WASHINGTON REAL ESTATE INVESTMENT TRUST
Form 10-Q
November 08, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For quarterly period ended September 30, 2011

OR

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

COMMISSION FILE NO. 1-6622

WASHINGTON REAL ESTATE

INVESTMENT TRUST

(Exact name of registrant as specified in its charter)

MARYLAND	**53-0261100**
(State of incorporation)	**(IRS Employer Identification Number)**

6110 EXECUTIVE BOULEVARD, SUITE 800, ROCKVILLE, MARYLAND 20852

(Address of principal executive office) (Zip code)

Registrant s telephone number, including area code: (301) 984-9400

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 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 x 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 x NO ¨

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨

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

As of November 2, 2011, 66,069,443 common shares were outstanding.

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WASHINGTON REAL ESTATE INVESTMENT TRUST

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PART I

FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

The information furnished in the accompanying unaudited Consolidated Balance Sheets, Condensed Consolidated Statements of Income, Statement of Changes in Shareholders Equity and Statements of Cash Flows reflects all adjustments, consisting of normal recurring items, which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods. The accompanying financial statements and notes thereto should be read in conjunction with the financial statements and notes for the three years ended December 31, 2010 included in WRIT s 2010 Annual Report on Form 10-K.

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WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT PER SHARE DATA)

(UNAUDITED)

	September 30, 2011	December 31, 2010
Assets		
Land	$ 472,812	$ 381,338
Income producing property	1,924,526	1,670,598
	2,397,338	2,051,936
Accumulated depreciation and amortization	(516,319)	(460,678)
Net income producing property	1,881,019	1,591,258
Development in progress	39,735	26,240
Total real estate held for investment, net	1,920,754	1,617,498
Investment in real estate sold or held for sale, net	69,990	286,842
Cash and cash equivalents	40,751	78,767
Restricted cash	23,267	20,486
Rents and other receivables, net of allowance for doubtful accounts of $8,122 and $7,422, respectively	52,396	44,280
Prepaid expenses and other assets	125,689	92,040
Other assets related to properties sold or held for sale	3,505	27,968
Total assets	$ 2,236,352	$ 2,167,881
Liabilities		
Notes payable	$ 657,378	$ 753,587
Mortgage notes payable	428,909	361,860
Lines of credit	193,000	100,000
Accounts payable and other liabilities	55,879	49,138
Advance rents	13,393	11,099
Tenant security deposits	8,751	7,390
Other liabilities related to properties sold or held for sale	19,229	23,949
Total liabilities	1,376,539	1,307,023
Equity		
Shareholders equity		
Shares of beneficial interest; $0.01 par value; 100,000 shares authorized: 66,066 and 65,870 shares issued and outstanding, respectively	661	659
Additional paid in capital	1,136,240	1,127,825
Distributions in excess of net income	(281,930)	(269,935)
Accumulated other comprehensive income (loss)	(160)	(1,469)
Total shareholders equity	854,811	857,080
Noncontrolling interests in subsidiaries	5,002	3,778
Total equity	859,813	860,858

Total liabilities and shareholders equity	$ 2,236,352	$ 2,167,881

See accompanying notes to the financial statements.

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WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(IN THOUSANDS, EXCEPT PER SHARE DATA)

(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenue				
Real estate rental revenue	$ 71,931	$ 65,032	$ 212,819	$ 193,126
Expenses				
Real estate expenses	24,070	21,912	71,124	65,627
Depreciation and amortization	23,479	20,224	67,899	59,574
General and administrative	3,837	3,141	11,588	10,455
	51,386	45,277	150,611	135,656
Real estate operating income	20,545	19,755	62,208	57,470
Other income (expense)				
Interest expense	(16,508)	(16,717)	(50,266)	(49,662)
Acquisition costs	(1,600)		(3,571)	(452)
Other income	270	289	886	875
Gain from non-disposal activities		4		4
Loss on extinguishment of debt, net		(238)		(280)
	(17,838)	(16,662)	(52,951)	(49,515)
Income from continuing operations	2,707	3,093	9,257	7,955
Discontinued operations:				
Gain on sale of real estate	56,639		56,639	7,942
Income from operations of properties sold or held for sale	3,655	3,565	9,522	11,047
Income tax benefit (expense)	35		(1,138)	
	60,329	3,565	65,023	18,989
Net income	63,036	6,658	74,280	26,944
Less: Net income attributable to noncontrolling interests in subsidiaries	(28)	(33)	(85)	(109)
Net income attributable to the controlling interests	$ 63,008	$ 6,625	$ 74,195	$ 26,835
Basic net income (loss) attributable to the controlling interests per share:				
Continuing operations	$ 0.04	$ 0.05	$ 0.14	$ 0.13
Discontinued operations	0.91	0.06	0.98	0.30
Net income attributable to the controlling interests per share	$ 0.95	$ 0.11	$ 1.12	$ 0.43
Diluted net income (loss) attributable to the controlling interests per share:				
Continuing operations	$ 0.04	$ 0.05	$ 0.14	$ 0.13
Discontinued operations	0.91	0.05	0.98	0.30

Net income attributable to the controlling interests per share	$ 0.95	$ 0.10	$ 1.12	$ 0.43
Weighted average shares outstanding basic	66,017	62,894	65,953	61,332
Weighted average shares outstanding diluted	66,064	63,055	65,987	61,460
Dividends declared and paid per share	$ 0.4338	$ 0.4325	$ 1.3014	$ 1.2975

See accompanying notes to the financial statements.

WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(IN THOUSANDS)

(UNAUDITED)

	Shares	Shares of Beneficial Interest at Par Value	Additional Paid in Capital	Distributions in Excess of Net Income Attributable to the Controlling Interests	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity	Noncontrolling Interests in Subsidiaries	Total Equity
Balance, December 31, 2010	65,870	$ 659	$ 1,127,825	$ (269,935)	$ (1,469)	$ 857,080	$ 3,778	$ 860,858
Comprehensive income:								
Net income attributable to the controlling interests				74,195		74,195		74,195
Net income attributable to noncontrolling interests							85	85
Change in fair value of interest rate hedge					1,309	1,309		1,309
Total comprehensive income						75,504	85	75,589
Distributions to noncontrolling interests							(151)	(151)
Contributions from noncontrolling interest							1,290	1,290
Dividends				(86,190)		(86,190)		(86,190)
Shares issued under Dividend Reinvestment Program	125	1	3,849			3,850		3,850
Share options exercised	43	1	1,087			1,088		1,088
Share grants, net of share grant amortization and forfeitures	28		3,479			3,479		3,479
Balance, September 30, 2011	66,066	$ 661	$ 1,136,240	$ (281,930)	$ (160)	$ 854,811	$ 5,002	$ 859,813

See accompanying notes to the financial statements.

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WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

(UNAUDITED)

	Nine Months Ended September 30, 2011	2010
Cash flows from operating activities		
Net income	$ 74,280	$ 26,944
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, including amounts in discontinued operations	75,130	71,555
Provision for losses on accounts receivable	3,009	3,319
Real estate impairment	599	
Amortization of share grants, net	3,850	3,969
Amortization of debt premiums, discounts and related financing costs	2,644	4,576
Gain on sale of real estate	(56,639)	(7,942)
Loss on extinguishment of debt, net		280
Changes in operating other assets	(18,782)	(18,872)
Changes in operating other liabilities	2,296	(348)
Net cash provided by operating activities	86,387	83,481
Cash flows from investing activities		
Real estate acquisitions, net	(281,701)	(68,000)
Net cash received for sale of real estate	289,221	22,204
Capital improvements to real estate	(18,117)	(14,569)
Development in progress	(12,128)	(1,174)
Non-real estate capital improvements	(442)	(256)
Net cash used in investing activities	(23,167)	(61,795)
Cash flows from financing activities		
Line of credit borrowings	221,000	62,800
Line of credit repayments	(128,000)	(90,800)
Dividends paid	(86,190)	(80,387)
Distributions to noncontrolling interests	(151)	(137)
Proceeds from dividend reinvestment program	3,850	3,924
Principal payments mortgage notes payable	(12,403)	(24,870)
Financing costs	(3,909)	(2,101)
Net proceeds from debt offerings		247,998
Net proceeds from equity offerings		118,068
Notes payable repayments, including penalties for early extinguishment	(96,521)	(8,843)
Net proceeds from exercise of share options	1,088	3,872
Net cash provided by and (used in) financing activities	(101,236)	229,524
Net increase (decrease) in cash and cash equivalents	(38,016)	251,210
Cash and cash equivalents at beginning of year	78,767	11,203
Cash and cash equivalents at end of period	$ 40,751	$ 262,413

Supplemental disclosure of cash flow information:		
Cash paid for interest, net of amounts capitalized	$ 45,525	$ 46,078

See accompanying notes to the financial statements.

