

WASHINGTON REAL ESTATE INVESTMENT TRUST
Form 10-K
February 26, 2016

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, 2015

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

COMMISSION FILE NO. 001-06622

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

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

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

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

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

YES NO

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past ninety (90) days. YES NO

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of “large accelerated filer,” “accelerated filer” 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 30, 2015, the aggregate market value of such shares held by non-affiliates of the registrant was \$1,758,593,812 (based on the closing price of the stock on June 30, 2015).

As of February 22, 2016, 68,191,846 common shares were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our definitive Proxy Statement relating to the 2016 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
2015 FORM 10-K ANNUAL REPORT
INDEX

	Page
PART I	
Item 1. Business	<u>4</u>
Item 1A. Risk Factors	<u>9</u>
Item 1B. Unresolved Staff Comments	<u>24</u>
Item 2. Properties	<u>25</u>
Item 3. Legal Proceedings	<u>26</u>
Item 4. Mine Safety Disclosures	<u>26</u>
PART II	
Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	<u>27</u>
Item 6. Selected Financial Data	<u>28</u>
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>29</u>
Item 7A. Qualitative and Quantitative Disclosures about Market Risk	<u>48</u>
Item 8. Financial Statements and Supplementary Data	<u>49</u>
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	<u>49</u>
Item 9A. Controls and Procedures	<u>49</u>
Item 9B. Other Information	<u>49</u>
PART III	
Item 10. Directors, Executive Officers and Corporate Governance	<u>50</u>
Item 11. Executive Compensation	<u>50</u>
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	<u>50</u>
Item 13. Certain Relationships and Related Transactions, and Director Independence	<u>50</u>
Item 14. Principal Accountant Fees and Services	<u>50</u>
PART IV	
Item 15. Exhibits and Financial Statement Schedules	<u>51</u>
Signatures	<u>54</u>

PART I

ITEM 1: BUSINESS

Washington REIT Overview

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

Our current strategy is to recycle legacy assets that lack the income growth potential we seek and to invest in high-quality assets with compelling value-add returns through redevelopment opportunities in our existing portfolio and acquisitions that meet our investment criteria. We focus on properties inside the Washington metro region’s Beltway, near major transportation nodes and in areas with strong employment drivers and superior growth demographics. We will seek to continue to upgrade our portfolio as opportunities arise, funding acquisitions with a combination of cash, equity, debt and proceeds from property sales.

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

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

Our Regional Economy and Real Estate Markets

The Washington metro region experienced strong job growth during 2015 with 68,500 net job additions, according to the Bureau of Labor Statistics. Of this job growth, 38% was related to professional and business services compared to 15% in 2014. The private sector has been the primary source of the job growth, while employment related to the federal government has stabilized after several years of decline. 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 region's unemployment rate was 4.3% as of October 2015, down from 4.7% in the prior year and lower than the national average of 5.0%. Delta expects the Washington metro region's strong job growth to continue in 2016, with expansion driven by the private sector.

The Washington metro region's strong job growth generally resulted in modest improvements in the real estate market performance for each of our segments. Market statistics and information for the Washington metro region from Delta are set forth below:

Office

	2015	2014	
Increase in average effective rents	2.3	% 1.3	%
Direct vacancy rate at year end	11.2	% 11.1	%
Net absorption (in millions of square feet) ⁽¹⁾	0.5	0.4	
Office space under construction at year end (in millions of square feet)	4.0	4.1	

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

The small increase in direct vacancy rates is primarily due to new deliveries of office buildings and the direct vacancy rate in our region is well below the national average of 16.5%. Delta projects gradual improvement in office vacancy

and effective rents during 2016 due to stronger demand for office space.

Multifamily

	2015	2014	
Increase in net effective rents (Class A and B)	0.5	% 1.2	%
Increase in net effective rents (Class A)	0.5	% 1.0	%
Stabilized vacancy rate (Class A and B)	3.9	% 4.6	%
Stabilized vacancy rate (Class A)	4.6	% 5.6	%
New Class A and B apartment deliveries (# of units)	12,310	14,286	

Source: Delta

The multifamily real estate market remained steady during 2015 despite the large influx of new supply. Class A and B apartment deliveries are projected by Delta to increase to approximately 14,000 units in 2016. Delta expects strong demand to lead to higher rental rates in 2016 despite the new deliveries.

Retail

	2015	2014	
Increase in rental rates at grocery-anchored centers	2.9	% 2.3	%
Vacancy at grocery-anchored centers at year end	4.4	% 5.5	%

Source: Delta

The retail real estate market in the Washington metro region continues to show steady, but modest, improvement. Delta projects continued improvement in 2016 due to low unemployment.

Our Portfolio

As of December 31, 2015, we owned a diversified portfolio of 54 properties, totaling approximately 7.2 million square feet of commercial space and 3,258 residential units, and land held for development. These 54 properties consist of 25 office properties, 13 multifamily properties and 16 retail centers. The percentage of total real estate rental revenue by segment for the three years ended December 31, 2015, 2014 and 2013, and the percent leased as of December 31, 2015, were as follows:

Percent Leased December 31, 2015 ⁽²⁾		% of Total Real Estate Rental Revenue ⁽¹⁾			
		2015	2014	2013	
92%	Office	57	% 57	% 58	%
96%	Multifamily	22	% 22	% 21	%
95%	Retail	21	% 21	% 21	%
		100	% 100	% 100	%

⁽¹⁾ Data excludes discontinued operations.

⁽²⁾ Calculated as the percentage of physical net rentable area leased, except for multifamily, which is calculated as the percentage of units leased.

On a combined basis, our commercial portfolio (i.e., our office and retail properties) was 93% leased at December 31, 2015, 91% leased at December 31, 2014 and 92% leased at December 31, 2013.

Total real estate rental revenue from continuing operations for the each of the three years ended December 31, 2015 was \$306.4 million, \$288.6 million and \$263.0 million, respectively. During the three years ended December 31, 2015, we acquired two office properties, three multifamily properties (including a parcel for development) and one retail property, and substantially completed major construction activities at one multifamily development project and one office redevelopment project. During that same period, we sold our entire medical office segment, three office properties, two multifamily properties, one retail property, interests in land held for development and a parcel of land at a retail property.

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

	# of Leases	Square Feet	Gross Annual Rent (in thousands)	Percentage of Total Gross Annual Rent	
Office:					
2016	102	429,087	\$17,128	9	%
2017	88	566,574	21,901	12	%
2018	92	461,318	17,293	10	%
2019	89	703,590	27,954	15	%
2020	83	558,369	23,937	13	%
2021	58	479,586	18,722	10	%
2022	33	317,616	14,588	8	%
2023	30	165,175	6,861	4	%
2024	31	221,857	9,206	5	%
2025	22	134,265	6,710	4	%
Thereafter	29	486,457	18,710	10	%
Total	657	4,523,894	\$183,010	100	%
Retail:					
2016	21	96,231	\$2,916	6	%
2017	43	255,342	6,886	13	%
2018	37	334,958	4,876	9	%
2019	32	158,213	4,466	8	%
2020	37	407,969	7,363	14	%
2021	19	212,394	3,846	7	%
2022	21	139,650	3,530	7	%
2023	17	122,465	4,067	8	%
2024	24	164,413	4,643	9	%
2025	17	101,659	2,997	6	%
Thereafter	16	174,145	6,712	13	%
Total	284	2,167,439	\$52,302	100	%

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 2015. 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 could seriously impact these sectors.

No single tenant accounted for more than 5% of real estate rental revenue in 2015, 2014 or 2013. All federal government tenants in the aggregate accounted for less than 1% of our 2015 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 for 2015, are as follows:

1. World Bank
2. Advisory Board Company
3. Booz Allen Hamilton, Inc.
4. Squire Patton Boggs (USA) LLP
5. Engility Corporation
6. Hughes Hubbard & Reed LLP
7. Epstein, Becker & Green, P.C.
8. Morgan Stanley, Smith Barney
9. General Services Administration
10. SunTrust Bank

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

We expect to continue investing in additional income-producing properties through acquisitions, development and redevelopment. We invest in properties in which we believe we will be able to improve the operating results and increase the value of the property. Our properties typically compete for tenants with other properties 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, 2015 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 22, 2016, we had 174 employees including 99 persons engaged in property management functions and 75 persons engaged in corporate, financial, leasing, asset management and other functions.

REIT Tax Status

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

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

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

Tax Treatment of Recent Disposition Activity

We sold our interests in the following properties during the three years ended December 31, 2015:

Property	Type	# of units	Rentable Square Feet	Contract Sales Price (in thousands)	Gain on Sale (in thousands)
Country Club Towers	Multifamily	227	N/A	\$ 37,800	\$ 30,277
1225 First Street ⁽¹⁾	Multifamily	N/A	N/A	14,500	—
Munson Hill Towers	Multifamily	279	N/A	57,050	51,395
Montgomery Village Center	Retail	N/A	197,000	27,750	7,981
	Total 2015	506	197,000	\$ 137,100	\$ 89,653
Medical Office Portfolio Transactions III & IV ⁽²⁾	Medical Office	N/A	427,000	\$ 193,561	\$ 105,985
5740 Columbia Road	Retail	N/A	3,000	1,600	570
	Total 2014		430,000	\$ 195,161	\$ 106,555
Atrium Building	Office	N/A	79,000	\$ 15,750	\$ 3,195
Medical Office Portfolio Transactions I & II ⁽²⁾	Medical Office / Office	N/A	1,093,000	307,189	18,949
	Total 2013		1,172,000	\$ 322,939	\$ 22,144

⁽¹⁾ 95% interest in land held for future development.

Transactions 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,

⁽²⁾ 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). Transactions III and IV consisted of Woodburn Medical Park I and II and Prosperity Medical Center I, II and III.

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

We distributed all of our ordinary taxable income for the three years ended December 31, 2015 to our shareholders.

Availability of Reports

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

ITEM 1A: RISK FACTORS

Set forth below are the risks that we believe are material to our shareholders. We refer to the shares of beneficial interest in Washington REIT as our “common shares,” and the investors who own shares as our “shareholders.” This section includes or refers to certain forward-looking statements. You should refer to the explanation of the qualifications and limitations on such forward-looking statements beginning on page 45.

Risks Related to our Business and Operations

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

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

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

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

All of 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. Additionally, we are susceptible to adverse developments in the Washington D.C. regulatory environment, such as increases in real estate and other taxes and the costs of complying with governmental regulations or increased regulations. In the event of negative economic and/or regulatory changes in our region, we may experience a negative impact to our profitability and may be limited in our ability to meet our financial obligations when due and/or make distributions to our shareholders.

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

As a REIT operating exclusively in the Washington metro region, a significant portion of our properties is occupied by 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 a sequestration process, such as occurred in recent years, could adversely affect the ability of these tenants to fulfill lease obligations or decrease the likelihood that they will renew their leases with us. Further, economic conditions in the Washington metro region are significantly dependent upon the level of federal government spending in the region as a whole. In the event of 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 renewals. 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 may, from time to time, engage in development and redevelopment activities, some of which may be significant. Developing or redeveloping properties presents a number of risks for us, including risks that:

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

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

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

We face risks associated with property acquisitions.

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

- we may have difficulty finding properties that are consistent with our strategies and that meet our standards;
- we may have difficulty negotiating with new or existing tenants;
- we may be unable to finance acquisitions on favorable terms or at all;
- the occupancy levels, lease-up timing and rental rates may not meet our expectations;
- even if we enter into an acquisition agreement for a property, we may be unable to complete that acquisition after making a non-refundable deposit and incurring certain other acquisition-related costs;
- competition from other real estate investors may significantly increase the purchase price;
- we may be unable to acquire a desired property because of competition from other real estate investors, including publicly traded real estate investment trusts, institutional investment funds and private investors;
- even if we enter into an acquisition agreement for a property, it is subject to customary conditions to closing, including completion of due diligence investigations which may have findings that are unacceptable;
-

- the timing of property acquisitions may lag the timing of property dispositions, leading to periods of time where projects' proceeds are not invested as profitably as we desire;
- the acquired properties may fail to perform as we expected in analyzing our investments;
- the actual returns realized on acquired properties may not exceed our cost of capital;
- we may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into our existing operations;
- our estimates of capital expenditures required for an acquired property, including the costs of repositioning or redeveloping, may be inaccurate; and
- we could experience a decline in value of the acquired assets after acquisition.

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

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

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

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

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

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

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

Real estate investments can be difficult to sell and convert to cash quickly, especially if market conditions are not favorable. Such illiquidity could limit our ability to quickly change our portfolio of properties in response to changes in economic or other conditions. Moreover, the tax laws applicable to REITs require that we hold our properties for investment, rather than primarily for sale in the ordinary course of business, which may cause us to forego or defer sales of properties that otherwise would be in our best interest. Due to these factors, we may be unable to sell a property at an advantageous time which could negatively impact our profitability.

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

As of December 31, 2015, the percentage of leased square footage of our commercial properties classified as continuing operations will expire as set forth in the lease expiration tables on page 6.

Multifamily properties are leased under operating leases with terms of generally one year or less. For each the three years ended December 31, 2015, the multifamily tenant retention rate was 62%, 60% and 43%, respectively.

We derive substantially all of our income from rent received from tenants. If our tenants decide not to renew their leases, we may not be able to re-lease the space. If tenants decide to renew their leases, the terms of renewals,

including the cost of required improvements or concessions, may be less favorable than current lease terms. If the rental rates of our properties decrease, our existing tenants do not renew their leases (refer to the list of our ten largest tenants as of December 31, 2015 on page 7) or we do not re-lease a significant portion of our available and soon-to-be-available space, our financial condition, results of operations, cash flow and our ability to satisfy our principal and interest obligations and to make distributions to our shareholders could be adversely affected.

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

The bankruptcy or insolvency of a major tenant may adversely affect the income produced by a property. We cannot evict a tenant solely because of its bankruptcy. On the other hand, a court might authorize the tenant to reject and terminate its lease. In such case, our claim against the bankrupt tenant for unpaid, future rent would be subject to a statutory cap that might be substantially

less than the remaining rent actually owed under the lease. As a result, our claim for unpaid rent would likely not be paid in full. This shortfall could adversely affect our cash flow and results of operations. If a tenant experiences a downturn in its business or other types of financial distress, it may be unable to make timely rental payments.

