,765	\$22,439	\$171,662	
Interest rate on debt maturities	— %	— %	5.1 %	2.7 %	4.0 %	4.0 %	4.1 %	%
Unsecured variable rate debt								
Principal	\$—	\$166,000	\$—	\$—	\$—	\$—	\$166,000	\$166,000
Variable interest rate on debt maturities	— %	2.5 %	— %	— %	— %	— %	2.5 %	%
Mortgages								
Principal amortization (2)								
(30 year schedule)	\$34,544	(3) \$2,500	\$2,659	\$2,829	\$46,984	\$2,398	\$91,914	\$97,181
Interest payments	\$4,661	\$3,206	\$3,046	\$2,876	\$649	\$78	\$14,516	
	5.3 %	4.7 %	4.7 %	4.7 %	3.8 %	4.9 %	4.5 %	%

Weighted
average interest
rate on principal
amortization

(1) Includes \$150.0 million term loan and \$100.0 million term loan with floating interest rates. The \$150.0 million term loan is effectively fixed by interest rate swap arrangements at 2.7%, and the \$100.0 million term loan is effectively fixed by forward interest rate swap arrangements at 2.9%.

(2) Excludes net discounts of \$3.4 million and net unamortized debt issuance costs of \$0.2 million as of December 31, 2017.

(3) The maturity date of the mortgage note secured by Kenmore Apartments is March 1, 2019, but can be prepaid, without penalty, beginning on September 1, 2018. We currently intend to prepay this mortgage note in 2018.

On September 15, 2015, we entered into two interest rate swap arrangements with a total notional amount of \$150.0 million to swap the floating interest rate under our new \$150.0 million term loan to an all-in fixed interest rate of 2.7% starting on October 15, 2015 and extending until the maturity of the term loan on March 15, 2021. On July 22, 2016, we entered into two forward interest rate swap arrangements with a total notional amount of \$150.0 million to swap the floating interest rate under the 2016 Term Loan (see note 6) to an all-in fixed interest rate of 2.9%, starting on March 31, 2017 and extending until the maturity of the 2016 Term Loan on July 21, 2023 (see note 7 to the consolidated financial statements).

We entered into the interest rate swap arrangements designated and qualifying as cash flow hedges to reduce our exposure to the variability in future cash flows attributable to changes in interest rates. Derivative instruments expose us to credit risk in the event of non-performance by the counterparty under the terms of the interest rate hedge agreement. We believe that we minimize our credit risk on these transactions by dealing with major, creditworthy financial institutions. As part of our ongoing control procedures, we monitor the credit ratings of counterparties and our exposure to any single entity, thus minimizing our credit risk concentration.

The following table sets forth information pertaining to interest rate swap contracts in place as of December 31, 2017 and 2016 and their respective fair values (dollars in thousands):

Notional Amount	Fixed Rate	Floating Index Rate	Effective Date	Expiration Date	Fair Value as of:	
					December 31, 2017	December 31, 2016
\$75,000	1.619%	One-Month LIBOR	10/15/2015	3/15/2021	\$1,006	\$ 224
75,000	1.626%	One-Month LIBOR	10/15/2015	3/15/2021	981	193
100,000	1.205%	One-Month LIBOR	3/31/2017	7/21/2023	4,943	4,775
50,000	1.208%	One-Month LIBOR	3/31/2017	7/21/2023	2,489	2,419
\$300,000					\$9,419	\$ 7,611

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary data appearing on pages 60 to 95 are incorporated herein by reference.

ITEM 9: CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A: CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

During the third quarter of 2017, we implemented upgrades to our accounting information systems. The implementation of our upgraded systems was not made in response to any identified deficiency or weakness in our internal controls over financial reporting. The implementation was subject to various testing and review procedures prior to and after execution. We have updated our internal controls over financial reporting, as necessary, to accommodate any modifications to our business processes or accounting procedures due to the implementation. Management does not believe that the implementation of the upgraded systems has had an adverse effect on our internal controls over financial reporting and will continue to monitor, test and evaluate the systems during the post-implementation period to ensure that adequate controls over financial reporting continue to be maintained. We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2017. Based on the foregoing, our Chief

Executive Officer, Chief Financial Officer and Chief Accounting Officer concluded that our disclosure controls and procedures were effective at a reasonable assurance level.