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WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

(UNAUDITED)

NOTE 1: NATURE OF BUSINESS

Washington Real Estate Investment Trust (We or WRIT), a Maryland real estate investment trust, is a self-administered, self-managed equity real estate investment trust, successor to a trust organized in 1960. Our business consists of the ownership and development of income-producing real estate properties in the greater Washington metro region. We own a diversified portfolio of office buildings, medical office buildings, industrial/flex centers, multifamily buildings and retail centers.

Federal Income Taxes

We believe that we qualify as a real estate investment trust (REIT) under Sections 856-860 of the Internal Revenue Code and intend to continue to qualify as such. To maintain our status as a REIT, we are required to distribute 90% of our ordinary taxable income to our shareholders. When selling properties, we have the option of (a) reinvesting the sales proceeds of properties sold, allowing for a deferral of income taxes on the sale, (b) paying out capital gains to the shareholders with no tax to WRIT or (c) treating the capital gains as having been distributed to the shareholders, paying the tax on the gain deemed distributed and allocating the tax paid as a credit to the shareholders.

Generally, and subject to our ongoing qualification as a REIT, no provisions for income taxes are necessary except for taxes on undistributed REIT taxable income and taxes on the income generated by our taxable REIT subsidiaries (TRS s). Our TRS s are subject to corporate federal and state income tax on their taxable income at regular statutory rates.

On August 5, 2011, we entered into five separate purchase and sale agreements to effectuate the sale of our entire industrial segment and two office assets for an aggregate purchase price of $350.0 million. On September 2, 2011, we closed the first three of the purchase and sale agreements, for an aggregate $235.8 million. We closed on the remaining two purchase and sale agreements subsequent to the end of the quarter. We recognized a $56.6 million gain on sale of real estate during the third quarter of 2011 in connection with the first three purchase and sale agreements. A portion of the capital gains from the sales were reinvested in replacement properties, with the remainder to be paid out to the shareholders.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

Significant Accounting Policies

We have prepared our consolidated financial statements using the accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2010.

Principles of Consolidation and Basis of Presentation

The accompanying unaudited consolidated financial statements include the consolidated accounts of WRIT, its majority-owned subsidiaries and entities in which WRIT has a controlling interest, including where WRIT has been determined to be a primary beneficiary of a variable interest entity (VIE). All intercompany balances and transactions have been eliminated in consolidation.

We have prepared the accompanying unaudited financial statements pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to those rules and regulations, although we believe that the disclosures made are adequate to make the information presented not misleading. In addition, in the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the results for the periods presented have been included. These unaudited financial statements should be read in conjunction with the financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2010.

Within these notes to the financial statements, we refer to the three months ended September 30, 2011 and September 30, 2010 as the 2011 Quarter and the 2010 Quarter , respectively, and the nine months ended September 30, 2011 and September 30, 2010 as the 2011 Period and 2010 Period , respectively.

Use of Estimates in the Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation due to the reclassification of certain properties as discontinued operations (see note 3 to the consolidated financial statements).

NOTE 3: REAL ESTATE ACQUISITIONS AND DISCONTINUED OPERATIONS

Acquisitions

WRIT acquired the following properties and land for development during the 2011 Period:

Acquisition Date	Property Name	Property Type	Rentable Square Feet	Contract Purchase Price (in thousands)
January 11, 2011	1140 Connecticut Avenue	Office	184,000	$ 80,250
March 30, 2011	1227 25th Street	Office	130,000	47,000
June 15, 2011	650 North Glebe Road[1]	Multifamily	N/A	11,800
August 30, 2011	Olney Village Center	Retail	199,000	58,000
September 13, 2011	Braddock Metro Center	Office	345,000	101,000
September 15, 2011	John Marshall II	Office	223,000	73,500
		Total	1,081,000	$ 371,550

(1) *650 North Glebe Road is 37,000 square feet of land acquired by a consolidated joint venture for the purpose of developing an apartment community. WRIT is a 90% owner of the joint venture.*

The results of operations from the acquired operating properties are included in the consolidated statements of income as of their acquisition dates.

The revenue and earnings of our 2011 acquisitions are as follows (amounts in thousands):

	Quarter Ended September 30, 2011	Period Ended September 30, 2011
Real estate revenues	$ 4,376	$ 9,458
Net income	$ 292	$ 730

We have recorded the total purchase price of the above acquisitions as follows (in millions):

	Recordation of Purchase Price 2011
Land	$ 90.9
Buildings	219.6
Tenant origination costs	15.7
Leasing commissions/absorption costs	29.7

Net lease intangible assets		6.8
Net lease intangible liabilities		(2.5)
Fair value of assumed mortgages		(78.5)
Total	$	281.7

The weighted remaining average life in months for the components above, other than land and building, are 65 months for tenant origination costs, 54 months for leasing commissions/absorption costs, 68 months for net lease intangible assets and 65 months for net lease intangible liabilities.

The difference in total contract purchase price of $371.6 million and the acquisition cost per the consolidated statements of cash flows of $281.7 million is primarily related to the two mortgage notes assumed for $76.7 million relating to John Marshall II and Olney Village Center, cash paid for the acquisition of land at 650 North Glebe Road for $11.8 million included in development, and credits received at settlement totaling $1.3 million.

The following unaudited pro forma combined condensed statements of operations present the consolidated results of operations for the 2011 Quarter and Period and the 2010 Quarter and Period, as if the above described acquisitions had occurred at the beginning of the year prior to the acquisition. The unaudited pro forma information does not purport to be indicative of the results that actually would have occurred if the acquisitions had been in effect for the Quarters and Periods presented. The unaudited data presented is in thousands, except per share data.

	Quarter Ended September 30,		Period Ended September 30,	
	2011	2010	2011	2010
Real estate revenues	$ 76,823	$ 74,471	$ 231,370	$ 221,135
Income from continuing operations	$ 3,283	$ 4,046	$ 11,330	$ 10,784
Net income	$ 63,585	$ 7,578	$ 76,268	$ 29,665
Diluted earnings per share	$ 0.96	$ 0.12	$ 1.15	$ 0.48

Noncontrolling Interests in Subsidiaries

We entered into an operating partnership agreement with a member of the entity that previously owned Northern Virginia Industrial Park II in conjunction with the acquisition of this property in May 1998. We account for this activity by applying the noncontrolling owner s percentage ownership interest to the net income of the property and reporting such amount in our net income attributable to noncontrolling interests. Subsequent to the end of the 2011 Quarter, we closed on the sale of Northern Virginia Industrial Park II (see next section), thereby terminating this noncontrolling interest in our earnings. Accordingly, the total amounts reported on the consolidated statements of income for noncontrolling interests are related to discontinued operations.

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Discontinued Operations

We dispose of assets (sometimes using tax-deferred exchanges) that no longer meet our long-term strategy or return objectives and where market conditions for sale are favorable. The proceeds from the sales may be reinvested into other properties, used to fund development operations or to support other corporate needs, or distributed to our shareholders. Properties are considered held for sale when they meet the criteria specified by GAAP. Depreciation on these properties is discontinued at that time, but operating revenues, other operating expenses and interest continue to be recognized until the date of sale.