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

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, and we may be forced to make contributions to maintain the value of the property. Our partners in these entities may have economic, tax or other business interests or goals that are inconsistent with our business interests or goals, and may be in a position to take actions contrary to our policies or objectives. Such investments may also lead to impasses, for example, as to whether to sell a property, because neither we nor the other parties to these investments may have full control over the entity. In addition, we may in certain circumstances be liable for the actions of the other parties to these investments. Each of these factors could have an adverse effect on our financial condition, results of operations, cash flows and ability to make distributions to our shareholders. In some instances, joint venture partners may have competing interests that could create conflicts of interest. These conflicts may include compliance with the REIT requirements, and our REIT status could be jeopardized if any of our joint ventures do not operate in compliance with the REIT requirements. To the extent our joint venture partners do not meet their obligations to us or they take action inconsistent with our interests in the joint venture, we may be adversely affected.

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

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

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

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

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

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

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

The Americans with Disabilities Act generally requires that public buildings, including commercial and multifamily properties, be made accessible to disabled persons. Noncompliance could result in imposition of fines by the federal government or the award

of damages to private litigants. If, pursuant to the Americans with Disabilities Act, we are required to make substantial alterations and capital expenditures in one or more of our properties, including the removal of access barriers, it could adversely affect our results of operations.

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

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

We carry insurance coverage on our properties of types and in amounts that we believe are in line with coverage customarily obtained by owners of similar properties. We believe all of our properties are adequately insured. The property insurance that we maintain for our properties has historically been on an “all risk” basis, which is in full force and effect until renewal in August 2016. There are other types of losses, such as from wars or catastrophic events, for which we cannot obtain insurance at all or at a reasonable cost.

We have an insurance policy that has no terrorism exclusion, except for non-certified nuclear, chemical and biological acts of terrorism. Our financial condition and results of operations are subject to the risks associated with acts of terrorism and the potential for uninsured losses as the result of any such acts. Effective November 26, 2002, under this existing coverage, any losses caused by certified acts of terrorism would be partially reimbursed by the United States under a formula established by federal law. Under this formula, the United States pays 85% of covered terrorism losses exceeding the statutorily established deductible paid by the insurance provider, and insurers pay 10% until aggregate insured losses from all insurers reach \$100 billion in a calendar year. If the aggregate amount of insured losses under this program exceeds \$100 billion during the applicable period for all insured and insurers combined, then each insurance provider will not be liable for payment of any amount which exceeds the aggregate amount of \$100 billion. On January 12, 2015, The Terrorism Risk Insurance Program Reauthorization Act of 2015 was signed into law, extending the program through December 31, 2020. We continue to monitor the state of the insurance market in general, and the scope and costs of coverage for acts of terrorism in particular, but we cannot anticipate what amount of coverage will be available on commercially reasonable terms in future policy years.

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

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

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

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

All of 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 which would negatively affect our results of operations.

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

Under federal, state and local environmental laws, ordinances and regulations, we may be liable for costs and damages resulting from the presence or release of hazardous or toxic substances, wastes or petroleum products at our properties, including investigation or cleanup costs, personal or property damage, natural resource damages, or we may be required to pay for such costs and damages incurred by a government entity or third party regardless of our knowledge or responsibility, simply because of our current or past ownership or operation of the real estate. If environmental contamination issues arise, we may have to make substantial payments, which could adversely affect our cash flow and our ability to make distributions to our shareholders, because (1) as a current or former owner or operator of real property we may have to pay for property damage and for investigation and clean-up costs incurred in connection with the contamination; (2) the law typically imposes clean-up responsibility and liability regardless of whether the owner or operator knew of or caused the contamination; (3) even if more than one person may be responsible for the contamination, each person who shares legal liability under such environmental laws may be held responsible for all of the clean-up costs; and (4) governmental entities and third parties may sue the owner or operator of a contaminated site for damages and costs. We also may be liable for the costs of removal or remediation of hazardous substances or waste at disposal or treatment facilities if we arranged for disposal or treatment of hazardous substances at such facilities, whether or not we own such facility.

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

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

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

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

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

properties, environmental laws may impose restrictions on the manner in which property may be used or businesses may be operated, and these restrictions may result in substantial expenditures or liabilities.

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

- the environmental assessments and updates did not identify all potential environmental liabilities;
- a prior owner created a material environmental condition that is not known to us or the independent consultants preparing the assessments;
- new environmental liabilities have developed since the environmental assessments were conducted; and

future uses or conditions or changes in applicable environmental laws and regulations could result in environmental liability to us.

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

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

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

We face risks associated with security breaches or disruptions, whether through cyber-attacks or cyber intrusions over the Internet, malware, computer viruses, attachments to emails, or persons inside our organization. The risk of a security breach or disruption, particularly through cyber-attacks or cyber intrusion, including by computer hackers, foreign governments, and cyber terrorists, has generally increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. In the normal course of business we and our service providers (including service providers engaged in providing property management, leasing, accounting and/or payroll services) collect and retain certain personal information provided by our tenants, employees and vendors. We also rely extensively on computer systems to process transactions and manage our business. While we and our service providers employ a variety of data security measures to protect confidential information on our systems and periodically review and improve our data security measures, we cannot assure that we or our service providers will be able to prevent unauthorized access to this personal information. There can be no assurance that our efforts to maintain the security and integrity of the information we and our service providers collect and our and their computer systems will be effective or that attempted security breaches or disruptions would not be successful or damaging. Even the most well protected information, networks, systems and facilities remain potentially vulnerable because the techniques used in such attempted security breaches evolve and generally are not recognized until launched against a target, and in some cases are designed not be detected and, in fact, may not be detected. Accordingly, we and our service providers may be unable to anticipate these techniques or to implement adequate security barriers or other preventative measures, and thus it is impossible for us and our service providers to entirely mitigate this risk. A security breach or other significant disruption involving computer networks and related systems could adversely impact our financial condition, cash flows and the market price of our common shares.

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

Natural disasters and severe weather such as earthquakes, hurricanes or floods may result in significant damage to our properties. The extent of our casualty losses and loss in operating income in connection with such events is a function of the severity of the event and the total amount of exposure in the affected area. Because our properties are concentrated in one region, a single catastrophe or destructive weather event affecting that region may have a significant negative effect on our financial condition and results of operations. As a result, our operating and financial results may vary significantly from one period to the next. We are also exposed to risks associated with inclement winter weather, including increased need for maintenance and repair of our buildings. In addition, climate change, to

the extent it causes changes in weather patterns, could have effects on our business by increasing the cost of property insurance, energy and/or snow removal at our properties. As a result, the consequences of natural disasters, severe weather and climate change could increase our costs and reduce our cash flow.

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

A decline in the fair market value of our assets may require us to recognize an other-than-temporary impairment against such assets under GAAP if we were to determine that we do not have the ability and intent to hold any assets in unrealized loss positions to maturity or for a period of time sufficient to allow for recovery to the amortized cost of such assets. In such event, we would recognize unrealized losses through earnings and write down the amortized cost of such assets to a new cost basis, based on the fair value of such assets on the date they are considered to be other-than-temporarily impaired. Such impairment charges reflect non-cash losses at the time of recognition. Subsequent disposition or sale of such assets could further affect our future losses or gains, as they are based on the difference between the sale price received and adjusted amortized cost of such assets at the time

of sale, which may adversely affect our financial condition, liquidity and results of operations. In addition, a significant economic downturn over a period of time could result in an event or change in circumstances that results in an impairment in the value of our properties or our investments in joint ventures. An impairment loss is recognized if the carrying amount of the asset is not recoverable over its expected holding period and exceeds its fair value. There can be no assurance that we will not take charges in the future related to the impairment of our assets or investments. Any future impairment could have a material adverse effect on our financial condition, liquidity or results of operations.

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

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

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

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

Risks Related to Financing

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

We rely on borrowings under our credit facility 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. Circumstances could again arise in which we may not be able to obtain debt financing in the future on favorable terms, or at all. If we were unable to borrow under our credit facility or to refinance existing debt financing, our financial condition and results of operations would likely be adversely affected.

We are subject to the risks normally associated with debt, including the risk that our cash flow may be insufficient to meet required payments of principal and interest. We anticipate that only a small portion of the principal of our debt will be repaid prior to maturity. Therefore, we are likely to need to refinance a significant portion of our outstanding debt as it matures. There is a risk that we may not be able to refinance existing debt or that the terms of any refinancing will not be as favorable as the terms of the existing debt. If principal payments due at maturity cannot be refinanced, extended or repaid with proceeds from other sources, such as new equity capital, our cash flow may not be

sufficient to repay all maturing debt in years when significant “balloon” payments come due. In addition, we may rely on debt to fund a portion of our new investments such as our acquisition and development activity. There is a risk that we may be unable to finance these activities on favorable terms or at all. These conditions, which increase the cost and reduce the availability of debt, may continue or worsen in the future. If any of these risks were to happen, it would adversely affect our financial condition and results of operations.

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

On February 22, 2016, our total consolidated debt was approximately \$1.3 billion. Consolidated debt to consolidated market capitalization ratio, which measures total consolidated debt as a percentage of the aggregate of total consolidated debt plus the market value of outstanding equity securities, is often used by analysts to assess leverage for equity REITs such as us. Our market value is calculated using the price per share of our common shares. Using the closing share price of \$26.14 per share of our common

shares on February 22, 2016, multiplied by the number of our common shares, our consolidated debt to total consolidated market capitalization ratio was approximately 42% as of February 22, 2016.

Our degree of leverage could affect our ability to obtain additional financing for working capital, capital expenditures, acquisitions, development or other general corporate purposes. Our senior unsecured debt is currently rated investment grade by two major rating agencies. However, there can be no assurance that we will be able to maintain this rating, and in the event our senior debt is downgraded from its current rating, we would likely incur higher borrowing costs and/or difficulty in obtaining additional financing. Our degree of leverage could also make us more vulnerable to a downturn in business or the economy generally. There is a risk that changes in our debt to market capitalization ratio, which is in part a function of our share price, or our ratio of indebtedness to other measures of asset value used by financial analysts, may have an adverse effect on the market price of our equity or debt securities.

Payments of principal and interest on borrowings may leave us with insufficient cash resources to operate our properties, fully implement our capital expenditure, acquisition and redevelopment activities, or meet the REIT distribution requirements imposed by the Internal Revenue Code of 1986, as amended (the "Code"). Our level of debt and the limitations imposed on us by our debt agreements could have significant adverse consequences, including the following:

- require us to dedicate a substantial portion of cash flow from operations to the payment of principal, and interest on, indebtedness, thereby reducing the funds available for other purposes;
- make it more difficult for us to borrow additional funds as needed or on favorable terms, which could, among other things, adversely affect our ability to meet operational needs;
- restrict us from making strategic acquisitions, developing properties or exploiting business opportunities;
- force us to dispose of one or more of our properties, possibly on unfavorable terms (including the possible application of the 100% tax on income from prohibited transactions or in violation of certain covenants to which we may be subject);
- subject us to increased sensitivity to interest rate increases;
- make us more vulnerable to economic downturns, adverse industry conditions or catastrophic external events;
- limit our ability to withstand competitive pressures;
- limit our ability to refinance our indebtedness at maturity or the refinancing terms may be less favorable than the terms of our original indebtedness;
- reduce our flexibility in planning for or responding to changing business, industry and economic conditions; and/or
- place us at a competitive disadvantage to competitors that have relatively less debt than we have.

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

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

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

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

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

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

In recent years, the United States and global equity and credit markets have experienced significant price volatility and liquidity disruptions which caused the market prices of shares to fluctuate substantially and the spreads on prospective debt financings to widen considerably. These circumstances significantly and negatively impacted liquidity in the financial markets, making terms for certain financings less attractive or unavailable. Any disruption in the equity and credit markets could negatively impact our ability to access additional financing at reasonable terms or at all. If such disruption were to occur, in the event of a debt financing, our cost of borrowing in the future would likely be significantly higher than historical levels. Additionally, in the case of a common equity financing, the disruptions in the financial markets could have a material adverse effect on the market value of our common shares, potentially requiring us to issue more shares than we would otherwise have issued with a higher market value for our common shares. Disruption in the financial markets also could negatively affect our ability to make acquisitions, undertake new development projects and refinance our debt. In addition, it could also make it more difficult for us to sell properties and could adversely affect the price we receive for properties that we do sell, as prospective buyers experience increased costs of financing and difficulties in obtaining financing. If economic conditions deteriorate, the ability of lenders to fulfill their obligations under working capital or other credit facilities that we may have in the future may be adversely impacted.

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

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

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

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

Alternatively, even if a secured debt instrument is below the cross-default threshold for non-recourse secured debt under our unsecured credit facility, a default under such secured debt instrument may still cause a cross default under our unsecured credit facility because such secured debt instrument may not qualify as “non-recourse” under the definition in our unsecured credit facility. Another possible cross default could occur between our unsecured credit facility and 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.

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

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

Hedging, or that our hedging activities will have the desired beneficial impact on our results of operations. Should we desire to terminate a hedging agreement, there could be significant costs and cash requirements involved to fulfill our obligation under the hedging agreement.

Risks Related to Our Organizational Structure

Our charter and Maryland law contain provisions that may delay, defer or prevent a change in control of our company, even if such a change in control may be in the best interest of our shareholders, and as a result may depress the market price of our common shares.

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

a provision where a corporation is not permitted to engage in any business combination with any "interested stockholder," defined as any holder or affiliate of any holder of 10% or more of the corporation's stock, for a period of five years after that holder becomes an "interested stockholder," and

a provision where the voting rights of "control shares" acquired in a "control share acquisition," as defined in the MGCL, may be restricted, such that the "control shares" have no voting rights, except to the extent approved by a vote of holders of two-thirds of the common shares entitled to vote on the matter.

Additionally, we are subject to the "business combination" and "unsolicited takeover" provisions of the MGCL. These provisions may delay, defer, or prevent a transaction or a change in control that may involve a premium price for holders of our shares or otherwise be in their best interests. Our bylaws currently provide that the foregoing provision regarding "control share acquisitions" will not apply to Washington REIT. However, our board of trustees could, in the future, modify our bylaws such that the foregoing provision regarding "control share acquisitions" would be applicable to Washington REIT.