Internal Control over Financial Reporting

See the Report of Management in Item 8 of this Form 10-K.

See the Reports of Independent Registered Public Accounting Firm in Item 8 of this Form 10-K.

During the three months ended December 31, 2017, there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B: OTHER INFORMATION

None.

PART III

Certain information required by Part III is omitted from this Form 10-K in that we will file a definitive proxy statement pursuant to Regulation 14A with respect to our 2018 Annual Meeting (the “Proxy Statement”) no later than 120 days after the end of the fiscal year covered by this Form 10-K, and certain information included therein is incorporated herein by reference. Only those sections of the Proxy Statement which specifically address the items set forth herein are incorporated by reference. In addition, we have adopted a code of ethics which can be reviewed and printed from our website www.washreit.com.

ITEM 10: DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item is hereby incorporated herein by reference to the Proxy Statement.

ITEM 11: EXECUTIVE COMPENSATION

The information required by this Item is hereby incorporated herein by reference to the Proxy Statement.

ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required under this Item by Item 403 of Regulation S-K is hereby incorporated herein by reference to the Proxy Statement.

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders ⁽¹⁾	—	\$	— 2,053,209
Equity compensation plans not approved by security holders	—	\$	— —
Total	—	\$	— 2,053,209

⁽¹⁾ See note 9 to the consolidated financial statements for discussion of the equity compensation plans.

ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item is hereby incorporated herein by reference to the Proxy Statement.

ITEM 14: PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is hereby incorporated herein by reference to the Proxy Statement.

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PART IV

ITEM 15: EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(A). The following documents are filed as part of this Form 10-K:

		Page
1. Financial Statements		
	Management's Report on Internal Control Over Financial Reporting	<u>57</u>
	Report of Independent Registered Public Accounting Firm	<u>58</u>
	Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting	<u>59</u>
	Consolidated Balance Sheets as of December 31, 2017 and 2016	<u>60</u>
	Consolidated Statements of Income for the Years Ended December 31, 2017, 2016 and 2015	<u>61</u>
	Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2017, 2016 and 2015	<u>62</u>
	Consolidated Statements of Equity for the Years Ended December 31, 2017, 2016 and 2015	<u>63</u>
	Consolidated Statements of Cash Flows for the Years Ended December 31, 2017, 2016 and 2015	<u>64</u>
	Notes to Consolidated Financial Statements	<u>66</u>
2. Financial Statement Schedules		
	Schedule II – Valuation and Qualifying Accounts	<u>92</u>
	Schedule III – Consolidated Real Estate and Accumulated Depreciation	<u>93</u>
	All other schedules are omitted because they are either not required or the required information is shown in the financial statements or notes thereto.	
3. Exhibits:		
		Incorporated by Reference
Exhibit Number	Exhibit Description	Form File Number Exhibit Filing Date Filed Herewith
3.1	<u>Articles of Amendment and Restatement</u>	DEF 001-06622 B 4/1/2011
3.2	<u>Articles of Amendment to the Washington Real Estate Investment Trust Articles of Amendment and Restatement</u>	8-K 001-06622 3.1 6/7/2017
3.3	<u>Amended and Restated Bylaws of Washington Real Estate Investment Trust, as adopted on February 8, 2017</u>	8-K 001-06622 3.1 2/14/2017
4.1	<u>Indenture dated as of August 1, 1996 between Washington REIT and The First National Bank of Chicago</u>	8-K 001-06622 (c) 8/13/1996
4.2	<u>Form of 2028 Notes</u>	8-K 001-06622 99.1 2/25/1998
4.3	<u>Supplemental Indenture by and between Washington REIT and the Bank of New York Trust Company, N.A. dated as of July 3, 2007</u>	8-K 001-06622 4.1 7/5/2007
4.4	<u>Form of 4.95% Senior Notes due October 1, 2020</u>	8-K 001-06622 4.1 9/30/2010
4.5	<u>Officers' Certificate establishing the terms of the 4.95% Senior Notes due October 1, 2020</u>	8-K 001-06622 4.2 9/30/2010
4.6	<u>Form of 3.95% Senior Notes due October 15, 2022</u>	8-K 001-06622 4.1 9/17/2012
4.7	<u>Officers' Certificate establishing the terms of 3.95% Notes due October 15, 2022</u>	8-K 001-06622