

WASHINGTON REAL ESTATE INVESTMENT TRUST
Form 10-K
March 03, 2014

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, 2013

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 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” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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 28, 2013, the aggregate market value of such shares held by non-affiliates of the registrant was \$1,775,842,352 (based on the closing price of the stock on June 28, 2013).

As of February 26, 2014, 66,598,192 common shares were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our definitive Proxy Statement relating to the 2014 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
2013 FORM 10-K ANNUAL REPORT
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PART I

ITEM 1: BUSINESS

WRIT Overview

Washington Real Estate Investment Trust (“we” or “WRIT”) is a self-administered, self-managed, 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. During 2013 we implemented a plan to sell our entire medical office segment, and completed the final phase of this plan early in 2014.

Our geographic focus is based on two principles:

1. Real estate is a local business and is more effectively selected and managed by owners located, and with expertise, in the region.
2. Geographic markets deserving of focus must be among the nation’s best markets with a strong primary industry foundation and diversified enough to withstand downturns in their primary industry.

We consider markets to be local if they can be reached from Washington within two hours by car. While we have historically focused most of our investments in the greater Washington metro region, in order to maximize acquisition opportunities we will consider investments within the two-hour radius described above. In the future, we also may consider opportunities to duplicate our Washington-focused approach in other geographic markets which meet the criteria described above.

Our current strategy is focused 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.

All of our officers and employees live and work in the greater Washington metro region and all but one of our officers have over 20 years of experience in this region.

Washington Metro Region Economy

The Washington metro region experienced modest job growth during 2013, as a decrease in federal government employment and procurement attributable to continued fiscal austerity offset gains in other sectors. Current estimates by Delta Associates / Transwestern Commercial Services (“Delta”), a national full service real estate firm that provides market research and evaluation services for commercial property, indicate that the Washington metro region gained 20,700 jobs during the 12 month period ending October 2013. The region's unemployment rate was 5.9% at October 2013, up from 5.1% in the prior year. Though job growth in 2013 lagged behind other large metro regions, the Washington metro region's unemployment rate remains one of the lowest in the nation.

Delta expects the Washington metro region's economic growth to remain sluggish in 2014, with more robust growth in 2015 and 2016.

Washington Metro Region Real Estate Markets

The Washington metro region's slow growth is reflected in the real estate market performance in each of our segments. Market statistics and information from Delta are set forth below:

Office Segment

• Average effective rents in the region decreased 2.9% in 2013 and in 2012.

• Overall vacancy was 13.4% at December 31, 2013 and 2012, slightly higher than the national rate of 13.2%.

Net absorption (defined as the change in occupied, standing inventory from one period to the next) totaled 1.8 million square feet in 2013, compared to negative net absorption of 2.9 million square feet in 2012. The 15-year average annual absorption for the region is 5.3 million square feet.

• Of the 6.4 million square feet of office space under construction at December 31, 2013 (down from 8.0 million square feet at December 31, 2012), 53% is pre-leased, compared to 51% one year ago.

Retail Segment

Rental rates at grocery-anchored centers in the region were up 2.2% in 2013, compared to the 1.4% increase in 2012. Vacancy for grocery-anchored centers was 4.7% at December 31, 2013, down from 4.9% at December 31, 2012.

Multifamily Segment

Net effective rents for all investment grade apartments in the Washington metro region decreased 1.8% in 2013, compared to a 1.7% increase in 2012. Class A rents decreased by 3.0% in 2013, compared to an increase of 1.9% in 2012.

The vacancy rate for all apartments was 4.9% at December 31, 2013, compared to 4.3% at December 31, 2012. The national rate was 4.3% at December 31, 2013. Class A vacancy increased to 4.7% at December 31, 2013 from 4.2% at December 31, 2012.

Our Portfolio

As of December 31, 2013, we owned a diversified portfolio of 56 properties, totaling approximately 7.4 million square feet of commercial space and 2,674 residential units, and land held for development. These 56 properties consist of 23 office properties, 5 medical office properties (which were subsequently sold on January 21, 2014), 16 retail centers and 12 multifamily properties. Our principal objective is to invest in high quality properties in prime locations, then proactively manage, lease and direct ongoing capital improvement programs to improve their economic performance. The percentage of total real estate rental revenue by property group for 2013, 2012 and 2011, and the percent leased as of December 31, 2013, were as follows:

Percent Leased		Real Estate Rental Revenue ⁽¹⁾			
December 31, 2013 ⁽²⁾		2013	2012	2011	
91%	Office	58	% 58	% 57	%
94%	Retail	21	% 21	% 21	%
93%	Multifamily	21	% 21	% 22	%
		100	% 100	% 100	%

⁽¹⁾ Data excludes discontinued operations - medical office and industrial segments.

⁽²⁾ Calculated as the percentage of physical net rentable area leased.

On a combined basis, our commercial portfolio (i.e., our office, medical office and retail properties, but not our multifamily properties) was 92% leased at December 31, 2013, 88% leased at December 31, 2012 and 91% leased at December 31, 2011.

The commercial lease expirations at properties classified as continuing operations for the next five years and thereafter are as follows:

	# of Leases	Square Feet	Gross Annual Rent (in thousands)	Percentage of Total Gross Annual Rent	
2014	138	824,668	\$25,915	12	%
2015	147	944,533	30,734	15	%
2016	124	798,793	23,338	11	%
2017	106	741,094	26,398	13	%
2018	108	666,054	16,536	8	%
2019 and thereafter	273	2,416,901	86,236	41	%
Total	896	6,392,043	\$209,157	100	%

Total real estate rental revenue from continuing operations was \$263.0 million for 2013, \$254.8 million for 2012 and \$234.7 million for 2011. During the three year period ended December 31, 2013, we acquired seven office properties, two retail properties and one multifamily property. During that same period, we sold eleven office properties, thirteen medical office properties and our entire industrial segment.

According to Delta, the professional/business services and government sectors constituted over one third of payroll jobs in the Washington metro area at the end of 2013. Due to our geographic concentration in the Washington metro area, a significant amount 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. In particular, a significant reduction in federal government spending would seriously impact these sectors.

No single tenant accounted for more than 5.0% of real estate rental revenue in 2013, 2012 or 2011. All federal government tenants in the aggregate accounted for approximately 1.0% of our 2013 real estate rental revenue. Federal government tenants include the Department of Defense, Social Security Administration, Federal Bureau of Investigation and Office of Personnel Management.

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

1. World Bank
2. Advisory Board Company
3. Booz Allen Hamilton, Inc.
4. Patton Boggs LLP
5. Engility Corporation
6. Sunrise Assisted Living, Inc.
7. Epstein, Becker & Green, P.C.
8. General Dynamics
9. TJX Companies
10. General Services Administration

We expect to continue investing in additional income-producing properties through acquisitions, development and redevelopment. We invest in properties which we believe will increase in income and value. Our properties typically compete for tenants with other properties throughout the respective areas in which they are located 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, 2013 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, Note 13, 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 26, 2014, we had 263 employees including 180 persons engaged in property management functions and 83 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 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 us or (c) treating the 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.