On August 5, 2011 we entered into five separate purchase and sale agreements to effectuate the sale of our entire industrial segment and two office assets (the Crescent and Albemarle Point) for an aggregate purchase price of $350.0 million. On September 2, 2011, we closed the first three of the purchase and sale agreements, for an aggregate $235.8 million. We closed on the remaining two purchase and sale agreements subsequent to the end of the quarter. We recognized a $56.6 million gain on sale of real estate during the 2011 Quarter in connection with the first three purchase and sale agreements.

The impact of the disposal of our industrial segment on revenues and net income is summarized as follows (amounts in thousands, except per share data):

	Quarter Ended September 30,		Period Ended September 30,	
	2011	**2010**	**2011**	**2010**
Real estate revenues	$ 6,053	$ 7,854	$ 22,503	$ 24,252
Net income	$ 3,297	$ 2,778	$ 9,340	$ 8,215
Basic net income per share	$ 0.05	$ 0.04	$ 0.14	$ 0.13
Diluted net income per share	$ 0.05	$ 0.04	$ 0.14	$ 0.13

We sold or classified as held for sale the following properties during the 2011 Period and 2010:

Disposition Date	**Property Name**	**Property Type**	**Rentable Square Feet**	**Contract Purchase Price (In millions)**
September 2, 2011	Industrial Portfolio[1]	Industrial/Office	3,092,000	$ 350.0
April 5, 2011	Dulles Station, Phase I	Office	180,000	58.8
		Total 2011	3,272,000	$ 408.8
June 18, 2010	Parklawn Portfolio[2]	Office/Industrial	229,000	$ 23.4
December 21, 2010	The Ridges	Office	104,000	27.5
December 22, 2010	Ammendale I&II and Amvax	Industrial	305,000	23.0
		Total 2010	638,000	$ 73.9

(1) *The Industrial Portfolio consists of every property in our industrial segment and two office properties (the Crescent and Albemarle Point). On September 2, 2011 we closed on the sale of industrial properties (8880 Gorman Road, Dulles South IV, Fullerton Business Center, Hampton Overlook, Alban Business Center, Pickett Industrial Park, Northern Virginia Industrial Park I, 270 Technology Park, Fullerton Industrial Center, Sully Square, 9950 Business Parkway, Hampton South and 8900 Telegraph Road) and two office properties (Crescent and Albemarle Point). We closed on the sales of the remaining properties in the Industrial Portfolio subsequent to the end of the 2011 Quarter.*

(2) *The Parklawn Portfolio consists of three office properties (Parklawn Plaza, Lexington Building and Saratoga Building) and one industrial property (Charleston Business Center).*

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Operating results of the properties classified as discontinued operations are summarized as follows (in thousands):

	Quarter Ended September 30,		Period Ended September 30,	
	2011	2010	2011	2010
Revenues	$ 6,597	$ 11,241	$ 25,612	$ 36,410
Property expenses	(1,768)	(3,239)	(7,564)	(11,866)
Real estate impairment			(599)	
Depreciation and amortization	(943)	(4,054)	(7,231)	(11,981)
Interest expense	(231)	(383)	(696)	(1,516)
	$ 3,655	$ 3,565	$ 9,522	$ 11,047

Operating income (loss) by each property classified as discontinued operations is summarized below (in thousands):

		Quarter Ended September 30,		Period Ended September 30,	
Property	**Segment**	**2011**	**2010**	**2011**	**2010**
Parklawn Plaza	Office	$	$	$	$ 132
Lexington Building	Office				65
Saratoga Building	Office				225
Charleston Business Center	Industrial				370
The Ridges	Office		156		347
Ammendale I&II	Industrial		217		733
Amvax	Industrial		82		260
Dulles Station, Phase I	Office		160	(468)	367
Industrial Portfolio	Industrial/Office	$ 3,655	2,950	$ 9,990	8,548
		$ 3,655	3,565	$ 9,522	$ 11,047

The operating loss for Dulles Station I for the 2011 Period includes a $0.6 million impairment charge to reflect the property s fair value less any selling costs based on its contract sales price.

NOTE 4: MORTAGE NOTES PAYABLE

On August 30, 2011, we assumed a $22.6 million mortgage note as partial consideration for the acquisition of Olney Village Center. This mortgage note bears interest at 6.37% per annum. The fair value interest rate on this mortgage note is 4.94%, based on quotes obtained for similar loans. We recorded the mortgage at its fair value of $24.4 million. Principal and interest are payable monthly until November 1, 2023, at which time all unpaid principal and interest are payable in full.

On September 15, 2011, we assumed a $54.1 million mortgage note as partial consideration for the acquisition of John Marshall II. This mortgage note bears interest at 5.79% per annum, which approximates its fair value interest rate, based on quotes obtained for similar loans. Principal and interest are payable monthly until May 6, 2016, at which time all unpaid principal and interest are payable in full.

On September 1, 2011, we repaid without penalty the remaining $9.1 million of principal on the mortgage note secured by Shady Grove Medical Village II.

Subsequent to the end of 2011 Quarter, on October 5, 2011, we entered into an amendment to the purchase and sale agreement for 6100 Columbia Park Road and Dulles Business Park , under which we agreed to seek prepayment of the mortgage notes secured by Dulles Business Park prior to closing the sale. Under the terms of the amendment, if we prepaid the mortgage notes prior to November 1, 2011, then the sales price would be increased by $875,000 in order to partially offset the penalties incurred by us for the prepayment of the mortgage notes. On October 7, 2011, we prepaid the remaining $17.9 million of principal on the mortgage notes, incurring prepayment penalties of approximately

$1.0 million. Because Dulles Business Park is considered held for sale as of September 30, 2011 (see note 3 to the consolidated financial statements), these mortgage notes are included in Other liabilities related to properties sold or held for sale on the consolidated balance sheets.

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NOTE 5: UNSECURED LINES OF CREDIT PAYABLE

As of September 30, 2011, we maintained a $75.0 million unsecured line of credit (Credit Facility No. 1) maturing in June 2012 and a $400.0 million unsecured line of credit (Credit Facility No. 2) maturing in July 2014.

The amounts of these lines of credit unused and available at September 30, 2011 are as follows (in millions):

	Credit Facility No. 1	Credit Facility No. 2
Committed capacity	$ 75.0	$ 400.0
Borrowings outstanding	(74.0)	(119.0)
Letters of credit issued	(0.8)	(0.9)
Unused and available	$ 0.2	$ 280.1

We executed borrowings and repayments on the unsecured lines of credit during the 2011 Quarter as follows (in millions):

	Credit Facility No. 1	Credit Facility No. 2
Balance at June 30, 2011	$ 74.0	$ 171.0
Borrowings		58.0
Repayments		(110.0)
Balance at September 30, 2011	$ 74.0	$ 119.0

We made borrowings during the 2011 Quarter to partially fund the acquisitions of Olney Village Center and John Marshall II, to pay off the Shady Grove Medical Center mortgage note and for general corporate purposes. We made a repayment during the 2011 Quarter using proceeds from the first phase of the sale of the Industrial Portfolio.

NOTE 6: NOTES PAYABLE

We repaid the remaining $2.7 million of our 3.875% convertible notes without penalty in September 2011 using proceeds from the sale of the Industrial Portfolio.

NOTE 7: DERIVATIVE INSTRUMENTS

In May 2009, we entered into a forward interest rate swap with a notional amount of $100.0 million that qualifies as a cash flow hedge. We enter into interest rate swaps to manage our exposure to variable rate interest risk. We do not purchase derivatives for speculation. We record our cash flow hedges at fair value in accordance with GAAP, based on various discounted cash flow methodologies and observable inputs. We record the effective portion of changes in fair value of cash flow hedges in other comprehensive income. This change in fair value of cash flow hedges is the only activity in other comprehensive income (loss) during the periods presented in our consolidated financial statements. We record the ineffective portion of changes in fair value of cash flow hedges in earnings in the period affected. We assess the effectiveness of our cash flow hedges both at inception and on an ongoing basis. We deemed the hedges to be effective for the 2011 and 2010 Quarters and Periods, as applicable.