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

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

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

In addition to the share ownership limits discussed above, our charter also prohibits any person from (a) beneficially or constructively owning, as determined by applying certain attribution rules of the Code, our equity shares that would result in us being "closely held" under Section 856(h) of the Code (regardless of whether the interest is held during the last half of a taxable year) or that would otherwise cause us to fail to qualify as a REIT, or (b) transferring equity shares if such transfer would result in our equity shares being owned by fewer than 100 persons. The share ownership limits contained in our charter are based on the ownership at any time by any "person," which term includes entities and

certain groups. The share ownership limitations in our charter are common in REIT charters and are intended to provide added assurance of compliance with the tax law requirements, and to minimize administrative burdens. However, the share ownership limits on our shares also might delay, defer, prevent, or otherwise inhibit a transaction or a change in control of our company that might involve a premium price for our common shares or otherwise be in the best interest of our shareholders.

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

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

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

In addition, our charter authorizes and our bylaws require us to indemnify our trustees for actions taken by them in those capacities to the maximum extent permitted by Maryland law. Our bylaws also authorize us to indemnify our officers for actions taken by them in those capacities to the maximum extent permitted by Maryland law. As a result, we and our shareholders may have more limited rights against our trustees and officers than might otherwise exist. Accordingly, in the event that actions taken in good faith by any of our trustees or officers impede the performance of our company, your ability to recover damages from such trustees or officers will be limited with respect to trustees and may be limited with respect to officers. In addition, we will be obligated to advance the defense costs incurred by our trustees and our executive officers, and may, in the discretion of our board of trustees, advance the defense costs incurred by our officers, our employees and other agents, in connection with legal proceedings.

Risks Related to Our Common Shares

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

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

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

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

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

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

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

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

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

- changes in federal tax laws;
- changes in our credit ratings; and
- any negative change in the level of our dividend or the partial payment thereof in common shares.

Risks Related to our Status as a REIT

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

We believe that we qualify as a REIT and intend to continue to operate in a manner that will allow us to continue to qualify as a REIT. However, we cannot assure you that we are qualified as such, or that we will remain qualified as such in the future. This is because qualification as a REIT involves the application of highly technical and complex provisions of the Code which include:

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

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

Only limited judicial and administrative interpretations of the REIT rules exist. In addition, qualification as a REIT involves the determination of various factual matters and circumstances not entirely within our control. Future legislation, new regulations, administrative interpretations or court decisions may significantly change the tax laws or the application of the tax laws with respect to qualification as a REIT for U.S. federal income tax purposes or the U.S. federal income tax consequences of such qualification.

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

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

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

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

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

correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences.

To meet these tests, we may be required to take or forgo taking actions that we would otherwise consider advantageous. For instance, in order to satisfy the gross income or asset tests applicable to REITs under the Code, we may be required to forego investments that we otherwise would make. Furthermore, we may be required to liquidate from our portfolio (or to contribute to a TRS) otherwise attractive investments. In addition, we may be required to make distributions to shareholders at disadvantageous times or when we do not have funds readily available for distribution. These actions could have the effect of reducing our income and amounts available for distribution to our shareholders. Thus, compliance with the REIT requirements may hinder our ability to make, or, in certain cases, maintain ownership of, certain attractive investments.

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

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

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

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

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

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

The REIT provisions of the Code may limit our ability to hedge our assets and operations. Under these provisions, income that we generate from transactions we enter into to manage risk of interest rate changes with respect to borrowings made or to be made to acquire or carry real estate assets (each such hedge, a "Borrowings Hedge"), or manage the risk of certain currency fluctuations (each such hedge, a "Currency Hedge"), and such instrument is properly identified under applicable Treasury Regulations, does not constitute "gross income" for purposes of the 75% or 95% gross income tests. Effective for taxable years beginning after December 31, 2015, this exclusion from the 95% and 75% gross income tests also will apply if we previously entered into a Borrowings Hedge or a Currency Hedge, a portion of the hedged indebtedness or property is disposed of, and in connection with such extinguishment or disposition we enter into a new "clearly identified" hedging transaction to offset the prior hedging position. As a result of these rules, we may have to limit our use of hedging techniques that might otherwise be advantageous or implement those hedges through a TRS. This could increase the cost of our hedging activities because our TRS would be subject to tax on gains or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear. In addition, losses in our TRS will generally not provide any current tax benefit, except to the extent that they may be carried back to prior years or forward to future years and offset against taxable income in the TRS.

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

The maximum tax rate applicable to income from "qualified dividends" payable by corporations to U.S. shareholders that are individuals, trusts and estates is 20% (excluding the 3.8% net investment income tax). Dividends payable by REITs, however, generally are not eligible for the reduced rates and will continue to be subject to tax at rates applicable to ordinary income. Although this does not adversely affect the taxation of REITs or dividends payable by REITs, the more favorable rates applicable to regular corporate qualified dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the shares of non-REIT corporations that pay dividends, which could adversely affect the value of the stock of REITs, including our common shares.

The tax imposed on REITs engaging in prohibited transactions may limit our ability to engage in transactions that would be treated as sales for U.S. federal income tax purposes.

A REIT's net income from prohibited transactions is subject to a 100% penalty tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, held primarily for sale to customers in the ordinary course of business. Although we do not intend to hold any properties that would be characterized as held for sale to customers in the ordinary course of our business, unless a sale or disposition qualifies under certain statutory safe harbors, such characterization is a factual determination and no guarantee can be given that the IRS would agree with our characterization of our properties or that we will be able to make use of the otherwise available safe harbors.

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

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

In addition, from time to time our taxable income may exceed our net income as determined by GAAP. This may occur, for instance, because realized capital losses are deducted in determining our GAAP net income, but may not be deductible in computing our taxable income. In addition, we may incur nondeductible capital expenditures or be required to make debt or amortization payments. As a result of the foregoing, we may generate less cash flow than taxable income in a particular year and we may incur U.S. federal income tax and the 4% nondeductible excise tax on that income if we do not distribute such income to shareholders in that year. In that event, we may be required to (i) use cash reserves, (ii) incur debt at rates or times that we regard as unfavorable, (iii) sell assets in adverse market conditions, (iv) distribute amounts that would otherwise be invested in future acquisitions, capital expenditures or repayment of debt, or (v) make a taxable distribution of our shares as part of a distribution in which shareholders may elect to receive our shares or (subject to a limit measured as a percentage of the total distribution) cash in order to satisfy the REIT 90% distribution requirement and to avoid U.S. federal income tax and the 4% nondeductible excise tax in that year. These alternatives could increase our costs or reduce our equity. Thus, compliance with the REIT requirements may hinder our ability to grow, which could adversely affect our business, financial condition and results of operations.

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

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

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

Even if we qualify for taxation as a REIT, we may be subject to certain federal, state and local taxes on our income, property or net worth, including taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, and state or local income, property and transfer taxes. In addition, we could, in certain circumstances, be required to pay an excise or penalty tax (which could be significant in amount) in order to utilize one or more relief provisions under the Code to maintain

our qualification as a REIT. Any of these taxes would decrease cash available for the payment of our debt obligations and distributions to shareholders. Our TRSs generally will be subject to U.S. federal, state and local corporate income tax on their net taxable income.

There is a risk of changes in the tax law applicable to REITs.

The Internal Revenue Service, the United States Treasury Department and Congress frequently review U.S. federal income tax legislation, regulations and other guidance. For example, several REIT rules were recently amended under the Protecting Americans from Tax Hikes Act of 2015, which was enacted on December 18, 2015. Among other provisions, this legislation contained changes, with differing effective dates, to tax law impacting REIT restrictions and requirements, including modifying one of the REIT income tests and the REIT asset tests to permit certain investments in debt securities to be treated as qualified real estate assets, modifying the calculation methodology related to the prohibited transactions safe harbor, modifying the treatment of ancillary personal property leased with real property so as to permit it to be treated as real property for one of the REIT asset tests and, effective for tax years beginning after December 31, 2017, reducing the percentage of gross assets a REIT can hold as securities of a TRS. We cannot predict whether, when or to what extent new federal tax laws, regulations, interpretations or rulings will be adopted. Any legislative action may prospectively or retroactively modify our tax treatment and, therefore, may adversely affect taxation of us and/or our investors.

ITEM 1B: UNRESOLVED STAFF COMMENTS

None.

24

ITEM 2: PROPERTIES

The schedule on the following pages lists our real estate investment portfolio as of December 31, 2015, which consisted of 54 properties and land held for development.

As of December 31, 2015, the percent leased is (i) for commercial properties, the percentage of net rentable area for which fully executed leases exist and may include signed leases for space not yet occupied by the tenant, and (ii) for multifamily properties, the percentage of units leased. Cost information is included in Schedule III to our financial statements included in this Annual Report on Form 10-K.

Schedule of Properties

Properties	Location	Year Acquired	Year Constructed/Renovated	Net Rentable Square Feet (1)	Percent Leased, as of December 31, 2015	
Office Buildings						
1901 Pennsylvania Avenue	Washington, D.C.	1977	1960	101,000	86	%
51 Monroe Street	Rockville, MD	1979	1975	224,000	95	%
515 King Street	Alexandria, VA	1992	1966	75,000	96	%
6110 Executive Boulevard	Rockville, MD	1995	1971	203,000	83	%
1220 19 th Street	Washington, D.C.	1995	1976	104,000	99	%
1600 Wilson Boulevard	Arlington, VA	1997	1973	168,000	90	%
Silverline Center	Tysons, VA	1997	1972/1986/1999/ 2015	531,000	92	%
600 Jefferson Plaza	Rockville, MD	1999	1985	113,000	93	%
Wayne Plaza	Silver Spring, MD	2000	1970	99,000	85	%
Courthouse Square	Alexandria, VA	2000	1979	116,000	92	%
One Central Plaza	Rockville, MD	2001	1974	267,000	94	%
1776 G Street	Washington, D.C.	2003	1979	265,000	94	%
West Gude Drive	Rockville, MD	2006	1984/1986/1988	277,000	87	%
Monument II	Herndon, VA	2007	2000	208,000	92	%
2000 M Street	Washington, D.C.	2007	1971	231,000	96	%
2445 M Street	Washington, D.C.	2008	1986	290,000	100	%
925 Corporate Drive	Stafford, VA	2010	2007	134,000	68	%
1000 Corporate Drive	Stafford, VA	2010	2009	136,000	89	%
1140 Connecticut Avenue	Washington, D.C.	2011	1966	183,000	95	%
1227 25 th Street	Washington, D.C.	2011	1988	135,000	95	%
Braddock Metro Center	Alexandria, VA	2011	1985	350,000	98	%
John Marshall II	Tysons, VA	2011	1996/2010	223,000	100	%
Fairgate at Ballston	Arlington, VA	2012	1988	143,000	81	%
Army Navy Club Building	Washington, DC	2014	1912/1987	108,000	97	%
1775 Eye Street, NW	Washington, DC	2014	1964	185,000	97	%
Subtotal				4,869,000	92	%

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Properties	Location	Year Acquired	Year Constructed/Renovated	# of Units	Net Rentable Square Feet ⁽¹⁾	Percent Leased, as of December 31, 2015	
Retail Centers							
Takoma Park	Takoma Park, MD	1963	1962		51,000	100	%
Westminster	Westminster, MD	1972	1969		150,000	98	%
Concord Centre	Springfield, VA	1973	1960		76,000	94	%
Wheaton Park	Wheaton, MD	1977	1967		74,000	92	%
Bradlee Shopping Center	Alexandria, VA	1984	1955		171,000	97	%
Chevy Chase Metro Plaza	Washington, D.C.	1985	1975		50,000	87	%
Shoppes of Foxchase	Alexandria, VA	1994	1960/2006		134,000	98	%
Frederick County Square	Frederick, MD	1995	1973		227,000	97	%
800 S. Washington Street	Alexandria, VA	1998/2003	1955/1959		46,000	93	%
Centre at Hagerstown	Hagerstown, MD	2002	2000		332,000	96	%
Frederick Crossing	Frederick, MD	2005	1999/2003		295,000	99	%
Randolph Shopping Center	Rockville, MD	2006	1972		84,000	65	%
Montrose Shopping Center	Rockville, MD	2006	1970		145,000	78	%
Gateway Overlook	Columbia, MD	2010	2007		220,000	98	%
Olney Village Center	Olney, MD	2011	1979/2003		199,000	99	%
Spring Valley Retail Center	Washington, DC	2014	1941/1950		75,000	97	%
Subtotal					2,329,000	95	%
Multifamily Buildings							
3801 Connecticut Avenue	Washington, D.C.	1963	1951	307	178,000	96	%
Roosevelt Towers	Falls Church, VA	1965	1964	191	170,000	94	%
Park Adams	Arlington, VA	1969	1959	200	173,000	97	%
The Ashby at McLean	McLean, VA	1996	1982	256	274,000	95	%
Walker House Apartments	Gaithersburg, MD	1996	1971/2003	212	157,000	96	%
Bethesda Hill Apartments	Bethesda, MD	1997	1986	195	225,000	96	%
Bennett Park	Arlington, VA	2007	2007	224	214,000	97	%
Clayborne	Alexandria, VA	2008	2008	74	60,000	95	%
Kenmore	Washington, D.C.	2008	1948	374	268,000	95	%
The Paramount	Arlington, VA	2013	1984	135	141,000	97	%

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Yale West	Washington, DC	2014	2011	216	173,000	96	%
The Maxwell	Arlington, VA	2014	2014	163	139,000	96	%
The Wellington	Arlington, VA	2015	1960	711	842,000	95	%
Subtotal				3,258	3,014,000	96	%
TOTAL					10,212,000		

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

ITEM 3: LEGAL PROCEEDINGS

None.

ITEM 4: MINE SAFETY DISCLOSURES

N/A.

26

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 22, 2016, there are 4,213 shareholders of record.

The high and low sales price for our shares for 2015 and 2014, by quarter, and the amount of dividends we declared per share are as follows:

Quarter	Dividends Per Share	Quarterly Share Price Range	
		High	Low
2015			
Fourth	0.30000	\$28.14	\$24.76
Third	0.30000	\$27.28	\$23.78
Second	0.30000	\$28.11	\$24.28
First	0.30000	\$30.15	\$26.39
2014			
Fourth	0.30000	\$28.48	\$25.35
Third	0.30000	\$28.44	\$25.33
Second	0.30000	\$26.95	\$23.41
First	0.30000	\$25.69	\$22.30

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

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

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

During the period covered by this report, we did not sell equity securities without registration under the Securities Act.