Tax Treatment of Recent Disposition Activity

We sold the following properties during the three years ended December 31, 2013:

Property	Type	Rentable Square Feet	Contract Sales Price (in thousands)	Gain on Sale (in thousands)
Atrium Building	Office	79,000	\$ 15,750	\$3,195
Medical Office Portfolio Transactions I & II (1)	Medical Office / Office	1,093,000	307,189	18,949
	Total 2013	1,172,000	\$322,939	\$22,144
1700 Research Boulevard	Office	101,000	\$ 14,250	\$3,724
Plumtree Medical Center	Medical Office	33,000	8,750	1,400
	Total 2012	134,000	\$23,000	\$5,124
Industrial Portfolio (2)	Industrial/Office	3,092,000	\$350,900	\$97,491
Dulles Station, Phase I	Office	180,000	58,800	—
	Total 2011	3,272,000	\$409,700	\$97,491

(1) Transaction I and II of the Medical Office Portfolio purchase and sale agreement consisted of medical office properties (2440 M Street, 15001 Shady Grove Road, 15505 Shady Grove Road, 19500 at Riverside Park (formerly Lansdowne Medical Office Building), 9707 Medical Center Drive, CentreMed I and II, 8301 Arlington Boulevard, Sterling Medical Office Building, Shady Grove Medical Village II, Alexandria Professional Center, Ashburn Farm Office Park I, Ashburn Farm Office Park II, Ashburn Farm Office Park III, Woodholme Medical Office Building), two office properties (6565 Arlington Boulevard and Woodholme Center) and undeveloped land (4661 Kenmore Ave). Subsequent to the end of 2013, we closed on Transactions III and IV, consisting of Woodburn Medical Park I and II and Prosperity Medical Center I, II and III.

(2) The Industrial Portfolio consisted of every property in our industrial segment and two office properties (the Crescent and Albemarle Point).

All disclosed gains on sale are calculated in accordance with U.S. generally accepted accounting principles (“GAAP”). We have identified a portion of the sold Medical Office Portfolio properties for tax deferred exchange under Section 1031 of the Internal Revenue Code. Section 1031 requires that we identify and close on the acquisition of replacement properties within limited time periods. We may not be able to identify and acquire appropriate replacement properties within the specified time periods. If we do not identify and acquire the replacement properties within the specified time periods, we would expect to recognize a taxable gain with respect to the sale of the Medical Office Portfolio. The amount of this taxable gain would depend upon the timing and size of the replacement property acquisitions and also our other results of operations, and it could be a material amount. If we recognize this taxable gain, we could be required to pay a significant portion of it as a special capital gain dividend to our shareholders or alternatively be subject to income taxes on the taxable gain.

We distributed all of our ordinary taxable income for the years ended December 31, 2013, 2012 and 2011 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 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 (see note 1 to the consolidated financial statements for further disclosure).

Availability of Reports

Edgar Filing: WASHINGTON REAL ESTATE INVESTMENT TRUST - Form 10-K

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.writ.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.

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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 WRIT 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 43.

Our performance and value are subject to risks associated with our real estate assets and with the real estate industry. 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;
- the financial health of our tenants and the ability to collect rents;
- consumer confidence, unemployment rates and consumer tastes and preferences;
- competition from similar asset type properties;
- 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;
- vacancies, changes in market rental rates and the need to periodically repair, renovate and re-let space;
- increased operating costs, including insurance premiums, utilities and real estate taxes;
- 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 climate of the Washington metropolitan region.

All of our properties are located in the Washington metro region, which 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. In the event of negative economic 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.

As a REIT operating exclusively in the Washington metro region, a significant portion of our properties is occupied by United States Government tenants or tenants that are directly or indirectly serving the United States Government as federal contractors or otherwise. A significant reduction in federal government spending, particularly a sudden decrease due to the sequestration process, 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. In the event of a 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 renewal. As a result, if such a reduction in federal government spending were to occur, 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 currently have an active development project to build a mid-rise apartment building at 650 North Glebe Road in Arlington, Virginia, and an active redevelopment project to renovate 7900 Westpark Drive, an office building in McLean, Virginia. We decided to delay commencement of construction of a high-rise multifamily property at 1225 First Street in Alexandria, Virginia due to market conditions and concerns of oversupply.

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 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

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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 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 the Washington metro region's economic conditions; and occupancy rates and rents at the completed property may not meet the expected levels and could be insufficient to make the property profitable.

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 be unable to finance acquisitions on favorable terms;
- 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 average cost of capital;
- 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;
- we may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into our existing operations;
- competition from other real estate investors may significantly increase the purchase price;
- our estimates of capital expenditures required for an acquired property, including the costs of repositioning or redeveloping, may be inaccurate;
- 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; and
- 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.

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; and
- liabilities incurred in the ordinary course of business.

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.

Real estate investments can be difficult to sell and convert to cash quickly, especially if market conditions are not favorable, and we may find that to be the case under the current economic conditions due to limited credit availability for potential buyers. Such illiquidity could limit our ability to quickly change our portfolio of properties in response to changes in economic or other conditions. Moreover, under certain circumstances, the Internal Revenue Code imposes penalties on a REIT that sells property held for less than two years and/or sells more than a specified number of properties in a given year. In addition, for properties that we acquire by issuing units in an operating partnership, we

may be restricted by agreements with the sellers of the properties for a certain period of time from entering into transactions (such as the sale or refinancing of the acquired property) that will result in a taxable gain to the sellers without the sellers' consent. Due to these factors, we may be unable to sell a property at an advantageous time.

We may not timely reinvest the proceeds of the sale of our medical office portfolio in properties, which would adversely affect our results of operations and net income.

During 2013, we implemented a plan to sell our entire medical office portfolio and completed the final phase of this plan early in 2014. We may not be successful in reinvesting some or all of the proceeds of the sale of medical office portfolio in the near term. If we do not successfully reinvest the sales proceeds promptly in income-producing properties, the resulting decrease in our net income attributable to the controlling interests will not be completely offset by income from the temporary investment of the disposition proceeds. This decrease in net income would have a negative impact on our earnings to fixed charges and debt service coverage ratios and could have a negative impact on our ability to pay dividends at their current level. Even if we promptly reinvest some or all of the sales proceeds in income-producing properties, we still expect some decrease in net income attributable to the controlling interests in future quarters due to the cost of these acquisitions.

The sale of our medical office portfolio may require the payment of additional dividends or result in a tax liability for the taxable gains on the sold properties.