The fair value and balance sheet locations of the interest rate swaps as of September 30, 2011 and December 31, 2010 are as follows (in millions):

	September 30, 2011 Fair Value	December 31, 2010 Fair Value
Accounts payable and other liabilities	$ 0.2	$ 1.5

The interest rate swap has been effective since inception. The gain or loss on the effective swaps is recognized in other comprehensive income, as follows (in millions):

	Quarter Ended September 30,		Period Ended September 30,	
	2011 Fair Value	2010 Fair Value	2011 Fair Value	2010 Fair Value
Change in other comprehensive income (loss)	$ 0.5	$	$ 1.3	$ (0.1)

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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 on-going control procedures, we monitor the credit ratings of counterparties and our exposure to any single entity, thus minimizing our credit risk concentration.

NOTE 8: STOCK BASED COMPENSATION

WRIT maintains short-term and long-term incentive plans that allow for stock-based awards to officers and non-officer employees. Stock based awards are provided to officers and non-officer employees, as well as trustees, under the Washington Real Estate Investment Trust 2007 Omnibus Long-Term Incentive Plan which allows for awards in the form of restricted shares, restricted share units, options, and other awards up to an aggregate of 2,000,000 shares over the ten year period in which the plan will be in effect. Restricted share units are converted into shares of our stock upon full vesting through the issuance of new shares.

WRIT s Compensation Committee conducted an extensive review of our executive compensation philosophy and a fundamental redesign of our short-term and long-term incentive plans for our officers, resulting in new short-term incentive (New STIP) and new long-term incentive (New LTIP) plans, which were approved by the Compensation Committee and Board on February 17, 2011 and were effective as of January 1, 2011.

New STIP

Under the New STIP, officers will earn awards, payable 50% in cash and 50% in restricted shares, based on a percentage of salary and achieving various performance conditions within a one-year performance period (except for 15% of such restricted share awards which will be exclusively service-based).

With respect to the 50% of the New STIP award payable in restricted shares, (i) the restricted shares subject to performance conditions will vest over a three-year period commencing on the January 1 following the end of the one-year performance period, and (ii) the restricted shares subject only to a service condition will vest over a three year period commencing at the beginning of the one-year performance period.

With respect to the 50% of the award payable in cash, the officer may elect to defer up to 80% of the cash portion pursuant to WRIT s deferred compensation plan for officers. If the officer makes such election, the cash will be converted to restricted share units and WRIT will match 25% of deferred amounts in restricted share units.

For the service based awards we recognize compensation expense based on the grant date fair value, ratably over a three-year period commencing with the start of the performance period. With respect to the restricted shares subject to performance conditions expected to be awarded under the New STIP at the end of the one-year performance period, we recognize compensation expense based on the current fair market value of the probable award until the performance condition has been met, according to a graded vesting schedule over a four-year period commencing with the date the performance targets were established. Approximately 20% of the restricted shares subject to performance conditions awarded by the Compensation Committee at the end of the one-year performance period are based on subjective strategic acquisition and disposition goal criteria, for which we recognize compensation expense when the grant date occurs at the end of the one-year period.

New LTIP

Under the New LTIP, officers will earn awards, payable 50% in unrestricted shares and 50% in restricted shares, based on a percentage of salary and achieving various market and performance conditions during a defined three-year performance period (e.g., commencing on January 1, 2011 and concluding on December 31, 2013).

New LTIP performance will be evaluated on objective and subjective performance goals and weightings. Of the officers total potential award, 40% is subject to market conditions based on absolute total shareholder return (TSR) and relative TSR. The remaining 60% of the award is based primarily on strategic plan fulfillment, evaluated and determined by the Compensation Committee in its discretion at the end of the three-year performance period.

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The unrestricted shares vest immediately at the end of the three-year performance period, and the restricted shares vest over a one-year period commencing on the January 1 following the end of the three-year performance period.

With respect to the 40% of the New LTIP subject to market conditions we recognize compensation expense ratably (over three years for the 50% unrestricted shares and over four years for the 50% restricted shares) based on the grant date fair value, as determined using a Monte Carlo simulation, and regardless of whether the market conditions are achieved and the awards ultimately vest. With respect to the 60% subjective portion of the New LTIP, we will recognize compensation expense for the 50% unrestricted shares when the grant date has occurred at the end of the three year performance period. We will recognize compensation expense for the 50% restricted shares over the one-year vesting period commencing upon the grant date at the end of the three-year performance period.

Modification of Prior LTIP Awards

In connection with the adoption of the New STIP and the New LTIP, the prior LTIP for officers was amended such that awards subject to performance conditions through 2012 under the prior LTIP were converted when the new plans were adopted into 154,400 restricted share units as of February 17, 2011. Such restricted share units will vest consistent with the periods in which they otherwise would have vested under the terms of the prior LTIP (i.e., either December 31, 2011 or December 31, 2012). We accounted for the amendment of these awards as a modification.

Prior LTIP

Other non-officer members of management continue to earn restricted share units under the prior LTIP based upon various percentages of their salaries that vest ratably over five years from the grant date based upon continued employment. We recognize compensation expense for these awards according to a graded vesting schedule over six years from the date the performance target was established.

Trustee Awards

We continue to award trustees share based compensation on an annual basis in the form of restricted shares which vest immediately and are restricted from sale for the period of the trustees service.

Total Compensation Expense

Total compensation expense recognized in the consolidated financial statements for all share based awards, including share grants, restricted share units and performance share units, in the 2011 and 2010 Quarters was (in thousands):

	Quarter Ended September 30,		Period Ended September 30,	
	2011	**2010**	**2011**	**2010**
Stock Based Compensation Expense	$ 1.4	$ 1.3	$ 4.1	$ 4.3

Restricted and Unrestricted Shares

The total fair value of prior period shares vested during the 2011 Period is $28,800; no shares vested during the 2011 Quarter. As of September 30, 2011, there are no remaining unvested restricted shares granted under prior LTIPs.

During the 2011 Period, 10,822 restricted shares, with a total fair value of $0.3 million, were granted under the New STIP to officers for the portion of the New STIP award subject only to service conditions. We value these awards based on the fair market value on the date of grant. As of September 30, 2011, the total unamortized value of these unvested share awards was $265,600, which we expect to recognize as compensation expense over a weighted average period of 27 months. As of September 30, 2011, the future expected expense related to restricted shares with performance conditions, estimated based on the probable number of restricted shares expected to be awarded under the New STIP, totaled $0.6 million, which we expect to recognize as compensation cost over a weighted average period of 28 months.

Restricted and Unrestricted Shares with Market Conditions

Stock based awards with market conditions under the New LTIP were granted in February 2011 with fair market values, as determined using a Monte Carlo simulation, as follows (in thousands):

	Grant Date Fair Value	
	Restricted	**Unrestricted**
Relative TSR	$ 1,066	$ 1,066
Absolute TSR	$ 365	$ 365

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The unamortized value of these awards with market conditions as of September 30, 2011 was as follows (in thousands):

	Unamortized Value at September 30, 2011	
	Restricted	Unrestricted
Relative TSR	$ 894	$ 834
Absolute TSR	$ 306	$ 286

We expect to recognize these unamortized values as compensation expense over a weighted average life of 39 months for the restricted shares and 27 months for the unrestricted shares.

Restricted Share Units

Restricted share units granted to officers and non-officers in prior periods continue to vest in the current year. The total fair value of restricted share units vested during the 2011 Quarter is zero and during the Period is $247,100. In connection with the adoption of new executive incentive plans, on February 17, 2011, all performance share units were converted into a fixed number of restricted share units. The total number of restricted share units awarded was 89,000 and 65,400, which vest on December 31, 2011 and December 31, 2012, respectively. The value of unvested restricted share units at September 30, 2011 was $4.1 million, which we expect to recognize as compensation cost over a weighted average period of 27 months. As of September 30, 2011, the future expected expense related to restricted share units with performance conditions expected to be awarded to non-officers in December 2011 is $0.8 million, which we expect to recognize as compensation cost over a weighted average period of 28 months.