A summary of our repurchases of shares of our common stock for the three months ended December 31, 2015 was as follows:

Period	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased
October 1 - October 31, 2015	2,541	\$25.08	N/A	N/A
November 1 - November 30, 2015	28	27.49	N/A	N/A
December 1 - December 31, 2015	19,900	27.06	N/A	N/A
Total	22,469	26.84	N/A	N/A

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

ITEM 6: SELECTED FINANCIAL DATA

The following table sets forth our selected financial data on a historical basis, which has been revised for the presentation of debt issuance costs (see note 2 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.

	2015	2014	2013	2012	2011
	(in thousands, except per share data)				
Real estate rental revenue	\$306,427	\$288,637	\$263,024	\$254,794	\$234,733
Income (loss) from continuing operations	\$89,187	\$5,070	\$(193)	\$7,768	\$(14,389)
Discontinued operations:					
Income from operations of properties sold or held for sale	\$—	\$546	\$15,395	\$10,816	\$23,414
Gain on sale of real estate	\$—	\$105,985	\$22,144	\$5,124	\$97,491
Net income	\$89,187	\$111,601	\$37,346	\$23,708	\$105,378
Net income attributable to the controlling interests	\$89,740	\$111,639	\$37,346	\$23,708	\$104,884
Income (loss) from continuing operations attributable to the controlling interests per share – diluted	\$1.31	\$0.08	\$—	\$0.11	\$(0.22)
Net income attributable to the controlling interests per share – diluted	\$1.31	\$1.67	\$0.55	\$0.35	\$1.58
Total assets	\$2,191,168	\$2,108,317	\$1,969,343	\$2,117,496	\$2,115,129
Lines of credit payable	\$105,000	\$50,000	\$—	\$—	\$99,000
Mortgage notes payable, net	\$418,052	\$417,194	\$293,307	\$317,914	\$341,486
Notes payable, net	\$743,181	\$743,149	\$841,917	\$900,532	\$653,500
Shareholders' equity	\$835,649	\$819,555	\$754,959	\$792,057	\$859,044
Cash dividends declared	\$82,003	\$80,277	\$80,104	\$97,734	\$115,045
Cash dividends declared per share	\$1.20	\$1.20	\$1.20	\$1.47	\$1.74

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

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

• **Overview.** Discussion of our operating results, investment activity, financing activity and capital requirements to provide context for the remainder of MD&A.

• **Results of Operations.** Discussion of our financial results comparing 2015 to 2014 and comparing 2014 to 2013.

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

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

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

• **Net operating income ("NOI"),** calculated as real estate rental revenue less real estate expenses excluding depreciation and amortization and general and administrative expenses. NOI is a non-GAAP supplemental measure to net income.

• **Funds From Operations ("NAREIT FFO"),** calculated as set forth below under the caption "Funds from Operations." NAREIT FFO is a non-GAAP supplemental measure to net income.

• **Occupancy,** calculated as occupied square footage as a percentage of total square footage as of the last day of that period.

• **Leased percentage,** calculated as the percentage of available physical net rentable area leased for our office and retail segments and percentage of apartments leased for our multifamily segment.

• **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 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 Outlook

We generally expect steady to improved performance in each of our segments in 2016 due to the Washington metro region's forecasted job growth (see Item 1: Business - Our Regional Economy and Real Estate Markets on page 4).

Operating Results

NOI, net income attributable to the controlling interests and NAREIT FFO for the years ended December 31, 2015 and 2014 were as follows (in thousands):

	Year Ended December 31,		Change
	2015	2014	
NOI ⁽¹⁾	\$ 194,193	\$ 184,942	\$ 9,251
Net income attributable to the controlling interests	\$ 89,740	\$ 111,639	\$(21,899)
NAREIT FFO ⁽²⁾	\$ 108,469	\$ 101,057	\$ 7,412

⁽¹⁾ See pages 31 and 35 of the MD&A for reconciliations of NOI to net income.

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

The NOI increase is primarily due to acquisitions (\$9.5 million), higher NOI from same-store properties (\$0.8 million) and placing The Maxwell, a multifamily development property, into service (\$0.6 million), partially offset by property dispositions (\$2.0 million). NOI from same-store properties increased primarily due to higher occupancy (\$1.9 million) and rental rates (\$1.9 million), partially offset by higher property administrative and management (\$1.4 million), real estate tax (\$1.3 million) and bad debt (\$0.4 million) expenses.

The decrease in net income attributable to the controlling interests is primarily due to lower gains on sale of real estate (\$15.5 million) and a real estate impairment charge (\$5.9 million).

The increase in NAREIT FFO primarily reflects the higher NOI (\$9.3 million) and lower acquisition costs (\$3.7 million), partially offset by the real estate impairment charge (\$5.9 million).

Investment Activity

Significant investment transactions during 2015 included the following:

- The disposition of Country Club Towers, a 227-unit multifamily building in Arlington, Virginia, for a contract sale price of \$37.8 million, resulting in a gain on sale of \$30.3 million.

- The acquisition of The Wellington, a multifamily property with three buildings totaling 711 units in Arlington, Virginia, and an adjacent undeveloped land parcel, for a contract purchase price of \$167.0 million. We incurred \$1.9 million of acquisition costs related to this transaction.

- The disposition of our 95% interest in the 1225 First Street joint venture for a contract sale price of \$14.5 million.

- The disposition of Munson Hill Towers, a 279-unit multifamily building in Arlington, Virginia, for a contract sale price of \$57.1 million, resulting in a gain on sale of \$51.4 million.

- The disposition of Montgomery Village, a 197,000 square foot retail property in Gaithersburg, Maryland, for a contract sale price of \$27.8 million, resulting in a gain on sale of \$8.0 million.

During 2016, we currently anticipate asset sales totaling approximately \$250.0 million, primarily suburban office properties.

Financing Activity

Significant financing transactions during 2015 included the following:

- The execution of a new \$600.0 million unsecured credit agreement ("New Credit Facility") that replaced our \$100.0 million unsecured line of credit maturing in June 2015 ("Prior Credit Facility No. 1") and our \$400.0 million unsecured line of credit maturing in July 2016 ("Prior Credit Facility No. 2"). See page 40 for a description of the New Credit Facility.

The execution of a new \$150.0 million unsecured term loan by exercising a portion of the accordion feature under the New Credit Facility. The term loan has a 5.5 year term maturing on March 15, 2021 and currently has an interest rate of one month LIBOR plus 110 basis points, based on our unsecured debt ratings. We entered into two interest rate swap arrangements with a total notional amount of \$150.0 million to swap the floating interest rate to an all-in fixed interest rate of 2.7% starting on October 15, 2015 and extending until the maturity of the term loan on March 15, 2021.

The repayment of \$150.0 million of our 5.35% unsecured notes on their maturity date of May 1, 2015 using borrowings on Prior Credit Facility No. 2.

As of December 31, 2015, the interest rate on the New Credit Facility was one month LIBOR plus 1.00% and the facility fee is

0.20%. As of February 22, 2016, our New Credit Facility has a borrowing capacity of \$412.0 million.

Capital Requirements

During 2016, we have mortgage notes totaling approximately \$160.0 million scheduled to mature. We currently intend to repay these maturities using a combination of proceeds from expected property sales and borrowings on our New Credit Facility. We also expect to have the additional capital requirements as set forth on page 38 (Liquidity and Capital Resources - Capital Structure).

Results of Operations

The discussion that follows is based on our consolidated results of operations for the three years ended December 31, 2015. The ability to compare one period to another is significantly affected by acquisitions completed and dispositions made during those years (see note 3 to the consolidated financial statements).

Net Operating Income

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

2015 Compared to 2014

The following tables reconcile NOI to net income attributable to the controlling interests and provide the basis for our discussion of our consolidated results of operations and NOI in 2015 compared to 2014. All amounts are in thousands except percentage amounts.

	Same-Store				Non-Same-Store		Development/Redevelopment		Dispositions		All Properties		
	2015	2014	\$ Change	% Change	2015	2014	(2)	(3)	(3) (continuing operations)	2015	2014	2015		2014
Real estate rental revenue	\$255,165	\$250,956	\$4,209	1.7%	\$31,643	\$16,260	\$11,229	\$9,090	\$8,390	\$12,331	\$306,427	\$288,637	\$17,790
Real estate expenses	89,690	86,328	3,362	3.9%	12,651	6,754	6,569	5,302	3,324	5,311	112,234	103,695	8,539
NOI	\$165,475	\$164,628	\$847	0.5%	\$18,992	\$9,506	\$4,660	\$3,788	\$5,066	\$7,020	\$194,193	\$184,942	\$9,251

Reconciliation to net income attributable to the controlling interests:

Depreciation and amortization	(108,935)	(96,011)	(12,924)
Acquisition costs	(2,056)	(5,710)	3,654
General and administrative expenses	(20,257)	(19,761)	(496)
Real estate impairment	(5,909)	—	(5,909)
Gain on sale of real estate	91,107	570	90,537
Interest expense	(59,546)	(59,785)	239
Other income	709	825	(116)
Loss on extinguishment of debt	(119)	—	(119)
Discontinued operations ⁽⁴⁾ :			
Income from properties sold or held for sale	—	546	(546)
Gain on sale of real estate	—	105,985	(105,985)
Net income	89,187	111,601	(22,414)
Less: Net income attributable to noncontrolling interests	553	38	515
Net income attributable to the controlling interests	\$89,740	\$111,639	(21,929)

(1) Acquisitions:

2015 Multifamily – The Wellington
 2014 Multifamily – Yale West
 2014 Office – The Army Navy Club Building and 1775 Eye Street, NW
 2014 Retail– Spring Valley Retail Center

(2) Development/redevelopment properties:

Multifamily development property – The Maxwell
 Office redevelopment property – Silverline Center

(3) Dispositions (classified as continuing operations):

2015 Multifamily – Country Club Towers and Munson Hill Towers
 2015 Retail – Montgomery Village Center
 2014 Retail – 5740 Columbia Road (parcel at Gateway Overlook)

(4) Discontinued operations include gains on sale and income from operations for:

2014 Medical Office – Woodburn Medical Office Park I and II and Prosperity Medical Center I, II and III

Real Estate Rental Revenue

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

Real estate rental revenue for same-store properties for the two years ended December 31, 2015 was as follows (in thousands, except percentage amounts):

	Year Ended December 31,				
	2015	2014	\$ Change	% Change	
Minimum base rent	\$215,692	\$213,479	\$2,213	1.0	%
Recoveries from tenants	27,374	26,900	474	1.8	%
Provision for doubtful accounts	(1,651	) (1,698	) 47	(2.8)%
Lease termination fees	1,297	622	675	108.5	%
Parking and other tenant charges	12,453	11,653	800	6.9	%
Total same-store real estate rental revenue	\$255,165	\$250,956	\$4,209	1.7	%

Minimum base rent: Increase primarily due to higher rental rates (\$1.9 million) and occupancy (\$1.9 million), partially offset by higher amortization of capitalized lease incentives (\$0.9 million), rent abatements (\$0.5 million) and amortization of intangible lease assets (\$0.2 million).

Recoveries from tenants: Increase primarily due to higher reimbursements for real estate taxes (\$0.6 million).

Provision for doubtful accounts: Decrease primarily due to lower provisions in the retail segment (\$0.1 million).

Lease termination fees: Increase primarily due to higher fees in the office (\$0.4 million), retail (\$0.2 million) and multifamily (\$0.1 million) segments.

Parking and other tenant charges: Increase primarily due to higher parking income (\$0.5 million) in the office segment, short term lease income (\$0.1 million) in the retail segment and business interruption insurance proceeds (\$0.1 million) in the multifamily segment.

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Real estate rental revenue from same-store properties by segment was as follows (in thousands, except percentage amounts):

	Year Ended December 31,		\$ Change	% Change	
	2015	2014			
Office	\$149,664	\$146,542	\$3,122	2.1	%
Multifamily	48,739	48,286	453	0.9	%
Retail	56,762	56,128	634	1.1	%
Total same-store real estate rental revenue	\$255,165	\$250,956	\$4,209	1.7	%

Office: Increase primarily due to higher occupancy (\$1.7 million), higher rental rates (\$1.3 million), higher reimbursements for real estate taxes (\$0.6 million), higher parking income (\$0.5 million) and higher lease termination fees (\$0.4 million), partially offset by higher rent abatements (\$1.7 million).

Multifamily: Increase primarily due to higher occupancy (\$1.0 million) and lower rent abatements (\$0.3 million), partially

offset by lower rental rates (\$0.8 million).

Retail: Increase primarily due to higher rental rates (\$1.4 million), partially offset by lower occupancy (\$0.7 million).

Real estate rental revenue from acquisitions increased due to the acquisition of The Wellington in 2015 and having the full year impact of the acquisitions executed in 2014. Real estate rental revenue from development/redevelopment properties increased primarily due to placing The Maxwell into service (\$2.0 million).

Occupancy represents occupied square footage indicated as a percentage of total square footage as of the last day of that period. Occupancy for properties classified as continuing operations by segment for the two years ended December 31, 2015 was as follows:

Segment	December 31, 2015			December 31, 2014			Increase (decrease)		
	Same-Store	Non-Same-Store	Total	Same-Store	Non-Same-Store	Total	Same-Store	Non-Same-Store	Total
Office	90.8 %	71.9 %	87.6 %	92.1 %	61.4 %	86.9 %	(1.3)%	10.5 %	0.7 %
Multifamily	94.2 %	92.2 %	93.4 %	93.7 %	94.0 %	93.8 %	0.5 %	(1.8)%	(0.4)%
Retail	91.4 %	96.6 %	91.5 %	95.1 %	88.7 %	94.4 %	(3.7)%	7.9 %	(2.9)%
Total	91.8 %	84.2 %	90.2 %	93.3 %	77.3 %	90.5 %	(1.5)%	6.9 %	(0.3)%

Office: The decrease in same-store occupancy was primarily due to lower occupancy at 1776 G Street and Quantico Corporate Center, partially offset by higher occupancy at 1600 Wilson Boulevard. The increase in non-same-store occupancy was primarily due to higher occupancy at Silverline Center and 1775 Eye Street.

Multifamily: The increase in same-store occupancy was primarily due to higher occupancy at The Kenmore and The Paramount. The decrease in non-same-store occupancy was primarily due placing The Maxwell into service, which was 89.3% occupied at the end of 2015.