We have identified a portion of the sold Medical Office Portfolio properties for tax deferred exchange under Section 1031 of the Internal Revenue Code. Section 1031 requires that we identify and close on the acquisition of replacement properties within limited time periods. We may not be able to identify and acquire appropriate replacement properties within the specified time periods. If we do not identify and acquire the replacement properties within the specified time periods, we would expect to recognize a taxable gain with respect to the sale of the Medical Office Portfolio. The amount of this taxable gain would depend upon the timing and size of the replacement property acquisitions and also our other results of operations, and it could be a material amount. If we recognize this taxable gain, we could be required to pay a significant portion of it as a special capital gain dividend to our shareholders or alternatively be subject to income taxes on the taxable gain.

Funds used to pay capital gains to our shareholders or tax liabilities would not be available for reinvestment in properties, potentially decreasing our net income, negatively impacting our earnings to fixed charges and debt service coverage ratios and negatively impacting our ability to pay future dividends at their current level. Further, 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 this event, our taxable income would increase. This could require us to pay additional dividends or, in lieu of that, income taxes, possibly including interest and penalties.

We face potential difficulties or delays renewing leases or re-leasing space.

As of December 31, 2013, leases on our commercial properties classified as continuing operations will expire as follows:

	% of leased square footage
2014	12%
2015	15%
2016	11%
2017	13%
2018	8%
2019 and thereafter	41%
Total	100%

Multifamily properties are leased under operating leases with terms of generally one year or less. For the years ended December 31, 2013, 2012 and 2011, the multifamily tenant retention rate was 43%, 61% and 56%, 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 release 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. As a result of the foregoing, our cash flow could decrease and our ability to make distributions to our shareholders could be

adversely affected.

We face potential adverse effects from major tenants' bankruptcies or insolvencies.

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 from 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.

We 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. Our partners in these entities may have economic, tax or other business interests or goals which 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.

Our properties face significant competition.

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.

We are dependent on key personnel.

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.

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 further reduce our dividend, as we did in the third quarter of 2012. Our ability to continue to pay dividends on our common shares at its 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. This level has trended lower in recent years due to the recent economic downturn and uncertainty with the business and leasing environment in the Washington metro region. As noted above, we reduced our dividend rate, and if such trend were to continue for a sustained period of time, our board of trustees could determine to further 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.

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

We rely on borrowings under our credit facilities and offerings of debt securities to finance acquisitions and development activities and for general corporate purposes. In the recent 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. We believe that 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 facilities 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.

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

On February 26, 2014, our total consolidated debt was approximately \$1.1 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 \$24.86 per share of our common shares on February 26, 2014, multiplied by the number of our common shares, our consolidated debt to total consolidated market capitalization ratio was approximately 40% as of February 26, 2014.

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. 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.

The United States and global equity and credit markets have experienced significant price volatility and liquidity disruptions which caused the market prices of stocks 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.

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.

Rising interest rates would increase our interest costs.

We may 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.

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

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

Failure to comply with any of the covenants under our unsecured credit facilities 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 facilities, causing an event of default under the unsecured credit facilities. Alternatively, even if a secured debt instrument is below the cross default threshold for non-recourse secured debt under our unsecured credit facilities, a default under such secured debt instrument may still cause a cross default under our unsecured credit facilities because such secured debt instrument may not qualify as “non-recourse” under the definition in our unsecured credit facilities. Another possible cross default could occur between our unsecured credit facilities and our senior unsecured notes. 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.

We face risks associated with short-term liquid investments.

We have significant cash balances periodically 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.

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.

Compliance or failure to comply with the Americans with Disabilities Act and other laws and regulations could result in substantial costs.

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 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.

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 2014. 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 December 26, 2007, the Terrorism Risk Insurance Program Reauthorization Act of 2007 was signed into law and extends the program through December 31, 2014. 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.

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

All of our properties are located in or near Washington D.C., 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 D.C. could directly or indirectly damage our 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. Potential liability for environmental contamination could result in substantial costs.

Under federal, state and local environmental laws, ordinances and regulations, we may be required to investigate and clean up the effects of releases of hazardous or toxic substances or petroleum products at our properties, regardless of our knowledge or responsibility, simply because of our current or past ownership or operation of the real estate. 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 involved in indoor air quality standards, especially with respect to asbestos, mold, medical waste and lead-based paint. The clean up of any environmental contamination, including asbestos and mold, can be costly. If environmental problems arise, we may have to make substantial payments which could adversely affect our financial condition and results of operations because:

- as owner or operator we may have to pay for property damage and for investigation and clean-up costs incurred in connection with the contamination;
- the law typically imposes clean-up responsibility and liability regardless of whether the owner or operator knew of or caused the contamination;
- even if more than one person may be responsible for the contamination, each person who shares legal liability under the environmental laws may be held responsible for all of the clean-up costs; and
- governmental entities and third parties may sue the owner or operator of a contaminated site for damages and costs.

These costs 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 create liens on contaminated sites in favor of the government for damages and costs it incurs in connection with a contamination.

Environmental laws also govern the presence, maintenance and removal of asbestos. Such laws require that owners or operators of buildings containing asbestos:

properly manage and maintain the asbestos;

notify and train those who may come into contact with asbestos; and

undertake special precautions, including removal or other abatement, if asbestos 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 associated with exposure to asbestos fibers.

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.

Breaches of data security could materially harm our business and reputation.

In the normal course of business we collect and retain certain personal information provided by our tenants and employees. While we employ a variety of data security measures to protect the confidentiality of this information and periodically review and improve our data security measures, we cannot assure that we will be able to prevent unauthorized access to this personal information. Any breach of our data security measures and loss of this personal information may result in legal liability and costs (including damages and penalties), as well as damage to our reputation, that could materially and adversely affect our business and financial performance.

Failure to qualify as a REIT would cause us to be taxed as a corporation, which would substantially reduce funds available for payment of dividends.

If we fail to qualify as a REIT for federal income tax purposes, we would be taxed as a corporation. We believe that we are organized and qualified as a REIT and intend 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 Internal Revenue Code as to which there are only limited judicial and administrative interpretations and involves the determination of facts 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 federal income tax purposes or the federal income tax consequences of such qualification.

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 not be allowed a deduction for dividends paid to shareholders in computing our taxable income and could be subject to federal income tax at regular corporate rates;
- we also could be subject to the federal alternative minimum tax and possibly increased state and local taxes;
- 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; and
- all dividends would be subject to tax as ordinary income to the extent of our current and accumulated earnings and profits potentially eligible as “qualified dividends” subject to the applicable income tax rate.

In addition, if we fail to qualify as a REIT, we would no longer be required to pay dividends. 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.