Options

WRIT still has options outstanding from the 2001 Stock Option Plan and Stock Option Plan for Trustees. The 103,102 options outstanding at September 30, 2011, all of which are exercisable, have exercise prices between $24.85 and $33.09, with a weighted-average exercise price of $27.31 and a weighted average remaining contractual life of 1.6 years. The aggregate intrinsic value of outstanding exercisable shares at September 30, 2011 was $0.1 million. There were 42,883 options exercised in the 2011 Period, with an aggregate intrinsic value of $0.2 million.

NOTE 9: FAIR VALUE DISCLOSURES

Financial Assets and Liabilities Measured at Fair Value

For assets and liabilities measured at fair value on a recurring basis, quantitative disclosures about the fair value measurements are required to be disclosed separately for each major category of assets and liabilities, as follows:

Level 1: Quoted Prices in Active Markets for Identical Assets

Level 2: Significant Other Observable Inputs

Level 3: Significant Unobservable Inputs

The only assets or liabilities we had at September 30, 2011 and December 31, 2010 that are recorded at fair value on a recurring basis are the assets held in the Supplemental Executive Retirement Program (SERP) and the interest rate hedge contracts. We base the valuations related to these items on assumptions derived from significant other observable inputs and accordingly these valuations fall into Level 2 in the fair value hierarchy. The fair values of these assets and liabilities at September 30, 2011 and December 31, 2010 are as follows (in millions):

	September 30, 2011				December 31, 2010			
	Fair Value	Level 1	Level 2	Level 3	Fair Value	Level 1	Level 2	Level 3
Assets:								
SERP	$ 1.8	$	$ 1.8	$	$ 1.7	$	$ 1.7	$
Liabilities:								

Derivatives	$ 0.2	$	$ 0.2	$	$ 1.5	$	$ 1.5	$

Financial Assets and Liabilities Not Measured at Fair Value

The following disclosures of estimated fair value were determined by management using available market information and established valuation methodologies, including discounted cash flow. Many of these estimates involve significant judgment. The estimated fair value disclosed may not necessarily be indicative of the amounts we could realize on disposition of the financial instruments. The use of different market assumptions or estimation methodologies could have an effect on the estimated fair value amounts. In addition, fair value estimates are made at a point in time and thus, estimates of fair value subsequent to September 30, 2011 may differ significantly from the amounts presented.

Below is a summary of significant methodologies used in estimating fair values and a schedule of fair values at September 30, 2011.

Cash and Cash Equivalents

Cash and cash equivalents includes cash and commercial paper with original maturities of less than 90 days, which are valued at the carrying value, which approximates fair value due to the short maturity of these instruments.

Notes Receivable

The fair value of the notes is estimated based on quotes for debt with similar terms and characteristics or a discounted cash flow methodology using market discount rates if reliable quotes are not available.

Mortgage Notes Payable

Mortgage notes payable consist of instruments in which certain of our real estate assets are used for collateral. The fair value of the mortgage notes payable is estimated by discounting the contractual cash flows at a rate equal to the relevant treasury rates (with respect to the timing of each cash flow) plus credit spreads estimated through independent comparisons to real estate assets or loans with similar characteristics.

Lines of Credit Payable

Lines of credit payable consist of bank facilities which we use for various purposes including working capital, acquisition funding or capital improvements. The lines of credit advances are priced at a specified rate plus a spread. The carrying value of the lines of credit payable is estimated to be market value given the adjustable rate of these borrowings.

Notes Payable

The fair value of the notes payable is estimated by discounting the contractual cash flows at a rate equal to the relevant treasury rates (with respect to the timing of each cash flow) plus credit spreads derived using the relevant securities market prices.

	September 30, 2011		December 31, 2010	
(in thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	$ 40,751	$ 40,751	$ 78,767	$ 78,767
Restricted cash	$ 23,267	$ 23,267	$ 20,486	$ 20,486
2445 M Street note receivable	$ 6,844	$ 7,807	$ 7,090	$ 8,048
Mortgage notes payable	$ 428,909	$ 463,801	$ 361,860	$ 380,360
Lines of credit payable	$ 193,000	$ 193,000	$ 100,000	$ 100,000
Notes payable	$ 657,378	$ 726,957	$ 753,587	$ 785,637

NOTE 10: EARNINGS PER COMMON SHARE

We determine Basic earnings per share using the two-class method as our unvested restricted share awards have non-forfeitable rights to dividends, and are therefore considered participating securities. We compute basic earnings per share by dividing net income attributable to the controlling interest less the allocation of undistributed earnings to unvested restricted share awards by the weighted-average number of common shares outstanding for the period.

We also determine Diluted earnings per share under the two-class method with respect to the unvested restricted share awards. We further evaluate any other potentially dilutive securities at the end of the period and adjust the basic earnings per share calculation for the impact of those securities that are dilutive. Our diluted earnings per share calculation includes the dilutive impact of employee stock options based on the treasury stock method and our long-term incentive share units under the contingently issuable method. The diluted earnings per share calculation also considers our operating partnership units and 3.875% convertible notes under the if-converted method. The operating partnership units were anti-dilutive for the 2011 and 2010 Quarters and Periods and are not included in our earnings per share calculations. The 3.875% convertible notes, which were repaid in full during the 2011 Quarter, were anti-dilutive for the reporting periods during which they were outstanding.

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The following tables set forth the computation of basic and diluted earnings per share (amounts in thousands; except per share data):

	Quarter Ended September 30, 2011	Quarter Ended September 30, 2010	Period Ended September 30, 2011	Period Ended September 30, 2010
Numerator:				
Income from continuing operations	$ 2,707	$ 3,093	$ 9,257	$ 7,955
Allocation of undistributed earnings to unvested restricted share awards and units	(17)	(21)	(57)	(97)
Adjusted income from continuing operations attributable to the controlling interests	$ 2,690	$ 3,072	$ 9,200	$ 7,858
Income (loss) from discontinued operations, including gain on sale of real estate, net of taxes	60,329	3,565	65,023	18,989
Allocation of undistributed earnings to unvested restricted share awards and units	(368)	$	(395)	$
Net income attributable to noncontrolling interests	(28)	(33)	(85)	(109)
Adjusted income from discontinuing operations attributable to the controlling interests	$ 59,933	$ 3,532	$ 64,543	$ 18,880
Adjusted net income attributable to the controlling interests	$ 62,623	$ 6,604	$ 73,743	$ 26,738
Denominator:				
Weighted average shares outstanding basic	66,017	62,894	65,953	61,332
Effect of dilutive securities:				
Employee stock options and restricted share awards	47	161	34	128
Weighted average shares outstanding diluted	66,064	63,055	65,987	61,460
Earnings per common share, basic:				
Continuing operations	$ 0.04	$ 0.05	$ 0.14	$ 0.13
Discontinued operations	$ 0.91	$ 0.06	$ 0.98	$ 0.30
	$ 0.95	$ 0.11	$ 1.12	$ 0.43
Earnings per common share, diluted:				
Continuing operations	$ 0.04	$ 0.05	$ 0.14	$ 0.13
Discontinued operations	$ 0.91	$ 0.05	$ 0.98	$ 0.30
	$ 0.95	$ 0.10	$ 1.12	$ 0.43

NOTE 11: SEGMENT INFORMATION

We have five reportable segments: office, medical office, retail, multifamily and industrial/flex properties. Office buildings provide office space for various types of businesses and professions. Medical office buildings provide offices and facilities for a variety of medical services. Retail centers are typically neighborhood grocery store or drug store anchored retail centers. Multifamily properties provide rental housing for individuals and families throughout the Washington metropolitan area. Industrial/flex centers are used for flex-office, warehousing, services and distribution type facilities. The industrial/flex centers segment is classified as properties sold or held for sale and is presented as discontinued operations in the consolidated balance sheets and consolidated statements of income (see note 3 to the consolidate financial statements).

We evaluate performance based upon operating income from the combined properties in each segment. Our reportable operating segments are consolidations of similar properties. GAAP requires that segment disclosures present the measure(s) used by the chief operating decision maker for purposes of assessing segments performance. Net operating income is a key measurement of our segment profit and loss. Net operating income is defined as segment real estate rental revenue less segment real estate expenses.