Retail: The decrease in same-store occupancy was primarily due to lower occupancy at Chevy Chase Metro Center, Montrose Shopping Center and Bradlee Shopping Center, partially offset by higher occupancy at Concord Centre.

The increase in non-same-store occupancy reflects higher occupancy at Spring Valley Retail Center and the disposition of Montgomery Village Center during the fourth quarter of 2015.

During 2015, we executed new and renewal leases in our office and retail segments as follows:

	Square Feet (in millions)	Average Rental Rate (per square foot)	% Rental Rate Increase	Incentives ⁽¹⁾ (per square foot)	Retention Rate
Office	0.9	\$36.32	9.0 %	\$53.64	66.3 %
Retail	0.4	23.97	18.5 %	24.28	76.2 %
Total	1.3	32.36	11.1 %	44.23	70.7 %

⁽¹⁾ Incentives include tenant improvements, leasing commissions and leasing incentives, including free rent.

Real Estate Expenses

Real estate expenses as a percentage of revenue for the two years ended December 31, 2015 were 36.6% and 35.9%, respectively.

Real estate expenses from same-store properties by segment were as follows (in thousands):

	Year Ended December 31,			
	2015	2014	\$ Change	% Change
Office	\$55,486	\$54,266	\$1,220	2.2 %
Multifamily	20,412	19,370	1,042	5.4 %

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Retail	13,792	12,692	1,100	8.7	%
Total same-store real estate expenses	\$89,690	\$86,328	\$3,362	3.9	%

Office: Increase primarily due to higher real estate taxes (\$1.0 million), custodial services (\$0.2 million), repairs and maintenance expenses (\$0.1 million) and administrative expenses (\$0.1 million), partially offset by lower utilities expenses (\$0.6 million) due to lower usage of electricity.

Multifamily: Increase primarily due to higher property management expenses (\$0.5 million), advertising expenses (\$0.1

million), lease commissions (\$0.1 million) and real estate taxes (\$0.1 million).

• **Retail:** Increase primarily due to higher bad debt expense (\$0.7 million), real estate taxes (\$0.2 million) and legal fees (\$0.1 million).

Other Expenses

Depreciation and Amortization: Increase primarily due to acquisitions (\$9.6 million) and placing development/redevelopment properties into service (\$3.8 million).

Acquisition Costs: Decrease primarily due to one acquisition (\$167.0 million) in 2015, as compared to four acquisitions (\$297.0 million) in 2014.

General and Administrative Expenses: Increase primarily due to higher professional fees (\$1.7 million), partially offset by lower administrative depreciation (\$0.7 million) due to accelerated depreciation of leasehold improvements in 2014 related to the relocation of the corporate headquarters to Washington, DC and lower severance expense (\$0.6 million).

Real Estate Impairment: In November 2011, we executed a joint venture operating agreement with a real estate development company to develop a high-rise multifamily property at 1225 First Street in Alexandria, Virginia. During the second quarter of 2015, we determined that we would not develop 1225 First Street and began negotiations to sell our 95% interest in the joint venture that owns the property, and recognized a \$5.9 million impairment charge in order to reduce the carrying value of the property to its estimated fair value. We based this fair value on the \$14.5 million sale price in the purchase and sale agreement to sell our 95% interest in the joint venture that we executed during the third quarter of 2015.

Interest Expense: Interest expense by debt type for the two years ended December 31, 2015 was as follows (in thousands, except percentage amounts):

Debt Type	Year Ended December 31,			
	2015	2014	\$ Change	% Change
Notes payable	\$32,730	\$37,424	\$(4,694)	(12.5)%
Mortgage notes payable	22,684	21,916	768	3.5%
Lines of credit	4,790	2,587	2,203	85.2%
Capitalized interest	(658)	(2,142)	1,484	(69.3)%
Total	\$59,546	\$59,785	\$(239)	(0.4)%

• **Notes payable:** Decrease primarily due to the repayment of \$150.0 million of our 5.35% senior notes in May 2015, partially offset by executing the \$150.0 million term loan in September 2015.

• **Mortgage notes payable:** Increase primarily due to the full-year impact of the assumption of mortgages totaling \$107.1 million with the acquisitions of Yale West and The Army Navy Club Building in 2014.

• **Lines of credit:** Increase primarily due to weighted average daily borrowings of \$167.6 million during 2015, as compared to \$12.8 million during 2014.

• **Capitalized interest:** Decrease primarily due to placing into service our development project at The Maxwell and redevelopment project at Silverline Center.

Discontinued Operations

Income from operations of properties classified as discontinued operations for the two years ended December 31, 2015 were as follows (in thousands, except for percentages):

Year Ended December 31,

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	2015	2014	\$ Change	% Change	
Revenues	\$—	\$892	\$(892) (100.0)%
Property expenses	—	(346) 346	100.0	%
Total	\$—	\$546	\$(546	) (100.0)%

The decrease is due to the completion of the sale of the former medical office segment during the first quarter of 2014.

34

2014 Compared to 2013

The following tables reconcile NOI to net income attributable to the controlling interests and provide the basis for our discussion of our consolidated results of operations and NOI in 2014 compared to 2013. All amounts are in thousands except percentage amounts.

	Same-Store				Non-Same-Store				Dispositions		All Properties				
	2014	2013	\$ Change	% Change	Acquisitions (1)	2014	2013	Development/Redevelopment (2)	2014	2013	(3) (continuing operations)	2014	2013	\$ Change	% Change
Real estate rental revenue	\$259,607	\$248,914	\$10,693	4.3%	\$19,894	\$908	\$9,090	\$13,069	\$46	\$133	\$288,637	\$263,024	\$25,613	9.7%	
Real estate expenses	89,892	87,760	2,132	2.4%	8,322	286	5,462	5,226	19	21	103,695	93,293	10,402	11.2%	
NOI	\$169,715	\$161,154	\$8,561	5.3%	\$11,572	\$622	\$3,628	\$7,843	\$27	\$112	\$184,942	\$169,731	\$15,211	9.0%	
Reconciliation to net income attributable to the controlling interests:															
Depreciation and amortization											(96,011)	(85,740)	(10,271)	(11.9%)	
Acquisition costs											(5,710)	(1,265)	(4,445)	(26.4%)	
General and administrative expenses											(19,761)	(17,535)	(2,226)	(12.7%)	
Gain on sale of real estate											570	—	570	3.4%	
Interest expense											(59,785)	(63,573)	3,788	(5.9%)	
Other income											825	926	(101)	(10.8%)	
Loss on extinguishment of debt											—	(2,737)	2,737	16.0%	
Discontinued operations (4):															
Income from properties sold or held for sale											546	15,395	(14,849)	(96.4%)	
Gain on sale of real estate											105,985	22,144	83,841	379.0%	
Net income											111,601	37,346	74,255	198.8%	
Less: Net income attributable to noncontrolling interests											38	—	38	—%	
Net income attributable to the controlling interests											\$111,639	\$37,346	74,293	199.0%	

(1) Acquisitions:

2014 Multifamily – Yale West

2014 Office – The Army Navy Club Building and 1775 Eye Street, NW

2014 Retail– Spring Valley Retail Center

2013 Multifamily – The Paramount

(2) Development/redevelopment property:

2013 Office redevelopment property – Silverline Center

(3) Disposition (classified as continuing operations):

2014 Retail – 5740 Columbia Road (parcel at Gateway Overlook)

(4) Discontinued operations include gains on sale and income from operations for:

2014 and 2013 sold – Atrium Building

Medical Office Portfolio – medical office segment and two office buildings (6565 Arlington Boulevard and Woodholme Center)

Real Estate Rental Revenue

Real estate rental revenue for same-store properties for the two years ended December 31, 2014 was as follows (in thousands, except percentage amounts):

	Year Ended December 31,				
	2014	2013	\$ Change	% Change	
Minimum base rent	\$220,892	\$214,214	\$6,678	3.1	%
Recoveries from tenants	27,955	26,055	1,900	7.3	%
Provision for doubtful accounts	(1,963	) (3,589	) 1,626	45.3	%
Lease termination fees	636	541	95	17.6	%
Parking and other tenant charges	12,087	11,693	394	3.4	%
Total same-store real estate rental revenue	\$259,607	\$248,914	\$10,693	4.3	%

Minimum base rent: Increase primarily due to higher occupancy (\$6.9 million) and rental rates (\$1.9 million), partially offset by higher rent abatements (\$1.2 million), amortization of capitalized lease incentives (\$0.5 million) and amortization of

intangible lease assets (\$0.5 million).

Recoveries from tenants: Increase primarily due to higher reimbursements for operating expenses in all segments.

Provision for doubtful accounts: Decrease primarily due to lower provisions in the retail (\$1.2 million) and office (\$0.4 million) segments.

Lease termination fees: Increase primarily due to higher fees in the office segment.

Parking and other tenant charges: Increase primarily due to higher parking income in the office segment.

Real estate rental revenue from same-store properties by segment was as follows (in thousands, except percentage amounts):

	Year Ended December 31,				
	2014	2013	\$ Change	% Change	
Office	\$146,542	\$139,270	\$7,272	5.2	%
Multifamily	53,647	53,589	58	0.1	%
Retail	59,418	56,055	3,363	6.0	%
Total same-store real estate rental revenue	\$259,607	\$248,914	\$10,693	4.3	%

Office: Increase primarily due to higher occupancy (\$5.4 million), higher rental rates (\$1.9 million), higher reimbursements (\$0.7 million), lower reserves for uncollectible revenue (\$0.4 million) and higher parking income (\$0.2 million), partially offset by higher rent abatements (\$1.5 million).

Multifamily: Increase primarily due to higher occupancy (\$0.4 million), partially offset by lower rental rates (\$0.2 million) and higher rent abatements (\$0.2 million).

Retail: Increase primarily due to lower reserves for uncollectible revenue (\$1.2 million), higher occupancy (\$1.1 million), higher reimbursements (\$0.9 million) and higher rental rates (\$0.3 million).

Real estate rental revenue from acquisitions increased due to the acquisitions of Yale West, Army Navy Club Building, 1775 Eye Street, NW and Spring Valley Retail Center in 2014 and having the full year impact of the acquisition of The Paramount, which was executed in 2013. Real estate rental revenue from development/redevelopment properties decreased primarily due to lower occupancy at Silverline Center, which was which was under redevelopment.

Occupancy represents occupied square footage indicated as a percentage of total square footage as of the last day of that period. Occupancy for properties classified as continuing operations by segment for the two years ended December 31, 2014 was as follows:

Segment	December 31, 2014			December 31, 2013			Increase (decrease)		
	Same-Store	Non-Same-Store	Total	Same-Store	Non-Same-Store	Total	Same-Store	Non-Same-Store	Total
Office	92.1 %	61.4 %	86.9 %	86.6 %	78.9 %	85.7 %	5.5 %	(17.5 %)	1.2 %
Multifamily	94.1 %	91.6 %	93.8 %	92.6 %	85.4 %	92.1 %	1.5 %	6.2 %	1.7 %
Retail	94.5 %	92.8 %	94.4 %	91.3 %	100.0 %	91.3 %	3.2 %	(7.2 %)	3.1 %
Total	93.3 %	71.2 %	90.5 %	89.4 %	80.4 %	88.8 %	3.9 %	(9.2 %)	1.7 %

Office: The increase in same-store occupancy was primarily due to higher occupancy at Braddock Metro Center. The decrease in non-same-store occupancy was primarily due to lower occupancy at Silverline Center, which went into redevelopment during the fourth quarter of 2013.

Multifamily: The increase in same-store occupancy was primarily due to higher occupancy at 3801 Connecticut Avenue. The increase in non-same-store occupancy was primarily due to the acquisition of Yale West.

Retail: The increase in same-store occupancy was primarily due to higher occupancy at Bradlee Shopping Center and Westminster Shopping Center. The decrease in non-same-store occupancy reflects the acquisition of Spring Valley Retail Center during the fourth quarter of 2014, which was 96.2% occupied at acquisition.

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During 2014, we executed new and renewal leases in our office and retail segments as follows:

	Square Feet (in millions)	Average Rental Rate (per square foot)	% Rental Rate Increase	Incentives ⁽¹⁾ (per square foot)	Retention Rate	
Office	1.0	\$37.15	8.9	% \$47.14	64.2	%
Retail	0.3	24.44	12.8	% 10.49	72.5	%
Total	1.3	33.99	9.5	% 38.13	65.2	%

⁽¹⁾ Incentives include tenant improvements, leasing commissions and leasing incentives, including free rent.

Real Estate Expenses

Real estate expenses as a percentage of revenue for the two years ended December 31, 2014 were 35.9% and 35.5%, respectively.

Real estate expenses from same-store properties by segment were as follows (in thousands):

	Year Ended December 31,				
	2014	2013	\$ Change	% Change	
Office	\$54,266	\$52,212	\$2,054	3.9	%
Multifamily	21,825	21,801	24	0.1	%
Retail	13,801	13,747	54	0.4	%
Total same-store real estate expenses	\$89,892	\$87,760	\$2,132	2.4	%

Office: Increase primarily due to higher utilities expenses (\$0.8 million), real estate taxes (\$0.4 million), custodial services (\$0.3 million) and administrative expenses (\$0.3 million).

Multifamily: Increase primarily due to higher real estate taxes (\$0.4 million), partially offset by lower bad debt expense (\$0.3 million).

Retail: Increase primarily due to higher snow removal costs (\$0.6 million), partially offset by higher recoveries of bad debt (\$0.5 million).

Other Expenses

Depreciation and Amortization: Increase primarily due to acquisitions (\$10.9 million), partially offset by lower depreciation and amortization at same-store properties (\$0.4 million).

Acquisition Costs: Increase due to four acquisitions (\$297.0 million) in 2014, compared to one acquisition (\$48.2 million) in 2013.

General and Administrative Expenses: Increase primarily due to higher severance expense (\$0.8 million), higher short-term incentive compensation expense (\$0.5 million), and higher accelerated depreciation of leasehold improvements (\$0.5 million) related to the relocation of the corporate headquarters to Washington, DC.