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;
- attractiveness of securities of REITs in comparison to other asset classes taking into account, among other things, that a substantial portion of REITs' dividends are taxed as ordinary income;
- our financial condition and performance;

the market's perception of our growth potential and potential future cash dividends;
government 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.

Provisions of the Maryland General Corporation Law may limit a change in control.

There are several provisions of the Maryland General Corporation Law, or the MGCL, that may limit the ability of a third party to undertake a change in control, including:

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.

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 WRIT. 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 WRIT.

ITEM 1B: UNRESOLVED STAFF COMMENTS

None.

ITEM 2: PROPERTIES

The schedule on the following pages lists our real estate investment portfolio as of December 31, 2013, which consisted of 56 properties and land held for development. On January 21, 2014, we sold the five remaining medical office properties, Woodburn Medical Park I and II and Prosperity Medical Center I, II and III.

As of December 31, 2013, the percent leased is 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.

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 ⁽¹⁾	Percent Leased, as of December 31, 2013	
Office Buildings						
1901 Pennsylvania Avenue	Washington, D.C.	1977	1960	101,000	92	%
51 Monroe Street	Rockville, MD	1979	1975	222,000	95	%
515 King Street	Alexandria, VA	1992	1966	75,000	96	%
6110 Executive Boulevard	Rockville, MD	1995	1971	203,000	82	%
1220 19 th Street	Washington, D.C.	1995	1976	104,000	90	%
1600 Wilson Boulevard	Arlington, VA	1997	1973	168,000	84	%
7900 Westpark Drive	McLean, VA	1997	1972/1986/1999	530,000	80	%
600 Jefferson Plaza	Rockville, MD	1999	1985	113,000	84	%
Wayne Plaza	Silver Spring, MD	2000	1970	96,000	87	%
Courthouse Square	Alexandria, VA	2000	1979	115,000	97	%
One Central Plaza	Rockville, MD	2001	1974	267,000	93	%
1776 G Street	Washington, D.C.	2003	1979	263,000	100	%
West Gude Drive	Rockville, MD	2006	1984/1986/1988	277,000	83	%
Monument II	Herndon, VA	2007	2000	207,000	87	%
2000 M Street	Washington, D.C.	2007	1971	230,000	100	%
2445 M Street	Washington, D.C.	2008	1986	290,000	100	%
925 Corporate Drive	Stafford, VA	2010	2007	134,000	93	%
1000 Corporate Drive	Stafford, VA	2010	2009	136,000	100	%
1140 Connecticut Avenue	Washington, D.C.	2011	1966	184,000	93	%
1227 25 th Street	Washington, D.C.	2011	1988	132,000	92	%
Braddock Metro Center	Alexandria, VA	2011	1985	345,000	96	%
John Marshall II	Tysons Corner, VA	2011	1996/2010	223,000	100	%
Fairgate at Ballston	Arlington, VA	2012	1988	142,000	74	%
Subtotal				4,557,000	91	%
Medical Office Buildings						
Woodburn Medical Park I	Annandale, VA	1998	1984	77,000	96	%

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Woodburn Medical Park II	Annandale, VA	1998	1988	97,000	90	%
Prosperity Medical Center I	Merrifield, VA	2003	2000	91,000	76	%
Prosperity Medical Center II	Merrifield, VA	2003	2001	87,000	100	%
Prosperity Medical Center III	Merrifield, VA	2003	2002	75,000	84	%
Subtotal				427,000	89	%

Properties	Location	Year Acquired	Year Constructed/Renovated	# of Units	Net Rentable Square Feet ⁽¹⁾	Percent Leased, as of December 31, 2013	
Retail Centers							
Takoma Park	Takoma Park, MD	1963	1962		51,000	100	%
Westminster	Westminster, MD	1972	1969		150,000	97	%
Concord Centre	Springfield, VA	1973	1960		76,000	55	%
Wheaton Park	Wheaton, MD	1977	1967		74,000	98	%
Bradlee Shopping Center	Alexandria, VA	1984	1955		168,000	95	%
Chevy Chase Metro Plaza	Washington, D.C.	1985	1975		49,000	100	%
Montgomery Village Center	Gaithersburg, MD	1992	1969		197,000	78	%
Shoppes of Foxchase	Alexandria, VA	1994	1960/2006		134,000	94	%
Frederick County Square	Frederick, MD	1995	1973		227,000	97	%
800 S. Washington Street	Alexandria, VA	1998/2003	1955/1959		47,000	98	%
Centre at Hagerstown	Hagerstown, MD	2002	2000		332,000	98	%
Frederick Crossing	Frederick, MD	2005	1999/2003		295,000	99	%
Randolph Shopping Center	Rockville, MD	2006	1972		82,000	64	%
Montrose Shopping Center	Rockville, MD	2006	1970		145,000	94	%
Gateway Overlook	Columbia, MD	2010	2007		223,000	100	%
Olney Village Center	Olney, MD	2011	1979/2003		199,000	98	%
Subtotal					2,449,000	94	%
Multifamily Buildings							
3801 Connecticut Avenue	Washington, D.C.	1963	1951	307	179,000	86	%
Roosevelt Towers	Falls Church, VA	1965	1964	191	170,000	96	%
Country Club Towers	Arlington, VA	1969	1965	227	159,000	96	%
Park Adams	Arlington, VA	1969	1959	200	173,000	95	%
Munson Hill Towers	Falls Church, VA	1970	1963	279	258,000	96	%
The Ashby at McLean	McLean, VA	1996	1982	256	274,000	96	%
Walker House Apartments	Gaithersburg, MD	1996	1971/2003	212	157,000	97	%
Bethesda Hill Apartments	Bethesda, MD	1997	1986	195	225,000	96	%

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Bennett Park	Arlington, VA	2007	2007	224	214,000	94	%
Clayborne	Alexandria, VA	2008	2008	74	60,000	97	%
Kenmore	Washington, D.C.	2008	1948	374	268,000	88	%
The Paramount	Arlington, VA	2013	1984	135	141,000	90	%
Subtotal				2,674	2,278,000	93	%
TOTAL					9,711,000		

(1) Multifamily buildings are presented in gross square feet.

ITEM 3: LEGAL PROCEEDINGS

None.

ITEM 4: MINE SAFETY DISCLOSURES

N/A.

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 26, 2014, there are 4,749 shareholders of record. The high and low sales price for our shares for 2013 and 2012, by quarter, and the amount of dividends we paid per share are as follows:

Quarter		Dividends Per Share	Quarterly Share Price Range	
			High	Low
2013				
	Fourth	0.30000	\$27.20	\$22.48
	Third	0.30000	\$28.76	\$24.00
	Second	0.30000	\$30.58	\$25.05
	First	0.30000	\$28.85	\$26.41
2012				
	Fourth	0.30000	\$27.19	\$24.28
	Third	0.30000	\$29.09	\$25.59
	Second	0.43375	\$30.50	\$26.87
	First	0.43375	\$31.00	\$27.01

We have historically paid dividends on a quarterly basis.