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The following tables present revenues and net operating income for the 2011 and 2010 Quarters and Periods from these segments, and reconciles net operating income of reportable segments to net income as reported (in thousands):

	$1,134,692	$1,134,692	$1,134,692	$1,134,692	$1,134,692	$1,134,692	$1,134,692
	Quarter Ended September 30, 2011						
	Office	Medical Office	Retail	Multifamily	Industrial/ Flex	Corporate and Other	Consolidated
Real estate rental revenue	$ 35,209	$ 11,351	$ 12,500	$ 12,871	$	$	$ 71,931
Real estate expenses	12,190	3,656	3,067	5,157			24,070
Net operating income	$ 23,019	$ 7,695	$ 9,433	$ 7,714	$	$	$ 47,861
Depreciation and amortization							(23,479)
Interest expense							(16,508)
General and administrative							(3,837)
Acquisition costs							(1,600)
Other income							270
Discontinued operations:							
Gain (loss) from discontinued operations							3,655
Gain on sale of real estate							56,639
Income tax benefit							35
Net income							63,036
Less: Net income attributable to noncontrolling interests							(28)
Net income attributable to the controlling interests							$ 63,008
Capital expenditures	$ 4,808	$ 926	$ 817	$ 1,260	$ (93)	$ 211	$ 7,929
Total assets	$ 1,134,692	$ 349,469	$ 369,162	$ 235,448	$ 73,494	$ 74,087	$ 2,236,352

	$1,134,692	$1,134,692	$1,134,692	$1,134,692	$1,134,692	$1,134,692	$1,134,692
	Quarter Ended September 30, 2010						
	Office	Medical Office	Retail	Multifamily	Industrial/ Flex	Corporate and Other	Consolidated
Real estate rental revenue	$ 31,740	$ 10,993	$ 9,865	$ 12,434	$	$	$ 65,032
Real estate expenses	11,451	3,635	2,028	4,798			21,912
Net operating income	$ 20,289	$ 7,358	$ 7,837	$ 7,636	$	$	$ 43,120
Depreciation and amortization							(20,224)
Interest expense							(16,717)
General and administrative							(3,141)
Acquisition costs							
Other income							289
Loss on extinguishment of debt							(238)

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Gain from non-disposal activities							
Discontinued operations:							
Income from discontinued operations							3,565
Net income							6,658
Less: Net income attributable to noncontrolling interests							(33)
Net income attributable to the controlling interests							$ 6,625
Capital expenditures	$ 2,925	$ 676	$ 896	$ 548	$ 452	$ 92	$ 5,589
Total assets	$ 964,235	$ 356,115	$ 224,707	$ 231,855	$ 240,822	$ 293,245	$ 2,310,979

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	$10,641	$10,641	$10,641	$10,641	$10,641	$10,641	$10,641
	Period Ended September 30, 2011						
	Office	**Medical Office**	**Retail**	**Multifamily**	**Industrial/ Flex**	**Corporate and Other**	**Consolidated**
Real estate rental revenue	$ 103,860	$ 34,002	$ 36,884	$ 38,073	$	$	$ 212,819
Real estate expenses	35,305	10,747	10,228	14,844			71,124
Net operating income	$ 68,555	$ 23,255	$ 26,656	$ 23,229	$	$	$ 141,695
Depreciation and amortization							(67,899)
Interest expense							(50,266)
General and administrative							(11,588)
Acquisition costs							(3,571)
Other income							886
Discontinued operations:							
Gain on sale of real estate							56,639
Income tax expense							(1,138)
Income (loss) from discontinued operations							9,522
Net income							74,280
Less: Net income attributable to noncontrolling interests							(85)
Net income attributable to the controlling interests							$ 74,195
Capital expenditures	$ 10,641	$ 2,883	$ 2,288	$ 1,901	$ 404	$ 442	$ 18,559

	$10,641	$10,641	$10,641	$10,641	$10,641	$10,641	$10,641
	Period Ended September 30, 2010						
	Office	**Medical Office**	**Retail**	**Multifamily**	**Industrial/ Flex**	**Corporate and Other**	**Consolidated**
Real estate rental revenue	$ 92,673	$ 33,695	$ 30,566	$ 36,192	$	$	$ 193,126
Real estate expenses	32,135	11,190	7,877	14,425			65,627
Net operating income	$ 60,538	$ 22,505	$ 22,689	$ 21,767	$	$	$ 127,499
Depreciation and amortization							(59,574)
Interest expense							(49,662)
General and administrative							(10,455)
Acquisition costs							(452)
Other income							875
Gain (loss) on extinguishment of debt, net							(280)
Gain from non-disposal activities							4
Discontinued operations:							
Gain on sale of real estate							7,942
Income (loss) from discontinued operations							11,047
Net income							26,944
Less: Net income attributable to noncontrolling interests							(109)
Net income attributable to the controlling interests							$ 26,835
Capital expenditures	$ 8,049	$ 3,398	$ 1,101	$ 1,279	$ 742	$ 256	$ 14,825

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12: SUBSEQUENT EVENTS

Subsequent to the end of the 2011 Quarter, we closed on the final two transactions of the Industrial Portfolio sale. On October 3, 2011, we sold Northern Virginia Industrial Park II for $44.5 million. On November 1, 2011, we sold 6100 Columbia Park Road and Dulles Business Park for $70.6 million at a gain.

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

The following discussion should be read in conjunction with our consolidated financial statements and the notes thereto appearing in Item 1 of this report and the more detailed information contained in our Annual Report on Form 10-K for the year ended December 31, 2010 filed with the Securities and Exchange Commission on February 25, 2011.

We refer to the three months ended September 30, 2011 and September 30, 2010 as the 2011 Quarter and the 2010 Quarter , respectively, and the nine months ended September 30, 2011 and September 30, 2010 as the 2011 Period and the 2010 Period , respectively.

Forward-Looking Statements

This Form 10-Q contains forward-looking statements which involve risks and uncertainties. Forward-looking statements include statements in this report preceded by, followed by or that include the words believe, expect, intend, anticipate, potential, project, will and other simi expressions. We claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for these statements. The following important factors, in addition to those discussed elsewhere in this Form 10-Q, could affect our future results and could cause those results to differ materially from those expressed in the forward-looking statements: (a) the effects of changes in Federal government spending; (b) the economic health of the greater Washington metro region, or other markets we may enter; (c) the timing and pricing of lease transactions; (d) the effect of the recent credit and financial market conditions; (e) the availability and cost of capital; (f) fluctuations in interest rates; (g) the economic health of our tenants; (h) the supply of competing properties; (i) consumer confidence; (j) unemployment rates; (k) consumer tastes and preferences; (l) our future capital requirements; (m) inflation; (n) compliance with applicable laws, including those concerning the environment and access by persons with disabilities; (o) governmental or regulatory actions and initiatives; (p) changes in general economic and business conditions; (q) terrorist attacks or actions; (r) acts of war; (s) weather conditions; (t) the effects of changes in capital available to the technology and biotechnology sectors of the economy, and (u) other factors discussed under the caption Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2010 filed with the Securities and Exchange Commission on February 25, 2011. We undertake no obligation to update our forward-looking statements or risk factors to reflect new information, future events, or otherwise.

General

Introductory Matters

We provide our 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 business, operating results, investment activity and capital requirements, and summary of our significant transactions to provide context for the remainder of MD&A.

- *Results of Operations.* Discussion of our financial results comparing the 2011 Quarter to the 2010 Quarter and the 2011 Period to the 2010 Period.

- *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 real estate rental revenue less real estate expenses excluding depreciation and amortization, interest expense and general and administrative expenses. NOI is a non-GAAP supplemental measure to net income.

Funds From Operations (FFO), calculated as set forth below under the caption Funds from Operations. 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.

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Leased percentage, calculated as the percentage of physical net rentable area leased for our commercial segments and percentage of apartments leased for our multifamily segment.

Rental rates.