Interest Expense: Interest expense by debt type for the two years ended December 31, 2014 was as follows (in thousands, except percentage amounts):

Debt Type	Year Ended December 31,				
	2014	2013	\$ Change	% Change	
Notes payable	\$37,424	\$43,174	\$(5,750)	(13.3)	%
Mortgage notes payable	21,916	18,378	3,538	19.3	%
Lines of credit	2,587	3,257	(670)	(20.6)	%
Capitalized interest	(2,142)	(1,236)	(906)	73.3	%
Total	\$59,785	\$63,573	\$(3,788)	(6.0)	%

Notes payable: Decrease primarily due to the repayment of \$100.0 million of our 5.25% senior notes in January 2014.

Mortgage notes payable: Increase primarily due to the assumption of mortgages totaling \$107.1 million with the acquisitions of Yale West and The Army Navy Club Building, partially offset by the repayments of several mortgage notes totaling \$53.4 million during 2013.

Lines of credit: Decrease primarily due to weighted average daily borrowings of \$12.8 million during 2014, as compared to \$61.5 million during 2013.

Capitalized interest: Increase primarily due to expenditures totaling \$43.3 million on our development/redevelopment projects at The Maxwell and Silverline Center.

Discontinued Operations

Income from operations of properties classified as discontinued operations for the two years ended December 31, 2014 were as follows (in thousands, except for percentages):

	Year Ended December 31,			
	2014	2013	\$ Change	% Change
Revenues	\$892	\$45,791	\$(44,899)	(98.1)%
Property expenses	(346)	(17,039)	16,693	(98.0)%
Depreciation and amortization	—	(12,161)	12,161	(100.0)%
Interest expense	—	(1,196)	1,196	(100.0)%
Total	\$546	\$15,395	\$(14,849)	(96.5)%

Income from operations of properties sold or held for sale decreased primarily due to the completion of the sale of the former medical office segment during the first quarter of 2014.

Liquidity and Capital Resources

Capital Structure

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

As of February 22, 2016, we had cash and cash equivalents of approximately \$14.1 million and availability under our New Credit Facility of \$412.0 million. We currently expect that our potential sources of liquidity for acquisitions, development, redevelopment, expansion and renovation of properties, and operating and administrative expenses, may include:

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

During 2016, we expect that we will have significant capital requirements, including the following items:

- Funding dividends and distributions to our shareholders;
- \$160.0 million to repay or refinance our secured notes scheduled to mature in 2016, plus \$101.9 million to prepay without penalty a secured loan scheduled to mature in 2017;
- Approximately \$65 - \$70 million to invest in our existing portfolio of operating assets, including approximately \$40 - \$45 million to fund tenant-related capital requirements and leasing commissions;
- Approximately \$10 - \$15 million to invest in our development and redevelopment projects; and

Funding for potential property acquisitions throughout the remainder of 2016, offset by proceeds from potential property dispositions.

There can be no assurance that our capital requirements will not be materially higher or lower than the above expectations. We currently believe that we will generate sufficient cash flow from operations and expected property sales and have access to the capital resources necessary to fund our requirements in 2016. However, as a result of general market conditions in the greater Washington metro region, economic conditions affecting the ability to attract and retain tenants, potentially rising interest rates or declines in our share price, unfavorable changes in the supply of competing properties, or our properties not performing as expected, we may not generate sufficient cash flow from operations and property sales or otherwise have access to capital on

favorable terms, or at all. If we are unable to obtain capital from other sources, we may need to alter capital spending to be materially different than what is stated in the prior paragraph. If capital were not available, we may be unable to satisfy the distribution requirement applicable to REITs, make required principal and interest payments, make strategic acquisitions or make necessary and/or routine capital improvements or undertake improvement/redevelopment opportunities with respect to our existing portfolio of operating assets.

Debt Financing

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

At December 31, 2015 and 2014, our debt was as follows (in thousands):

	December 31,	
	2015	2014
Mortgage notes payable, net ⁽¹⁾	\$418,052	\$417,194
Unsecured lines of credit payable ⁽¹⁾	105,000	50,000
Unsecured notes payable, net ⁽¹⁾	743,181	743,149
	\$1,266,233	\$1,210,343

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

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

Year	Mortgage Notes Payable	Unsecured Notes Payable	Unsecured Line of Credit Payable	Total Debt
2016	\$168,195	\$—	\$—	\$168,195
2017	154,436	⁽¹⁾ —	—	154,436
2018	3,135	—	—	3,135
2019	33,909	—	105,000	138,909
2020	2,659	250,000	—	252,659
Thereafter	52,212	500,000	—	552,212
	414,546	750,000	105,000	1,269,546
Premiums and discounts, net	4,175	(2,362)	) —	1,813
Debt issuance costs, net	(669)	) (4,457)	) —	(5,126)
Total	\$418,052	\$743,181	\$105,000	\$1,266,233

⁽¹⁾ The \$101.9 million principal balance of the note secured by 2445 M Street scheduled to mature on January 6, 2017, but may be prepaid without penalty on October 6, 2016.

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

Mortgage Debt

At December 31, 2015, our mortgage notes payable bore an effective weighted average fair value interest rate of 5.2% and had a weighted average maturity of 1.9 years. We may either initiate secured mortgage debt or assume mortgage debt from time-to-time in conjunction with property acquisitions.

Unsecured Credit Facility and Term Loan

Our primary source of liquidity is our New Credit Facility. We can borrow up to \$600.0 million under this line, which bears interest at an adjustable spread over one month LIBOR based on our public debt rating.

On June 23, 2015, we terminated Prior Credit Facility No. 1 and Prior Credit Facility No. 2 and executed the New Credit Facility, a \$600.0 million unsecured credit agreement that matures in June 2019, unless extended pursuant to one or both of the two six-month extension options. The New Credit Facility has an accordion feature that allows us to increase the facility to \$1.0 billion, subject to the extent the lenders agree to provide additional revolving loan commitments or term loans. The New Credit Facility bears interest at a rate of either one month LIBOR plus a margin ranging from 0.875% to 1.55% (depending on our credit rating) or the base rate plus a margin ranging from 0.0% to 0.55% (based upon our credit rating). The base rate is the highest of the administrative agent's prime rate, the federal funds rate plus 0.50% and the one month LIBOR market index rate plus 1.0%. In addition, the New Credit Facility requires the payment of a facility fee ranging from 0.125% to 0.30% (depending on our credit rating) on the \$600.0 million committed capacity, without regard to usage. As of December 31, 2015, the interest rate on the facility is one month LIBOR plus 1.00% and the facility fee is 0.20%.

During the third quarter of 2015, we executed a \$150.0 million unsecured term loan by exercising a portion of the accordion feature under the New Credit Facility. The term loan has a 5.5 year term scheduled to mature on March 15, 2021 and currently has an interest rate of one month LIBOR plus 110 basis points, based on our current unsecured debt ratings. We entered into two interest rate swap arrangements with a total notional amount of \$150.0 million to swap the floating interest rate to an all-in fixed interest rate of 2.7% starting on October 15, 2015 and extending until the maturity of the term loan on March 15, 2021.

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

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

Failure to comply with any of the covenants under our New Credit Facility or other debt instruments could result in a default under one or more of our New Credit Facility's covenants. This could cause our lenders to accelerate the timing of payments and would therefore have a material adverse effect on our business, operations, financial condition and liquidity. In addition, our ability to draw on our New Credit Facility or incur other unsecured debt in the future could be restricted by the New Credit Facility's covenants. As of December 31, 2015, we were in compliance with the New Credit Facility's covenants.

We anticipate that in the near term we may rely to a greater extent upon our New Credit Facility. To the extent that we maintain larger balances on our New Credit Facility or maintain balances on our New Credit Facility for longer periods, adverse fluctuations in interest rates could have a material adverse effect on earnings. See note 7 to the

consolidated financial statements for a discussion of our interest rate swap arrangements.

Unsecured Notes

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

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

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

• A maximum ratio of 65.0% of total indebtedness to total assets;

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

Failure to comply with any of the covenants under our unsecured notes or other debt instruments could result in a default under one or more of our unsecured note covenants. This could cause our debt holders to accelerate the timing of payments and would therefore have a material adverse effect on our business, operations, financial condition and liquidity. As of December 31, 2015, we were in compliance with our unsecured note covenants. In addition, our ability to draw on our New Credit Facility or incur other unsecured debt in the future could be restricted by our unsecured note covenants.

From time to time, we may seek to repurchase and cancel our outstanding unsecured notes through open market purchases, privately negotiated transactions or otherwise. Such repurchases, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

Common Equity

We have authorized for issuance 100.0 million common shares, of which 68.2 million shares were outstanding at December 31, 2015.

On June 23, 2015, we entered into four separate equity distribution agreements (collectively, the "Equity Distribution Agreements") with each of Wells Fargo Securities, LLC, BNY Mellon Capital Markets, LLC, Citigroup Global Markets Inc. and RBC Capital Markets, LLC relating to the issuance and sale of up to \$200.0 million of our common shares from time to time. Sales of our common shares are made at market prices prevailing at the time of sale. We intend to use net proceeds from the sale of common shares under this program for general corporate purposes, including, without limitation, working capital, the acquisition, renovation, expansion, improvement, development or redevelopment of income producing properties or the repayment of debt. We did not issue any shares under the Equity Distribution Agreements during 2015.

The Equity Distribution Agreements replaced our prior sales agency financing agreement ("Prior ATM") with BNY Mellon Capital Markets, LLC, which expired by its terms in June 2015. As of the date of its expiration, we had issued 1.3 million common shares under this program at a weighted average share price of \$27.93 for gross proceeds of \$36.5 million. Of these, we issued 0.2 million common shares at a weighted average share price of \$28.34 for gross proceeds of \$5.2 million during the year ended December 31, 2015.

We have a dividend reinvestment program, whereby shareholders may use their dividends and optional cash payments to purchase common shares. The common shares sold under this program may either be common shares issued by us or common shares purchased in the open market. We did not issue any shares under this program during the three years ended December 31, 2015.

Preferred Equity

Our board of trustees can, at its discretion, authorize the issuance of up to 10.0 million preferred shares. The ability to issue preferred equity provides Washington REIT an additional financing tool that may be used to raise capital for future acquisitions or other business purposes. As of December 31, 2015, no preferred shares had been authorized or issued.

Dividends

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

Our dividend and distribution payments for the three years ended December 31, 2015 were as follows (in thousands):

	Year Ended December 31,		
	2015	2014	2013
Common dividends	\$61,510	\$80,277	\$80,104
Noncontrolling interest distributions	—	3,454	—
	\$61,510	\$83,731	\$80,104

Dividends paid during 2015 decreased from 2014 primarily due to the payment on January 5, 2016 of the \$20.4 million of dividends declared and accrued during the fourth quarter of 2015.

Dividends paid during 2014 increased from 2013 primarily due to an increase in shares outstanding from issuances under our Prior ATM.

The \$3.5 million distribution to noncontrolling interests in 2014 is related to the disposition of 4661 Kenmore Avenue as part of the Medical Office Portfolio sale (see note 3 to the consolidated financial statements).

Capital Commitments

We will require capital for development and redevelopment projects currently underway and in the future. During 2014, we substantially completed major construction activities at The Maxwell, a mid-rise apartment property in Arlington, Virginia. During 2015, we substantially completed major redevelopment construction activities at Silverline Center, an office building in Tysons, Virginia. We are currently engaged in predevelopment activities for the ground-up development of a multifamily property on land adjacent to The Wellington, the redevelopment of Spring Valley Retail Center to add rentable space and the redevelopment of the Army Navy Club Building to modernize the elevators and upgrade common areas.

As of December 31, 2015, we had no outstanding contractual commitments related to our development and redevelopment projects, and expect to fund approximately \$11.0 million of total development/redevelopment spending during 2016.

In addition to our development and redevelopment projects, we anticipate funding several major renovation projects in our portfolios during 2016, as follows (in thousands):

Office	\$6,600
Multifamily	9,700
Retail	1,200
Total	\$17,500

These projects include unit and common area renovations, facade restorations, window curtain wall replacement and balconies replacement at multifamily properties; lobby renovations, HVAC upgrades, hallway and restroom renovations and stairwell installation at office properties; and roof replacements and facade renovations at retail properties. Not all of the anticipated spending had been committed via executed construction contracts at December 31, 2015. We expect to fund these projects using cash generated by our real estate operations, through borrowings on our New Credit Facility, or raising additional debt or equity capital in the public market.

Contractual Obligations

As of December 31, 2015, certain contractual obligations will require significant capital as follows (in thousands):

Payments due by Period					
	Total	Less than 1	1-3 years	4-5 years	After 5

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		year			years
Long-term debt ⁽¹⁾	\$1,522,955	\$216,979	\$410,613	\$459,841	\$435,522
Purchase obligations ⁽²⁾	10,164	5,505	4,659	—	—
Tenant-related capital ⁽³⁾	27,179	27,179	—	—	—
Building capital ⁽⁴⁾	2,291	2,291	—	—	—
Operating leases	14,387	345	847	520	12,675

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

fees and facility fees.

- (2) Represents electricity purchase agreements with terms through 2017 and natural gas purchase agreements with terms through 2016.
- (3) Committed tenant-related capital based on executed leases as of December 31, 2015.
- (4) Committed building capital additions based on contracts in place as of December 31, 2015.

We have various standing or renewable contracts with vendors. The majority of these contracts can be canceled with immaterial or no cancellation penalties, with the exception of our elevator maintenance and electricity and natural gas purchase agreements, which are included above on the purchase obligations line. Contract terms on leases that can be canceled are generally one year or less. We are currently committed to fund tenant-related capital improvements as described in the table above for executed leases. However, expected leasing levels could require additional tenant-related capital improvements which are not currently committed. We expect that total tenant-related capital improvements, including those already committed, will be approximately \$32 million in 2016. Due to the competitive office leasing market we expect that tenant-related capital costs will continue at this level into 2017.

Historical Cash Flows

Cash flows from operations are an important factor in our ability to sustain our dividend at its current rate. If our cash flows from operations were to decline significantly, we may have to reduce our dividend. Consolidated cash flows for the three years ended December 31, 2015 were as follows (in thousands):

	Year ended December 31,			Variance	
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013
Cash provided by operating activities	\$ 107,355	\$ 80,701	\$ 113,318	\$ 26,654	\$(32,617)
Cash (used in) provided by investing activities	(93,018)	(107,882)	189,848	14,864	(297,730)
Cash used in financing activities	(6,339)	(87,335)	(191,928)	80,996	104,593

The increase in cash provided by operating activities in 2015 was primarily due to income from acquisitions executed in 2014 and 2015. The decrease in cash provided by operating activities in 2014 was primarily due to the loss of income from properties sold as part of the Medical Office Portfolio and higher interest payments.