During the period covered by this report, we did not sell equity securities without registration under the Securities Act. Neither we nor any affiliated purchaser (as that term is defined in Securities Exchange Act Rule 10b-18(a) (3)) made any repurchases of our shares during the fourth quarter of the fiscal year covered by this report.

ITEM 6: SELECTED FINANCIAL DATA

The following table sets forth our selected financial data on a historical basis, which has been revised for properties disposed of or classified as held for sale (see note 3 to the consolidated financial statements). 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.

	2013	2012	2011	2010	2009
	(in thousands, except per share data)				
Real estate rental revenue	\$263,024	\$254,794	\$234,733	\$204,219	\$201,889
(Loss) income from continuing operations	\$(193)	\$7,768	\$(14,389)	\$(10,874)	\$(1,768)
Discontinued operations:					
Income from operations of properties sold or held for sale	\$15,395	\$10,816	\$23,414	\$26,834	\$29,368
Gain on sale of real estate	\$22,144	\$5,124	\$97,491	\$21,599	\$13,348
Net income	\$37,346	\$23,708	\$105,378	\$37,559	\$40,948
Net income attributable to the controlling interests	\$37,346	\$23,708	\$104,884	\$37,426	\$40,745
Income (loss) from continuing operations attributable to the controlling interests per share – diluted	\$—	\$0.11	\$(0.22)	\$(0.17)	\$(0.03)
Net income attributable to the controlling interests per share – diluted	\$0.55	\$0.35	\$1.58	\$0.60	\$0.71
Total assets	\$1,975,493	\$2,124,376	\$2,120,758	\$2,167,881	\$2,045,225
Lines of credit payable	\$—	\$—	\$99,000	\$100,000	\$128,000
Mortgage notes payable	\$294,671	\$319,025	\$342,989	\$265,757	\$266,225
Notes payable	\$846,703	\$906,190	\$657,470	\$753,587	\$688,912
Shareholders' equity	\$754,959	\$792,057	\$859,044	\$857,080	\$745,255
Cash dividends paid	\$80,104	\$97,734	\$115,045	\$108,949	\$100,221
Cash dividends declared and paid per share	\$1.20	\$1.47	\$1.74	\$1.73	\$1.73

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 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.

• **Critical Accounting Policies and Estimates.** Descriptions of accounting policies that reflect significant judgments and estimates used in the preparation of our consolidated financial statements.

• **Results of Operations.** Discussion of our financial results comparing 2013 to 2012 and comparing 2012 to 2011.

• **Liquidity and Capital Resources.** Discussion of our financial condition and analysis of changes in our capital structure and cash flows.

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 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.

• **Leased percentage,** calculated as the percentage of available 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 and excludes properties under redevelopment or development and properties purchased or sold at any time during the periods being compared. A "non-same-store" property is one that was acquired, under redevelopment or development, or placed into service during either of the periods being evaluated. We define redevelopment properties as those for which we expect to spend significant development and construction costs on existing or acquired buildings pursuant to a formal plan which has a current impact on operating results, occupancy and the ability to lease space with the intended result of a higher economic return on the property. Properties under redevelopment or development are included within the non-same-store properties beginning in the period during which redevelopment or development activities commence. Redevelopment and development properties are included in the same-store pool upon completion of the redevelopment or development, and the earlier of achieving 90% occupancy or two years after completion.

Overview

Business

Our revenues are derived primarily from the ownership and operation of income-producing properties in the greater Washington metro region. As of December 31, 2013, we owned a diversified portfolio of 56 properties, totaling approximately 7.4 million square feet of commercial space and 2,674 multifamily units, and land held for development. These 56 properties consisted of 23 office properties, 5 medical office properties (which were subsequently sold on January 21, 2014), 16 retail centers and 12 multifamily properties.

We have a fundamental strategy of regional focus and diversification by property type. In recent years, we have sought to upgrade our portfolio by selling properties that do not fit our current strategy (as described above at "Item 1: Business - WRIT Overview"), and acquiring or developing higher quality and better-located properties that we believe are consistent with such strategy. 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.

Operating Results

Real estate rental revenue, NOI, net income attributable to the controlling interests and FFO for the years ended December 31, 2013 and 2012 were as follows (in thousands):

	Year Ended December 31,		Change
	2013	2012	
Real estate rental revenue	\$263,024	\$254,794	\$8,230
NOI ⁽¹⁾	\$169,731	\$168,249	\$1,482
Net income attributable to the controlling interests	\$37,346	\$23,708	\$13,638
FFO ⁽²⁾	\$113,103	\$122,518	\$(9,415)

⁽¹⁾ See pages 30 and 34 of the MD&A for reconciliations of NOI to net income.

⁽²⁾ See page 44 of the MD&A for reconciliations of FFO to net income.

NOI increased by \$1.5 million primarily due to acquisitions. NOI from same-store properties decreased by \$0.1 million, as lower occupancy and higher operating expenses were partially offset by higher rental rates. The lower occupancy reflects continuing challenges in leasing vacant space.

The \$9.4 million decrease in FFO primarily reflects higher interest expense, general and administrative expenses (including \$0.8 million related to the officer three-year long-term incentive plan), acquisition costs and a \$2.7 million loss on extinguishment of debt related to the disposition of our medical office segment. In addition, we incurred severance expenses related to the Medical Office Portfolio sale and the retirement of our prior Chief Executive Officer.

We anticipate continued challenges in leasing vacant space during 2014. We also anticipate circumstances where rents on new or renewal leases will be lower than the existing portfolio rents, putting further downward pressure on NOI from same-store properties.

The performance of our three operating segments and the market conditions in our region are discussed in greater detail below (industry data is as reported by Delta):

The region's office market was very challenging during 2013, as average effective rents decreased by 2.9% in 2013, after also decreasing by 2.9% in 2012. Net absorption (defined as the change in occupied, standing inventory from one year to the next) improved to a positive 1.8 million square feet in 2013 from a negative 2.9 million square feet in 2012, but remained well below the 15-year average of 5.3 million square feet. Overall vacancy remained steady at 13.4%. Vacancy in the submarkets was 15.8% for Northern Virginia, 14.5% for Suburban Maryland and 9.3% in the District of Columbia. Delta expects improvement in the region's office occupancy and rental rates to remain slow during 2014 due to fiscal austerity by the federal government and densification of office space in the private sector. Our office segment was 90.6% leased at December 31, 2013, an increase from 86.5% leased at December 31, 2012, primarily due to improved leasing activity in the District of Columbia. By submarket, our office segment was 88.6% leased in Northern Virginia, 92.0% leased in Suburban Maryland and 96.8% leased in the District of Columbia at December 31, 2013.