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. A same-store property is one that was owned for the entirety of the periods being evaluated, is stabilized from an occupancy standpoint and is included in continuing operations. A non-same-store property is one that was acquired or placed into service during either of the periods being evaluated and is included in continuing operations. Results for properties sold or held for sale during any of the periods evaluated are classified as discontinued operations.

Overview

Business

Our revenues are derived primarily from the ownership and operation of income-producing properties in the greater Washington metro region. As of September 30, 2011, we owned a diversified portfolio of 74 properties, totaling approximately 9.6 million square feet of commercial space and 2,540 multifamily units, and land held for development. These 74 properties consisted of 26 office properties, 3 industrial/flex properties, 18 medical office properties, 16 retail centers and 11 multifamily properties.

Operating Results

Our results of operations were as follows (in thousands):

	2011 Quarter	2010 Quarter	$ Change	% Change
Real estate rental revenue	$ 71,931	$ 65,032	$ 6,899	10.6%
NOI [(1)]	$ 47,861	$ 43,120	$ 4,741	11.0%
Net income attributable to the controlling interests	$ 63,008	$ 6,625	$ 56,383	851.1%
FFO [(2)]	$ 30,756	$ 30,899	$ (143)	(0.5)%

(1) See page 30 of the MD&A for reconciliations of NOI to net income.

(2) See page 46 of the MD&A for reconciliations of FFO to net income.

The increases in real estate rental revenue and NOI are due to acquisitions made during the past year. NOI for the same-store portfolio has been flat, with higher rental rates and lower operating expenses offset by lower occupancy. The lower occupancy reflects continued difficulties in leasing vacant commercial space. We believe that the federal debt-ceiling debate during the 2011 Quarter and general concerns about the national economy are factors in the difficult leasing environment.

The increase in net income attributable to the controlling interests is due to the gain on the first phase of the sale of our industrial segment (see following section) during the 2011 Quarter.

Investment and Sales Activity

We purchased two office properties and one retail property for an aggregate contract purchase price of $232.5 million during the 2011 Quarter. These transactions are consistent with our stated acquisition strategy of focusing on properties inside the Washington metro region s Beltway, near major transportation nodes and in areas with strong employment drivers and superior growth demographics.

On August 5, 2011, we executed five separate contracts with the same buyer for the sale of our industrial segment and two office properties (the Industrial Portfolio) for an aggregate sales price of $350.0 million. On September 2, 2011, we closed on the first three contracts, selling 15 industrial and two office properties for a $56.6 million gain on sale of real estate. Subsequent to the end of the 2011 Quarter, on October 3, 2011, we closed on the fourth contract for the sale of Northern Virginia Industrial Park II. On November 1, 2011, we closed on the final contract for 6100 Columbia Park Road and Dulles Business Park.

Capital Requirements

As of September 30, 2011, our unsecured lines of credit had $193.0 million in borrowings outstanding and $1.7 million in letters of credit issued, leaving a remaining borrowing capacity of $280.3 million.

We repaid without penalty during the 2011 Quarter the remaining $9.1 million on the mortgage note secured by Shady Grove Medical Village II and the remaining $2.7 million of our 3.875% convertible notes. Subsequent to the end of the 2011 Quarter, we prepaid the remaining $17.9 million principal balance on the mortgage notes secured by Dulles Business Park. We incurred $1.0 million in prepayment penalties, which were partially offset by an $875,000 increase in the sales price for the secured properties. We do not have any other notes that mature during the remainder of 2011.

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Significant Transactions

We summarize below our significant transactions during the 2011 and 2010 Periods:

2011 Period

- The execution of five separate sale contracts for the disposition of our industrial segment and two office properties for a contract sales price of $350.0 million. We closed on the first three of the sale contracts during the 2011 Quarter, on September 2, 2011. We closed on the final two sale contracts subsequent to the end of the 2011 Quarter, on October 3, 2011 and November 1, 2011.

- The disposition of Dulles Station, Phase I, a 180,000 square foot office building in Herndon, Virginia for a contract sales price of $58.8 million.

- The acquisition of four office buildings for $301.8 million, adding approximately 882,000 square feet.

- The acquisition of a retail property for $58.0 million, adding approximately 199,000 square feet.

- The acquisition of approximately 37,000 square feet of land in Arlington, Virginia for $11.8 million through a consolidated joint venture of which WRIT is a 90% owner. The joint venture intends to develop a 150 unit mid-rise apartment community on this land.

- The execution of an unsecured credit facility agreement that replaced and expanded Credit Facility No. 2 from $262.0 million to $400.0 million, with an accordion feature that allows us to increase the facility to $600.0 million, subject to additional lender commitments. The new unsecured line of credit matures on July 1, 2014 with a one-year extension option and currently bears an interest rate at LIBOR plus a margin of 122.5 basis points.

- The execution of new leases for 0.8 million square feet of commercial space (excluding first generation leases at recently-built properties and properties sold or held for sale), with an average rental rate increase of 9.5% over expiring leases.

2010 Period

- The acquisition of two office buildings for $68.0 million, adding approximately 271,000 square feet, which were 100% leased at the end of the 2010 Period.

- The disposition of the Parklawn Portfolio, consisting of three office properties and one industrial property, for a contract sales price of $23.4 million and a gain on sale of $7.9 million.

- The repurchase of $1.2 million of our 3.875% convertible notes at 99.3% of par, resulting in a net loss on extinguishment of debt of $41,600.

- The issuance of 2.3 million common shares at a weighted average price of $29.60 under our sales agency financing agreement, raising $67.1 million in net proceeds.

The execution of new leases for 0.8 million square feet of commercial space (excluding first generation leases at recently-built properties and properties sold or held for sale), with an average rental rate increase of 12.6% over expiring leases.

Results of Operations

The discussion that follows is based on our consolidated results of operations for the 2011 and 2010 Quarters and Periods. The ability to compare one period to another may be significantly affected by acquisitions completed and dispositions made during those periods. To provide more insight into our operating results, we divide our discussion into two main sections:

Consolidated Results of Operations**:** Overview analysis of results on a consolidated basis.

Net Operating Income (NOI)**:** Detailed analysis of same-store and non-same-store NOI results by segment.

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Consolidated Results of Operations

Real Estate Rental Revenue

Real estate rental revenue for properties classified as continuing operations is summarized as follows (all data in thousands except percentage amounts):

	Quarter Ended September 30,				Period Ended September 30,			
			Change				Change	
	2011	2010	$	%	2011	2010	$	%
Minimum base rent	$ 63,814	$ 57,596	$ 6,218	10.8%	$ 188,183	$ 169,383	$ 18,800	11.1%
Recoveries from tenants	6,321	5,599	722	12.9%	19,187	18,767	420	2.2%
Provisions for doubtful accounts	(1,220)	(929)	(291)	31.3%	(3,361)	(3,139)	(222)	7.1%
Lease termination fees	175	38	137	360.5%	287	320	(33)	(10.3)%
Parking and other tenant charges	2,841	2,728	113	4.1%	8,523	7,795	728	9.3%
	$ 71,931	$ 65,032	$ 6,899	10.6%	$ 212,819	$ 193,126	$ 19,693	10.2%

Minimum Base Rent: Minimum base rent from acquisitions ($5.8 million) and a $0.5 million increase from same-store properties caused the $6.2 million increase in the 2011 Quarter. The same-store increase was primarily due to higher rental rates ($1.2 million), partially offset by lower occupancy ($0.6 million).

Minimum base rent from acquisitions ($17.6 million) and a $1.2 million increase from same-store properties caused the $18.8 million increase in the 2011 Period. The same-store increase was primarily due to higher rental rates ($3.7 million), partially offset by lower occupancy ($2.0 million) and higher amortization of capitalized lease incentives ($0.3 million).

Recoveries from Tenants: Recoveries from tenants increased by $0.7 million in the 2011 Quarter primarily due to acquisitions.

Recoveries from tenants increased by $0.4 million in the 2011 Period due to acquisitions ($1.5 million), partially offset by lower reimbursements for real estate taxes ($1.1 million) at same-store properties caused by lower property tax assessments.