Net cash used in investing activities decreased in 2015 due to lower spending on development and redevelopment projects. Net cash used in investing activities increased in 2014 primarily due to a higher volume of acquisitions, less proceeds from the sale of properties, and higher development spending.

Net cash used in financing activities decreased in 2015 primarily due to replacing the \$150.0 million of unsecured notes repaid in 2015 with the \$150.0 million term loan and the payment after year-end of the dividends declared and accrued in the fourth quarter of 2015. Net cash used in financing activities decreased in 2014 primarily due to the repayment of several mortgage notes in 2013.

Capital Improvements and Development Costs

Our capital improvement, development and redevelopment costs for the three years ended December 31, 2015 were as follows (in thousands):

	Year Ended December 31,		
	2015	2014	2013
Accretive capital improvements and development costs:			
Acquisition related	\$ 3,077	\$ 2,533	\$ 1,369

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Expansions and major renovations	10,722	24,602	23,831
Development/redevelopment	31,203	43,264	15,826
Tenant improvements (including first generation leases)	21,208	22,096	21,746
Total accretive capital improvements ⁽¹⁾	66,210	92,495	62,772
Other capital improvements:	6,500	8,579	8,883
Total	\$72,710	\$101,074	\$71,655

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

Included in the capital improvement and development costs listed above are capitalized interest in the amount of \$0.7 million, \$2.1 million and \$1.2 million for the three years ended December 31, 2015, respectively, and capitalized employee compensation in the amount of \$2.0 million, \$2.0 million and \$1.7 million for the three years ended December 31, 2015, respectively.

Accretive Capital Improvements

Acquisition Related Improvements: Acquisition related improvements are capital improvements to properties acquired during the preceding three years which were anticipated at the time we acquired the properties. These types of improvements were made in 2015 to The Wellington, The Paramount, Army Navy Club Building, 1775 Eye Street, NW and Spring Valley Shopping Center.

Expansions and Major Renovations: Expansion projects increase the rentable area of a property, while major renovation projects are improvements sufficient to increase the income otherwise achievable at a property. Expansions and major renovations during 2015 included HVAC and fitness center upgrades, conference center buildout, landscaping and new entrance at Silverline Center; unit renovations at 3801 Connecticut Avenue; HVAC modifications and corridors upgrades at 1600 Wilson Boulevard; elevator modernizations and garage repairs at 2445 M Street, HVAC modifications at 1140 Connecticut Avenue and roof replacement at Frederick County Square.

Development/Redevelopment: Development costs represent expenditures for ground up development of new operating properties. Redevelopment costs represent expenditures for improvements intended to reposition properties in their markets and increase income that would be otherwise achievable. Development/redevelopment costs in each of the years presented primarily include costs associated with the ground up development of The Maxwell and redevelopment of the Silverline Center. We have substantially completed major construction activities at both properties. The Maxwell has been completely placed into service as of December 31, 2015. At Silverline Center, we have placed into service assets totaling \$25.9 million. We are scheduled to place into service the remaining assets totaling \$10.2 million in 2016.

Tenant Improvements: Tenant improvements are costs, such as space build-out, associated with commercial lease transactions. Our average tenant improvement costs per square foot of space leased, excluding first generation leases, during the three years ended December 31, 2015 were as follows:

	Year Ended December 31,		
	2015	2014	2013
Office ⁽¹⁾	\$30.37	\$27.71	\$29.90
Retail	\$15.36	\$5.87	\$7.05

⁽¹⁾ Excludes properties classified as discontinued operations.

The \$2.66 increase in 2015 in tenant improvement costs per square foot of office space leased was primarily due to leases executed in 2015 requiring \$12.5 million for tenant improvements at Silverline Center.

The \$2.19 decrease in 2014 in tenant improvement costs per square foot of office space leased was primarily due to leases executed in 2013 requiring \$5.9 million for tenant improvements at Braddock Metro Center for a new tenant.

The \$9.49 increase in 2015 in tenant improvement costs per square foot of retail space leased was primarily due to large tenant leases executed at Chevy Chase Metro and Bradlee Shopping Center.

The \$1.18 decrease in 2014 in tenant improvement costs per square foot of retail space leased was primarily due to a lease executed with a single tenant requiring \$2.3 million in tenant improvements in 2013 at Bradlee Shopping Center.

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

Other Capital Improvements

Other capital improvements, also referred to as recurring capital improvements, are those not included in the above categories. Over time these costs will be recurring in nature to maintain a property's income and value. In our multifamily properties, these include new appliances, flooring, cabinets and bathroom fixtures. These improvements, which are made as needed upon vacancy of an apartment, totaled \$1.3 million in 2015, averaging approximately \$1,100 per apartment for the 38% of apartments turned over relative to our total portfolio of apartment units. In our commercial properties and multifamily properties (aside from improvements related to apartment turnover), improvements include installation of new heating and air conditioning equipment, asphalt replacement, permanent landscaping, new lighting and new finishes. In addition, we incurred repair and maintenance expense of \$14.1 million during 2015 to maintain the quality of our buildings.

Off Balance Sheet Arrangements

We have no off-balance sheet arrangements as of December 31, 2015 that are reasonably likely to have a current or future material effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Forward-Looking Statements

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

Such forward-looking statements also include the following statements with respect to Washington REIT:

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

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

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

- (a) the effect of credit and financial market conditions;
- (b) the availability and cost of capital;
- (c) fluctuations in interest rates;
- (d) the economic health of our tenants;
- (e) the timing and pricing of lease transactions;
- (f) the economic health of the greater Washington Metro region, or other markets we may enter;
- (g) changes in real estate and zoning laws and increases in property tax rates;
- (h) the effects of changes in federal government spending;
- (i) the supply of competing properties;

- (j) consumer confidence;
- (k) unemployment rates;
- (l) consumer tastes and preferences;
- (m) our future capital requirements;
- (n) inflation;
- (o) compliance with applicable laws, including those concerning the environment and access by persons with disabilities;
- (p) governmental or regulatory actions and initiatives;
- (q) changes in general economic and business conditions;
- (r) terrorist attacks or actions;
- (s) acts of war;
- (t) weather conditions and natural disasters;
- (u) failure to qualify as a REIT;

- (v) the availability of and our ability to attract and retain qualified personnel;
- (w) the effects of changes in capital available to the technology and biotechnology sectors of the economy; and
- (x) other factors discussed under the caption “Risk Factors.”

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

Funds From Operations

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

The following table provides the calculation of our NAREIT FFO and a reconciliation of NAREIT FFO to net income for the three years ended December 31, 2015 (in thousands):

	Year Ended December 31,		
	2015	2014	2013
Net income	\$89,187	\$111,601	\$37,346
Adjustments:			
Depreciation and amortization	108,935	96,011	85,740
Gain on sale of depreciable real estate	(89,653)	(106,555)	(22,144)
Income from operations of properties classified as discontinued operations	—	(546)	(15,395)
Funds from continuing operations	108,469	100,511	85,547
Discontinued operations:			
Income from operations of properties classified as discontinued operations	—	546	15,395
Depreciation and amortization	—	—	12,161
Funds from discontinued operations	—	546	27,556
NAREIT FFO	\$108,469	\$101,057	\$113,103

Critical Accounting Policies and Estimates

We base the discussion and analysis of our financial condition and results of operations upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial

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

We believe the following accounting estimates are the most critical to aid in fully understanding our reported financial results,

46

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

Stock Based Compensation

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

Federal Income Taxes

Generally, and subject to our ongoing qualification as a REIT, no provisions for income taxes are necessary except for taxes on undistributed taxable income and taxes on the income generated by our TRSs. Our TRSs 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 TRSs. The impairment charge created a deferred tax asset of \$5.7 million at the TRS level, 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 TRSs 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.

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

The table below presents principal, interest and related weighted average fair value interest rates by year of maturity, with respect to debt outstanding on December 31, 2015.

	2016	2017	2018	2019	2020	Thereafter	Total	Fair Value
(In thousands)								
Unsecured fixed rate debt ⁽¹⁾								
Principal	\$—	\$—	\$—	\$—	\$250,000	\$500,000	\$750,000	\$753,816
Interest payments	\$31,934	\$31,934	\$31,934	\$31,934	\$31,934	\$51,907	\$211,577	
Interest rate on debt maturities	—	% —	% —	% —	% 5.05	% 3.96	% 4.32	%
Unsecured variable rate debt								
Principal	\$—	\$—	\$105,000	\$—	\$—	\$—	\$105,000	\$105,000
Variable interest rate on debt	—	% —	% 1.36	% —	% —	% —	% 1.36	%

maturities								
Mortgages								
Principal amortization ⁽²⁾ (30 year schedule)	\$ 168,195	\$ 154,436	\$ 3,135	\$ 33,909	\$ 2,659	\$ 52,212	\$ 414,546	\$ 426,693
Interest payments ⁽³⁾	\$ 15,650	\$ 6,616	\$ 5,089	\$ 3,627	\$ 3,046	\$ 3,604	\$ 37,632	
Weighted average interest rate on principal amortization	5.07	% 5.90	% 4.87	% 5.32	% 4.70	% 3.91	% 5.25	%

⁽¹⁾ Includes \$150.0 million term loan with a floating interest rate that is effectively fixed at 2.7% by interest rate swap arrangements.

⁽²⁾ Excludes net discounts of \$4.2 million and net unamortized debt issuance costs of \$0.7 million at December 31, 2015.

⁽³⁾ Interest payments on our construction loan are based on one month LIBOR in effect on our borrowings outstanding at December 31, 2015.

On September 15, 2015, we entered into interest rate swap arrangements with a total notional amount of \$150.0 million to swap the floating interest rate under our new \$150.0 million term loan to an all-in fixed interest rate of 2.7% starting on October 15, 2015 and extending until the maturity of the term loan on March 15, 2021 (see notes 6 and 7 to the consolidated financial statements). We entered into the interest rate swap arrangements designated and qualifying as cash flow hedges to reduce our exposure to the variability in future cash flows attributable to changes in interest rates. Derivative instruments expose us to credit risk in the event of non-performance by the counterparty under the terms of the interest rate hedge agreement. We believe that we minimize our credit risk on these transactions by dealing with major, creditworthy financial institutions. As part of our ongoing control procedures, we monitor the credit ratings of counterparties and our exposure to any single entity, thus minimizing our credit risk concentration. The following table sets forth information pertaining to interest rate swap contracts in place as of December 31, 2015 and 2014 and their respective fair values (dollars in thousands):

Notional Amount	Fixed Rate	Floating Index Rate	Effective Date	Expiration Date	Fair Value as of:	
					December 31, 2015	December 31, 2014
\$75,000	1.619%	One-Month LIBOR	10/15/2015	3/15/2021	\$(259)) \$—
75,000	1.626%	One-Month LIBOR	10/15/2015	3/15/2021	(291)) —
\$150,000					\$(550)) \$—

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary data appearing on pages 58 to 93 are incorporated herein by reference.

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

None.

ITEM 9A: CONTROLS AND PROCEDURES

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

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer and Controller, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2015. Based on the foregoing, our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer and Controller concluded that our disclosure controls and procedures were effective at a reasonable assurance level.

Internal Control over Financial Reporting

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

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

During the three months ended December 31, 2015, there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B: OTHER INFORMATION

None.

49

PART III

Certain information required by Part III is omitted from this Form 10-K in that we will file a definitive proxy statement pursuant to Regulation 14A with respect to our 2016 Annual Meeting (the "Proxy Statement") no later than 120 days after the end of the fiscal year covered by this Form 10-K, and certain information included therein is incorporated herein by reference. Only those sections of the Proxy Statement which specifically address the items set forth herein are incorporated by reference. In addition, we have adopted a code of ethics which can be reviewed and printed from our website www.washreit.com.

ITEM 10: DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

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

ITEM 11: EXECUTIVE COMPENSATION

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

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

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

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders ⁽¹⁾	—	\$ —	617,131
Equity compensation plans not approved by security holders	—	\$ —	—
Total	—	\$ —	617,131

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

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

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

ITEM 14: PRINCIPAL ACCOUNTANT FEES AND SERVICES

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

PART IV

ITEM 15: EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

1. Financial Statements	Page
Management's Report on Internal Control Over Financial Reporting	<u>55</u>
Report of Independent Registered Public Accounting Firm	<u>56</u>
Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting	<u>57</u>
Consolidated Balance Sheets as of December 31, 2015 and 2014	<u>58</u>
Consolidated Statements of Income for the Years Ended December 31, 2015, 2014 and 2013	<u>59</u>
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2015, 2014 and 2013	<u>60</u>
Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2015, 2014 and 2013	<u>61</u>
Consolidated Statements of Cash Flows for the Years Ended December 31, 2015, 2014 and 2013	<u>62</u>
Notes to Consolidated Financial Statements	<u>63</u>

2. Financial Statement Schedules

Schedule II – Valuation and Qualifying Accounts	<u>90</u>
Schedule III – Consolidated Real Estate and Accumulated Depreciation	<u>91</u>
All other schedules are omitted because they are either not required or the required information is shown in the financial statements or notes thereto.	