The region's retail market grew slowly in 2013, with rental rates at grocery-anchored centers increasing by 2.2%, as compared to a 1.4% increase in 2012. Vacancy rates decreased to 4.7% from 4.9% in 2012. Our retail segment was 94.0% leased at December 31, 2013, up from 92.2% at December 31, 2012.

The region's multifamily market showed the effects of increased supply, as the Washington metro region had 62 Class A projects in active lease-up at the end of 2013, as compared to 33 at the end of 2012. Net effective rents for investment grade apartments in the region decreased 1.8% in 2013, compared to a 1.7% increase in 2012. The region's vacancy rate for investment grade apartments increased to 4.9%, up from 4.3% one year ago. Our multifamily segment was 93.3% leased at December 31, 2013, down from 95.7% at December 31, 2012.

Investment Activity

In September 2013, we entered into four separate purchase and sale agreements to effectuate the sale of the Medical Office Portfolio, which consisted of our entire medical office segment (including land held for development at 4661 Kenmore Avenue) and two office buildings (Woodholme Center and 6565 Arlington Boulevard), for an aggregate purchase price of \$500.8 million. The dispositions consisted of four independent transactions, each of which closed pursuant to a separate purchase and sale agreement. Purchase and Sale Agreements #1 and #2 closed in November 2013 and Purchase and Sale Agreements #3 and #4 closed in January 2014.

We may not be successful in reinvesting some or all of the proceeds of the sale of medical office portfolio in the near term. If we do not successfully reinvest the sales proceeds promptly in income producing properties, the resulting decrease in our net income attributable to the controlling interests will not be completely offset by income from the temporary investment of the disposition proceeds. This decrease in net income attributable to the controlling interests would have a negative impact on our earnings to fixed charges and debt service coverage ratios and could have a negative impact on our ability to pay dividends at their current level. Even if we promptly reinvest some or all of the sales proceeds in income producing properties, we still expect some decrease in net income attributable to the controlling interests in future quarters due to the cost of these acquisitions.

We have identified a portion of the sold Medical Office Portfolio properties for tax deferred exchange under Section 1031 of the Internal Revenue Code. Section 1031 requires that we identify and close on the acquisition of replacement properties within limited time periods. We may not be able to identify and acquire appropriate replacement properties within the specified time periods. If we do not identify and acquire the replacement properties within the specified time periods, we would expect to recognize a taxable gain with respect to the sale of the Medical Office Portfolio. The amount of this taxable gain would depend upon the timing and size of the replacement property acquisitions and also our other results of operations, and it could be a material amount. If we recognize this taxable gain, we could be required to pay a significant portion of it as a special capital gain dividend to our shareholders or alternatively be subject to income taxes on the taxable gain.

We acquired one multifamily building in Arlington, Virginia. This transaction was consistent with our current 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.

Capital Requirements

With proceeds from the sale of our medical office segment, we extinguished three mortgage notes secured by medical office properties and paid down our unsecured lines of credit. In January 2014, we extinguished the remaining \$100.0 million of our 5.25% unsecured notes on their maturity date. We do not have any remaining debt maturities in 2014.

Significant Transactions

We summarize below our significant transactions during the two years ended December 31, 2013:

2013

The acquisition of The Paramount, a multifamily property in Arlington, Virginia with 135 units and 3,600 square feet of retail space, for a contract purchase price of \$48.2 million. We incurred \$0.3 million in acquisition costs related to this transaction.

The execution of four separate contracts with a single buyer for the sale of the entire medical office segment, consisting of 17 medical office assets, and two office assets, 6565 Arlington Boulevard and Woodholme Center (both of which have significant medical office tenancy), encompassing in total approximately 1.5 million square feet. The assets sold also included land held for development at 4661 Kenmore Avenue. The sales prices under the four agreements aggregated to \$500.8 million. Purchase and Sale Agreement #1 (\$303.4 million of the aggregate sales price) and Purchase and Sale Agreement #2 (\$3.8 million of the aggregate sales price) closed in November 2013, resulting in a gain on sale of real estate of \$18.9 million. Purchase and Sale Agreement #3 (\$79.0 million of the aggregate sales price) and Purchase and Sale Agreement #4 (\$114.6 million of the aggregate sales price) closed in January 2014.

The disposition of the Atrium Building, a 79,000 square foot office building, for a contract sales price of \$15.8 million, resulting in a gain on sale of \$3.2 million.

The execution of new leases for 1.6 million square feet of commercial space, excluding leases at properties classified as sold or held for sale, with an average rental rate increase of 10.2% over expiring leases.

2012

The disposition of Plumtree Medical Center, a 33,000 square foot medical office building, for a contract sales price of \$8.8 million, generating a gain on sale of \$1.4 million.

The issuance of \$300.0 million of 3.95% unsecured notes due October 15, 2022, with net proceeds of \$296.4 million. The notes bear an effective interest rate of 4.018%.

The disposition of 1700 Research Boulevard, a 101,000 square foot office building, for a contract sales price of \$14.3 million, generating a gain on sale of \$3.7 million.

The acquisition of an office building, Fairgate at Ballston, for \$52.3 million, adding approximately 142,000 square feet. We incurred \$0.2 million in acquisition costs related to this transaction.

The execution of an amended and restated credit agreement for our Credit Facility No. 1 to expand the facility from \$75.0 million to \$100.0 million, with an accordion feature that allows us to increase the facility to \$200.0 million, subject to additional lender commitments. The amended and restated facility matures June 2015, with a one-year extension at WRIT's option, and bears interest at a rate of LIBOR plus a margin of 120 basis points.

The execution of an amended and restated credit agreement for Credit Facility No. 2, our \$400.0 million unsecured line of credit, to extend the maturity date of the facility to July 2016, with a one-year extension option, and lower the interest rate to LIBOR plus a margin of 120 basis points.

The execution of new leases for 0.7 million square feet of commercial space, excluding properties classified as sold or held for sale, with an average rental rate increase of 12.8% over expiring leases.

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 accounting principles generally accepted in the United States. 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.

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.

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.

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 and held for sale, 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.

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 over the performance period 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 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. During the fourth quarter of 2011, we recognized a \$14.5 million impairment charge at Dulles Station, Phase II, a development property held by one of our TRS's (see note 3 to the consolidated financial statements). The impairment charge created a deferred tax asset of \$5.7 million at this TRS, and we have determined that it is more likely than not that this deferred tax asset will not be realized, as we cannot reliably project sufficient future taxable income in the TRS's to realize all or part of the deferred tax asset. We have therefore recorded a valuation allowance for the full amount of the deferred tax asset related to the impairment charge at Dulles Station, Phase II.

Results of Operations

The discussion that follows is based on our consolidated results of operations for the years ended December 31, 2013, 2012 and 2011. The ability to compare one period to another is significantly affected by acquisitions completed and dispositions made during those years.