Provisions for Doubtful Accounts: Provisions for doubtful accounts increased by $0.3 million in the 2011 Quarter due to higher provisions in the retail ($0.2 million) and office ($0.1 million) segments.

Provisions for doubtful accounts increased by $0.2 million in the 2011 Period due primarily to higher provisions in the retail ($0.7 million) and medical office ($0.2 million) segments, partially offset by lower provisions in the office segment ($0.6 million).

Lease Termination Fees: Lease termination fees increased by $0.1 million in the 2011 Quarter, primarily in the retail segment.

Parking and Other Tenant Charges: Parking and other tenant charges from acquisitions caused the $0.1 million increase in the 2011 Quarter.

Parking income from acquisitions ($0.4 million) and higher parking income ($0.2 million) and antenna rents ($0.1 million) from same-store properties caused the $0.7 million increase in parking and other tenant charges in the 2011 Period.

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A summary of occupancy for properties classified as continuing operations by segment follows:

	As September 30,		
	2011	**2010**	**Change**
Office	88.6%	89.4%	(0.8)%
Medical Office	87.2%	87.8%	(0.6)%
Retail	92.3%	92.2%	0.1%
Multifamily	94.0%	96.4%	(2.4)%
Total	90.3%	91.4%	(1.1)%

Occupancy represents occupied square footage indicated as a percentage of total square footage as of the last day of that period.

A detailed discussion of occupancy by sector can be found in the NOI section.

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Real Estate Expenses

Real estate expenses for properties classified as continuing operations are summarized as follows (all data in thousands except percentage amounts):

	Quarter Ended September 30,				Period Ended September 30,			
			Change				Change	
	2011	2010	$	%	2011	2010	$	%
Property operating expenses	$ 17,679	$ 15,437	$ 2,242	14.5%	$ 51,376	$ 46,466	$ 4,910	10.6%
Real estate taxes	6,391	6,475	(84)	(1.3)%	19,748	19,161	587	3.1%
	$ 24,070	$ 21,912	$ 2,158	9.8%	$ 71,124	$ 65,627	$ 5,497	8.4%

Real estate expenses as a percentage of revenue were 33.5% and 33.7% for the 2011 and 2010 Quarters, respectively, and 33.4% and 34.0% for the 2011 and 2010 Periods, respectively.

Property Operating Expenses: Property operating expenses include utilities, repairs and maintenance, property administration and management, operating services, common area maintenance, property insurance, bad debt and other operating expenses.

Property operating expenses from acquisitions ($1.2 million) and higher property administration and management ($0.4 million) and repairs and maintenance ($0.4 million) expenses at same-store properties primarily caused the $2.2 million increase in the 2011 Quarter.

Property operating expenses from acquisitions ($3.8 million) and higher repairs and maintenance ($0.5 million), administrative ($0.3 million) and legal ($0.1 million) costs at same-store properties primarily caused the $4.9 million increase in the 2011 Period.

Real Estate Taxes: Lower assessments on same-store properties ($0.8 million), offset by real estate taxes on acquisitions ($0.7 million) caused the $0.1 million decrease in the 2011 Quarter.

Real estate taxes on acquisitions ($2.1 million) offset by lower assessments on same-store properties ($1.6 million) caused the $0.6 million increase in the 2011 Period.

Other Operating Expenses

Other operating expenses are summarized as follows (all data in thousands except percentage amounts):

	Quarter Ended September 30,				Period Ended September 30,			
			Change				Change	
	2011	2010	$	%	2011	2010	$	%
Depreciation and amortization	$ 23,479	$ 20,224	$ 3,255	16.1%	$ 67,899	$ 59,574	$ 8,325	14.0%
Interest expense	16,508	16,717	(209)	(1.3)%	50,266	49,662	604	1.2%
Acquisition costs	1,600		1,600	%	3,571	452	3,119	690.0%
General and administrative	3,837	3,141	696	22.2%	11,588	10,455	1,133	10.8%
	$ 45,424	$ 40,082	$ 5,342	13.3%	$ 133,324	$ 120,143	$ 13,181	11.0%

Depreciation and Amortization: Depreciation and amortization expense from acquisitions caused the $3.3 million increase in the 2011 Quarter.

Depreciation and amortization expense from acquisitions ($9.9 million), partially offset by lower depreciation and amortization expense at same-store properties ($1.6 million), caused the $8.3 million increase in the 2011 Period.

The lower depreciation and amortization expense at same-store properties is primarily due to lower amortization of intangible assets associated with the acquisition of properties.

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Interest Expense: A summary of interest expense by debt type for the 2011 and 2010 Quarters and Periods appears below (in millions, except percentage amounts):

	Quarter Ended September 30,				Period Ended September 30,			
			Change				Change	
	2011	2010	$	%	2011	2010	$	%
Notes payable	9.0	10.2	(1.2)	(11.8)%	29.9	30.7	(0.8)	(2.6)%
Mortgages	5.8	5.7	0.1	1.8%	16.9	16.9		%
Lines of credit/short-term note payable	1.9	0.9	1.0	111.1%	3.9	2.9	1.0	34.5%
Capitalized interest	(0.2)	(0.1)	(0.1)	100.0%	(0.4)	(0.8)	0.4	(50.0)%
Total	$ 16.5	$ 16.7	$ (0.2)	(1.2)%	$ 50.3	$ 49.7	$ 0.6	1.2%

Acquisition Costs: Acquisition costs increased by $1.6 million and $3.1 million for the 2011 Quarter and Period, respectively, due to the acquisitions of 1140 Connecticut Avenue, 1227 25th Street, Olney Village Center, Braddock Metro Center and John Marshall II during 2011.

General and Administrative Expense: General and administrative expense increased by $0.7 million in the 2011 Quarter primarily due to severance associated with the Industrial Portfolio disposition ($0.5 million) and higher legal expenses ($0.1 million).

General and administrative expense increased by $1.1 million in the 2011 Period primarily due to new positions and annual salary increases ($0.9 million) and higher legal expenses ($0.2 million).

Discontinued Operations

We dispose of assets (sometimes using tax-deferred exchanges) that no longer meet our long-term strategy or return objectives and where market conditions for sale are favorable. The proceeds from the sales may be reinvested into other properties, used to fund development operations or to support other corporate needs, or distributed to our shareholders.

Properties we sold during 2011 and 2010 are as follows:

Disposition Date	Property	Type	Rentable Square Feet	Contract Sales Price (In millions)
September 2, 2011	Industrial Portfolio[1]	Office/Industrial	3,092,000	$ 350.0
April 5, 2011	Dulles Station, Phase I	Office	180,000	$ 58.8
		2011 Total	3,272,000	$ 408.8
June 18, 2010	Parklawn Portfolio [2]	Office/Industrial	229,000	$ 23.4
December 21, 2010	The Ridges	Office	104,000	27.5
December 22, 2010	Ammendale I&II and Amvax	Industrial	305,000	23.0
		2010 Total	638,000	$ 73.9

(1) *The Industrial Portfolio consists of every property in our industrial segment and two office properties (the Crescent and Albemarle Point). On September 2, 2011 we closed on the sale of the industrial properties (8880 Gorman Road, Dulles South IV, Fullerton Business Center, Hampton Overlook, Alban Business Center, Pickett Industrial Park, Northern Virginia Industrial Park I, 270 Technology Park, Fullerton Industrial Center, Sully Square, 9950 Business Parkway, Hampton South and 8900 Telegraph Road) and two office properties (Crescent and Albemarle Point). We closed on the sales of the remaining properties in the Industrial Portfolio subsequent to the end of the 2011*

Quarter.

(2) *The Parklawn Portfolio consists of three office properties (Parklawn Plaza, Lexington Building and Saratoga Building) and one industrial property (Charleston Business Center).*

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Operating results of the properties classified as discontinued operations are summarized as follows (in thousands, except for percentages):

	Quarter Ended September 30,		Change		Period Ended September 30,		Change	
	2011	2010	$	%	2011	2010	$	%