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Properties we acquired during the three years ended December 31, 2013 were as follows:

Acquisition Date	Property	Type	Rentable Square Feet	Contract Purchase Price (in thousands)
October 1, 2013	The Paramount (135 units)	Multifamily	N/A	\$48,200
		Total 2013		\$48,200
June 21, 2012	Fairgate at Ballston	Office	142,000	\$52,250
		Total 2012	142,000	\$52,250
January 11, 2011	1140 Connecticut Ave	Office	188,000	\$80,250
March 30, 2011	1127 25th St	Office	132,000	47,000
June 15, 2011	650 North Glebe Road	Land	N/A	11,800
August 30, 2011	Olney Village	Retail	198,000	58,000
September 13, 2011	Braddock Metro	Office	351,000	101,000
September 15, 2011	John Marshall II	Office	223,000	73,500
November 23, 2011	1225 First Street	Land	N/A	13,850
		Total 2011	1,092,000	\$385,400

Properties we sold or classified as held for sale during the three years ended December 31, 2013 were as follows:

Property	Type	Rentable Square Feet	Contract Sales Price (in thousands)
Atrium Building	Office	79,000	\$15,750
Medical Office Portfolio ⁽¹⁾	Medical Office/Office	1,520,000	500,750
		1,599,000	\$516,500
1700 Research Boulevard	Office	101,000	\$14,250
Plumtree Medical Center	Medical Office	33,000	8,750
	Total 2012	134,000	\$23,000
Dulles Station, Phase I	Office	180,000	\$58,800
Industrial Portfolio ⁽²⁾	Industrial/Office	3,092,000	350,900
	Total 2011	3,272,000	\$409,700

The Medical Office Portfolio consists of every property in our medical office segment (including land held for development at 4661 Kenmore Avenue) and two office properties (Woodholme Center and 6565 Arlington Boulevard). In November 2013, we closed on the sale of the two office properties (6565 Arlington Boulevard and Woodholme Center), 2440 M Street, Alexandria Professional Center, 8301 Arlington Boulevard, Ashburn Farm Office Park I, II and III, CetreMed I and II, Sterling Medical Office Building, 19500 at Riverside Office Park, Shady Grove Medical Village II, 9707 Medical Center Drive, 15001 Shady Grove Road and 15005 Shady Grove Road, Woodholme Medical Office Building and 4661 Kenmore Avenue. In January 2014, we closed on the sale of Woodburn Medical Park I and II and Prosperity Medical Center I, II and III.

⁽²⁾ The Industrial Portfolio consists of every property in our industrial segment and two office properties (the Crescent and Albemarle Point).

To provide more insight into our operating results, we divide our discussion into two main sections:

Consolidated Results of Operations (page 28). An overview analysis of results on a consolidated basis; and

Net Operating Income (page 32). A detailed analysis of same-store versus non-same-store NOI results by segment.

NOI is a non-GAAP measure calculated as real estate rental revenue less real estate expenses excluding depreciation and

amortization and general and administrative expenses.

Consolidated Results of Operations

Real Estate Rental Revenue

Real estate rental revenue for properties classified as continuing operations for the three years ended December 31, 2013 was as follows (in thousands, except percentage amounts):

	Year Ended December 31,			2013 vs 2012	%	2012 vs 2011	%		%
	2013	2012	2011						
Minimum base rent	\$226,839	\$221,764	\$206,545	\$5,075	2.3	% \$15,219	7.4	%	
Recoveries from tenants	26,822	25,528	21,877	1,294	5.1	% 3,651	16.7	%	
Provision for doubtful accounts	(3,605)	(4,779)	(3,927)	1,174	(24.6)	% (852)	21.7	%	
Lease termination fees	643	680	367	(37)	(5.4)	% 313	85.3	%	
Parking and other tenant charges	12,325	11,601	9,871	724	6.2	% 1,730	17.5	%	
	\$263,024	\$254,794	\$234,733	\$8,230	3.2	% \$20,061	8.5	%	

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, 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.

Minimum Base Rent: Minimum base rent increased by \$5.1 million in 2013 primarily due to acquisitions (\$3.0 million). Minimum base rent from same-store properties increased by \$2.4 million primarily due to higher rental rates (\$5.8 million), partially offset by lower occupancy (\$2.4 million), higher rent abatements (\$0.7 million) and higher amortization of deferred lease incentives (\$0.2 million).

Minimum base rent increased by \$15.2 million in 2012 primarily due to acquisitions (\$16.0 million). Minimum base rent from same-store properties decreased by \$0.8 million primarily due lower occupancy (\$3.0 million), lower amortization of net lease intangible liabilities (\$0.4 million) and higher rent abatements (\$0.3 million), partially offset by higher rental rates (\$3.2 million).

Recoveries from Tenants: Recoveries from tenants increased by \$1.3 million in 2013 primarily due to higher reimbursements for operating expenses from same-store properties.

Recoveries from tenants increased by \$3.7 million in 2012 primarily due to acquisitions (\$2.8 million), and higher real estate tax recoveries from same-store properties (\$0.9 million) due to higher property tax assessments across the portfolio.

Provision for Doubtful Accounts: Provision for doubtful accounts decreased by \$1.2 million in 2013 primarily due to lower provisions in the retail segment.

Provision for doubtful accounts increased by \$0.9 million in 2012 due to higher provisions in the retail (\$0.5 million) and office (\$0.4 million) segments.

Lease Termination Fees: Lease termination fees slightly decreased in 2013 as higher fees from acquisitions (\$0.1 million) were offset by lower fees from same-store properties (\$0.1 million).

Lease termination fees increased by \$0.3 million in 2012 primarily due to higher fees in the office segment.

Parking and Other Tenant Charges: Parking and other tenant charges increased by \$0.7 million in 2013 primarily due to increases in parking income from same-store properties (\$0.5 million) and acquisitions (\$0.3 million).

Parking and other tenant charges increased by \$1.7 million in 2012 primarily due to acquisitions (\$0.9 million), and increases in parking income (\$0.3 million) and short-term tenant rent (\$0.3 million) from same-store properties.

Occupancy for properties classified as continuing operations by segment for the three years ended December 31, 2013 was as follows:

Segment	December 31,			2013 vs 2012		2012 vs 2011	
	2013	2012	2011				
Office	85.7	% 85.2	% 89.6	% 0.5	% (4.4)%	
Retail	91.3	% 91.2	% 93.3	% 0.1	% (2.1)%	
Multifamily	92.1	% 94.1	% 94.9	% (2.0)%	(0.8)%
Total	88.8	% 88.9	% 91.9	% (0.1)%	(3.0)%

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

Our overall occupancy decreased to 88.8% in 2013 from 88.9% in 2012, with a decline in the multifamily segment partially offset by higher occupancy in the office and retail segments.

Our overall occupancy decreased to 88.9% in 2012 from 91.9% in 2011, with the largest declines in the office and retail segments.

A detailed discussion of occupancy by segment can be found in the Net Operating Income section.

Real Estate Expenses

Real estate expenses for the three years ended December 31, 2013 were as follows (in thousands except percentage amounts):

	Year Ended December 31,			2013 vs		2012 vs			
	2013	2012	2011	2012	% Change	2011	% Change		
Property operating expenses	\$64,241	\$59,481	\$56,721	\$4,760	8.0	% \$2,760	4.9	%	
Real estate taxes	29,052	27,064	22,903	1,988	7.3	% 4,161	18.2	%	
	\$93,293	\$86,545	\$79,624	\$6,748	7.8	% \$6,921	8.7	%	

Real estate expenses as a percentage of revenue were 35.5%, 34.0% and 33.9% for the three years ended December 31, 2013, 2012 and 2011, 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 increased by \$4.8 million in 2013 due to acquisitions (\$0.8 million) and property operating expenses from same-store properties, which increased by \$3.8 million primarily due to lower recoveries of bad debt (\$0.9 million), and higher administrative (\$0.8 million), repairs and maintenance (\$0.6 million), snow removal (\$0.4 million), utilities (\$0.3 million), custodial (\$0.2 million) and vacant space preparation (\$0.2 million) expenses.

Property operating expenses increased by \$2.8 million in 2012 primarily due to acquisitions (\$4.5 million), partially offset by property operating expenses from same-store properties, which decreased by \$1.7 million primarily due to lower utilities expense (\$1.1 million) caused by lower electricity and gas rates and to higher recoveries of bad debt (\$0.6 million).

Real Estate Taxes: Real estate taxes increased by \$2.0 million in 2013 due to acquisitions (\$0.4 million) and higher real estate taxes at same-store properties (\$1.5 million) due to higher property assessments.

Real estate taxes increased by \$4.2 million in 2012 due to acquisitions (\$2.4 million) and higher real estate taxes at same-store properties (\$1.8 million) due to higher property assessments.

Other Operating Expenses

Other operating expenses for the three years ended December 31, 2013 were as follows (in thousands, except percentage amounts):

	Year Ended December 31,			2013 vs 2012	%	2012 vs 2011	%		
	2013	2012	2011					Change	Change
Depreciation and amortization	\$85,740	\$85,107	\$74,403	\$633	0.7	% \$10,704	14.4	%	
Acquisition costs	1,265	234	3,607	1,031	440.6	% (3,373)	(93.5)%	
Interest expense	63,573	60,627	61,402	2,946	4.9	% (775)	(1.3)%	
General and administrative	17,535	15,488	15,728	2,047	13.2	% (240)	(1.5)%	
	\$168,113	\$161,456	\$155,140	\$6,657	4.1	% \$6,316	4.1	%	

Depreciation and Amortization: Depreciation and amortization expense increased by \$0.6 million in 2013 primarily due to operating properties acquired and placed into service of \$48.2 million and \$52.3 million in 2013 and 2012, respectively.

Depreciation and amortization expense increased by \$10.7 million in 2012 primarily due to operating properties acquired and placed into service of \$52.3 million and \$385.4 million in 2012 and 2011, respectively.

Acquisition Costs: Acquisition costs increased by \$1.0 million in 2013 primarily due to the acquisition of The Paramount in 2013 and expenses related to potential acquisitions in 2014.

Acquisition costs decreased by \$3.4 million in 2012 primarily due to a lower volume of acquisitions in 2012 than in 2011.

Interest Expense: Interest expense by debt type for the three years ended December 31, 2013 was as follows (in thousands, except percentage amounts):

Debt Type	Year Ended December 31,			2013 vs 2012	%	2012 vs 2011	%		
	2013	2012	2011					Change	Change
Notes payable	\$43,174	\$37,982	\$38,918	\$5,192	13.7	% \$(936)	(2.4)%	
Mortgage notes payable	18,378	20,847	18,434	(2,469)	(11.8)%	2,413	13.1	%
Lines of credit	3,257	3,486	4,788	(229)	(6.6)%	(1,302)	(27.2)%
Capitalized interest	(1,236)	(1,688)	(738)	452	(26.8)%	(950)	128.7	%
Total	\$63,573	\$60,627	\$61,402	\$2,946	4.9	% \$(775)	(1.3)%	

The \$5.2 million increase in notes payable interest during 2013 is due to the the issuance of our 3.95% senior notes in 2012, partially offset by the repayment of our 5.05% senior notes during 2012. The \$2.5 million decrease in mortgage interest expense is due to the repayments of several mortgage notes during 2013. The \$0.2 million decrease in interest expense on our unsecured lines of credit during 2013 is attributable to lower average borrowings outstanding during 2013. Capitalized interest decreased by \$0.5 million during 2013 due to placing the development project at 1225 First Street on hold.

The \$0.9 million decrease in notes payable interest during 2012 is due to the repayment of our 5.95% senior notes during 2011 and our 5.05% senior notes during 2012, partially offset by the issuance of our 3.95% senior notes in 2012. The \$2.4 million increase in mortgage interest expense is due to the assumption of mortgage notes with the acquisitions of Olney Village Center and John Marshall II in 2011, partially offset by the repayments of several mortgage notes during 2012. The \$1.3 million decrease in interest expense on our unsecured lines of credit is attributable to lower average borrowings outstanding during 2012. Capitalized interest increased by \$1.0 million during 2012 due to expenditures on our two multifamily development projects at 650 North Glebe Road and 1225 First Street.

General and Administrative Expense: General and administrative expense increased by \$2.0 million in 2013 primarily due to higher incentive compensation expense related to the officer three-year long-term incentive plan.

General and administrative expense decreased by \$0.2 million in 2012 primarily due to lower incentive compensation expense, partially offset by severance costs.

Real Estate Impairment

Dulles Station, Phase II consists of undeveloped land in Herndon, Virginia and a half interest in a parking garage that is adjacent to this land. The land is zoned for development as an office building. In connection with the preparation of financial statements

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for the 2011 Annual Report on Form 10-K, we reviewed changes in market conditions, specifically higher vacancy and lower rental rates in the Washington metro region office market and other circumstances affecting the Herndon submarket, such as the increased uncertainty surrounding the timing of the completion of the second phase of the Dulles Metrorail project, and reassessed the likelihood that we would follow through on these development plans. Based upon the foregoing review and assessment, we determined that the development of the land at Dulles Station, Phase II is not probable under those market conditions. Due to this determination, we recognized a \$14.5 million impairment charge during the fourth quarter of 2011 in order to reduce the carrying value of the land and garage at Dulles Station, Phase II to its fair value of