3. Exhibits:

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	File Number	Exhibit Filing Date	
3.1	Articles of Amendment and Restatement, effective as of May 17, 2011	DEF 14A	001-06622	B	4/1/2011
3.2	Amended and Restated Bylaws of Washington Real Estate Investment Trust, as adopted on May 17, 2011	8-K	001-06622	3.3	5/23/2011
4.1	Form of 2028 Notes	8-K	001-06622	99.1	2/25/1998
4.2	Supplemental Indenture by and between Washington REIT and the Bank of New York Trust Company, N.A. dated as of July 3, 2007	8-K	001-06622	4.1	7/5/2007
4.3	Multifamily Note Agreement (Walker House Apartments) dated as of May 29, 2008, by and between Washington REIT and Wells Fargo Bank, National Association	10-Q	001-06622	4	8/8/2008
4.4	Multifamily Note Agreement (3801 Connecticut Avenue) dated as of May 29, 2008, by and between Washington REIT and Wells Fargo Bank, National Association	10-Q	001-06622	4	8/8/2008
4.5	Multifamily Note Agreement (Bethesda Hill Apartments) dated as of May 29, 2008, by and between Washington REIT and Wells Fargo Bank, National Association	10-Q	001-06622	4	8/8/2008
4.6	Form of 4.95% Senior Notes due October 1, 2020	8-K	001-06622	4.1	9/30/2010

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4.7	Officers' Certificate establishing the terms of the 4.95% Senior Notes due October 1, 2020	8-K	001-06622	4.2	9/30/2010
4.8	Form of 3.95% Senior Notes due October 15, 2022	8-K	001-06622	4.1	9/17/2012
4.9	Officers' Certificate establishing the terms of 3.95% Notes due October 15, 2022	8-K	001-06622	4.2	9/17/2012
10.1*	Share Purchase Plan	10-Q	001-06622	10(j)	11/14/2002
10.2*	Supplemental Executive Retirement Plan	10-Q	001-06622	10(k)	11/14/2002
10.3*	Supplemental Executive Retirement Plan	10-K	001-06622	10(p)	3/16/2006
10.4*	2007 Omnibus Long Term Incentive Plan	DEF 14A	001-06622	B	4/9/2007

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Incorporated by Reference

Exhibit Number	Exhibit Description	Form	File Number	Exhibit	Filing Date	Filed Herewith
10.5*	Deferred Compensation Plan for Officers dated January 1, 2007	10-K	001-06622	10(gg)	2/29/2008	
10.6*	Supplemental Executive Retirement Plan II dated May 23, 2007	10-K	001-06622	10(hh)	2/29/2008	
10.7*	Form of Indemnification Agreement by and between Washington REIT and the indemnitee	8-K	001-06622	10(mn)	7/27/2009	
10.8*	Executive Stock Ownership Policy, adopted October 27, 2010	8-K	001-06622	10.31	11/2/2010	
10.9*	Amendment to Deferred Compensation Plan for Officers, adopted October 27, 2010	8-K	001-06622	10.32	11/2/2010	
10.10*	Long Term Incentive Plan, effective January 1, 2011	10-Q	001-06622	10.34	5/6/2011	
10.11*	Short Term Incentive Plan, effective January 1, 2011	10-Q	001-06622	10.35	5/6/2011	
10.12*	Short Term Incentive Plan, effective January 1, 2012	10-Q	001-06622	10.38	5/7/2012	
10.13*	Amendment to Deferred Compensation Plan for Officers, adopted December 31, 2012	10-K	001-06622	10.37	2/27/2013	
10.14*	Amended and restated change in control agreement dated February 25, 2013 with Thomas C. Morey	10-K	001-06622	10.41	2/27/2013	
10.15*	Amendment to Deferred Compensation Plan for Officers, adopted February 13, 2013	10-Q	001-06622	10.45	5/9/2013	
10.16*	Amendment to Deferred Compensation Plan for Directors, adopted February 13, 2013	10-Q	001-06622	10.46	5/9/2013	
10.17*	Amendment to Short Term Incentive Plan, adopted as of January 22, 2013	10-Q	001-06622	10.47	5/9/2013	
10.18*	Separation Agreement and General Release between George F. McKenzie and Washington Real Estate Investment Trust dated July 23, 2013	10-Q	001-06622	10.48	7/31/2013	
10.19*	Purchase and Sale Agreement, dated as of September 27, 2013, for 2440 M Street, Alexandria Professional Center, 8301 Arlington Boulevard, 6565 Arlington Boulevard, Ashburn Farm Office Park I, II and III, CentreMed I and II, Sterling Medical Office Building, 19500 at Riverside Office Park, Shady Grove Medical Village II, 9707 Medical Center Drive, 15001 and 15005 Shady Grove Road, Woodholme Center, and Woodholme Medical Office Building	8-K	001-06622	10.49	10/3/2013	
10.20	Purchase and Sale Agreement, dated as of September 27, 2013, for 4661 Kenmore Avenue	8-K	001-06622	10.50	10/3/2013	
10.21	Purchase and Sale Agreement, dated as of September 27, 2013, for Woodburn Medical Park I and II	8-K	001-06622	10.51	10/3/2013	
10.22	Purchase and Sale Agreement, dated as of September 27, 2013, for Prosperity Medical Center I, II and III	8-K	001-06622	10.52	10/3/2013	
10.23	Amended and Restated Deferred Compensation Plan for Directors, effective October 22, 2013	10-Q	001-06622	10.53	11/1/2013	
10.24*	Employment Agreement dated August 19, 2013 with Paul T. McDermott	10-Q	001-06622	10.54	11/1/2013	

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10.25*	Change in control agreement dated October 1, 2013 with Paul T. McDermott	10-K	001-06622	10.44	3/3/2014
10.26*	Amendment to Deferred Compensation Plan for Officers, adopted February 18, 2014	10-K	001-06622	10.45	3/3/2014
10.27*	Amendment to Deferred Compensation Plan for Directors as Amended and Restated, adopted February 18, 2014	10-K	001-06622	10.46	3/3/2014
10.28*	Short Term Incentive Compensation Plan (effective January 1, 2014)	10-Q	001-06622	10.47	5/7/2014
10.29*	Change in control agreement dated April 21, 2014 with Thomas Q. Bakke	10-Q	001-06622	10.48	5/7/2014
10.30*	Separation Agreement and General Release between James B. Cederdahl and Washington Real Estate Investment Trust dated July 2, 2014	8-K	001-06622	10.1	7/7/2014
10.31*	Long Term Incentive Plan (effective January 1, 2014)	10-Q	001-06622	10.50	8/5/2014
10.32*	Amendment to Short Term Incentive Plan (effective January 1, 2014)	10-Q	001-06622	10.51	8/5/2014
10.33*	Separation Agreement and General Release between James B. Cederdahl and Washington Real Estate Investment Trust dated July 2, 2014	8-K	001-06622	10.1	7/7/2014
10.34*	Separation Agreement and General Release between Thomas L. Regnell and Washington Real Estate Investment Trust dated October 8, 2014	8-K	001-06622	10.1	10/6/2014
10.35*	Executive Officer Severance Pay Plan, adopted August 4, 2014	10-Q	001-06622	10.54	10/30/2014

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Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File Number	Exhibit	Filing Date	
10.36*	Separation Agreement and General Release between William T. Camp and Washington Real Estate Investment Trust dated December 17, 2014	8-K	001-06622	10.1	12/18/2014	
10.37*	Separation Agreement and General Release between Laura M. Franklin and Washington Real Estate Investment Trust dated February 18, 2015	8-K	001-06622	10.1	2/19/2015	
10.38*	Change in control agreement dated April 1, 2013 with Edward J. Murn IV	10-K	001-06622	10.52	3/2/2015	
10.39*	Offer Letter to Thomas Q. Bakke	10-K	001-06622	10.53	3/2/2015	
10.40*	Description of Washington REIT Trustee Compensation Plan, effective January 1, 2015	10-K	001-06622	10.54	3/2/2015	
10.41*	Offer Letter to Stephen E. Riffie	10-K	001-06622	10.55	3/2/2015	
10.42*	Change in control agreement dated February 27, 2015 with Stephen E. Riffie	10-K	001-06622	10.56	3/2/2015	
10.43*	Revised Description of Washington REIT Trustee Compensation Plan, effective January 1, 2015	10-Q	001-06622	10.57	5/5/2015	
10.44*	Statement of Amendment of STIP and LTIP for S. Riffie	10-Q	001-06622	10.58	5/5/2015	
10.45*	Credit Agreement, dated as of June 23, 2015, by and among Washington REIT, as borrower, the financial institutions party thereto as lenders, and Wells Fargo Bank, National Association, as administrative agent, with Wells Fargo Securities, LLC, and KeyBanc Capital Markets Inc., as joint lead arrangers and joint bookrunners, KeyBank National Association, as syndication agent, and Royal Bank of Canada and SunTrust Bank, as documentation agents	8-K	001-06622	10.1	6/23/2015	
10.46	Amendment to Long Term Incentive Plan	10-Q	001-06622	10.60	11/4/2015	
10.47*	Amended and restated Trustee Deferred Compensation Plan	10-Q	001-06622	10.61	11/4/2015	
10.48*	First Amendment to Credit Agreement, dated as of September 15, 2015, by and among the Company, as borrower, the financial institutions party thereto as lenders, and Wells Fargo, National Association.	8-K	001-06622	10.1	9/16/2015	
12	Computation of Ratio of Earnings to Fixed Charges					X
21	Subsidiaries of Registrant					X
23	Consent of Independent Registered Public Accounting Firm					X
24	Power of Attorney					X
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended (“the Exchange Act”)					X
31.2						X

31.3	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act Certification of the Chief Accounting Officer pursuant to Rule 13a-14(a) of the Exchange Act	X
32	Certification of the Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X
101	The following materials from our Annual Report on Form 10-K for the year ended December 31, 2015 formatted in eXtensible Business Reporting Language ("XBRL"): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Shareholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) notes to these consolidated financial statements.	X

* Management contracts or compensation plans or arrangements in which trustees or executive officers are eligible to participate.

In accordance with Item 601(b)(4)(iii)(A) of Regulation S-K, copies of certain instruments defining the rights of holders of long-term debt of Washington REIT or its subsidiaries are not filed herewith. Pursuant to this regulation, we hereby agree to furnish a copy of any such instrument to the SEC upon request.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WASHINGTON REAL ESTATE INVESTMENT TRUST

Date: February 26, 2016

By: /s/ Paul T. McDermott

Paul T. McDermott

President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Charles T. Nason* Charles T. Nason	Chairman, Trustee	February 26, 2016
/s/ Paul T. McDermott Paul T. McDermott	President, Chief Executive Officer and Trustee	February 26, 2016
/s/ Benjamin S. Butcher* Benjamin S. Butcher	Trustee	February 26, 2016
/s/ William G. Byrnes* William G. Byrnes	Trustee	February 26, 2016
/s/ Edward S. Civera* Edward S. Civera	Trustee	February 26, 2016
/s/ John P. McDaniel* John P. McDaniel	Trustee	February 26, 2016
/s/ Thomas H. Nolan, Jr.* Thomas H. Nolan, Jr.	Trustee	February 26, 2016
/s/ Wendelin A. White* Wendelin A. White	Trustee	February 26, 2016
/s/ Anthony L. Winns* Anthony L. Winns	Trustee	February 26, 2016
/s/ Stephen E. Riffie Stephen E. Riffie	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 26, 2016
/s/ W. Drew Hammond	Vice President, Chief Accounting Officer and	February 26, 2016

W. Drew Hammond

Controller

(Principal Accounting Officer)

* By: /s/ W. Drew Hammond through power of attorney

W. Drew Hammond

54

MANAGEMENT'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Washington Real Estate Investment Trust ("Washington REIT") is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of internal controls over financial reporting. Washington REIT's internal control system over financial reporting is a process designed under the supervision of Washington REIT's principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions.

In connection with the preparation of Washington REIT's annual consolidated financial statements, management has undertaken an assessment of the effectiveness of Washington REIT's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission (the 2013 COSO Framework). Management's assessment included an evaluation of the design of Washington REIT's internal control over financial reporting and testing of the operational effectiveness of those controls.

Based on this assessment, management has concluded that as of December 31, 2015, Washington REIT's internal control over financial reporting was effective at a reasonable assurance level regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Ernst & Young LLP, the independent registered public accounting firm that audited Washington REIT's consolidated financial statements included in this report, has issued an unqualified opinion on the effectiveness of Washington REIT's internal control over financial reporting, a copy of which appears on page 57 of this annual report.

Report of Independent Registered Public Accounting Firm
The Board of Trustees and Shareholders of
Washington Real Estate Investment Trust

We have audited the accompanying consolidated balance sheets of Washington Real Estate Investment Trust and Subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2015. Our audits also included the financial statement schedules listed in the Index at Item 15(A). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Washington Real Estate Investment Trust and Subsidiaries at December 31, 2015 and 2014, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in note 2 to the consolidated financial statements, the Company changed its method for reporting discontinued operations effective January 1, 2014.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Washington Real Estate Investment Trust and Subsidiaries' internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) and our report dated February 26, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
McLean, Virginia
February 26, 2016

Report of Independent Registered Public Accounting Firm
The Board of Trustees and Shareholders of
Washington Real Estate Investment Trust

We have audited Washington Real Estate Investment Trust and Subsidiaries' internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) (the COSO criteria). Washington Real Estate Investment Trust's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Washington Real Estate Investment Trust and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Washington Real Estate Investment Trust and Subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2015 of Washington Real Estate Investment Trust and Subsidiaries and our report dated February 26, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
McLean, Virginia
February 26, 2016

WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	December 31,	
	2015	2014 (as adjusted)
Assets		
Land	\$561,256	\$543,546
Income producing property	2,076,541	1,927,407
	2,637,797	2,470,953
Accumulated depreciation and amortization	(692,608	) (640,434
Net income producing property	1,945,189	1,830,519
Properties under development or held for future development	36,094	76,235
Total real estate held for investment, net	1,981,283	1,906,754
Cash and cash equivalents	23,825	15,827
Restricted cash	13,383	10,299
Rents and other receivables, net of allowance for doubtful accounts of \$2,297 and \$3,392, respectively	62,890	59,745
Prepaid expenses and other assets	109,787	115,692
Total assets	\$2,191,168	\$2,108,317
Liabilities		
Notes payable, net	\$743,181	\$743,149
Mortgage notes payable, net	418,052	417,194
Lines of credit	105,000	50,000
Accounts payable and other liabilities	45,367	54,318
Dividend payable	20,434	—
Advance rents	12,744	12,528
Tenant security deposits	9,378	8,899
Total liabilities	1,354,156	1,286,088
Equity		
Shareholders' equity		
Preferred shares; \$0.01 par value; 10,000 shares authorized; no shares issued or outstanding	—	—
Shares of beneficial interest; \$0.01 par value; 100,000 shares authorized: 68,191 and 67,819 shares issued and outstanding at December 31, 2015 and 2014, respectively	682	678
Additional paid in capital	1,193,298	1,184,395
Distributions in excess of net income	(357,781	) (365,518
Accumulated other comprehensive loss	(550) —
Total shareholders' equity	835,649	819,555
Noncontrolling interests in subsidiaries	1,363	2,674
Total equity	837,012	822,229
Total liabilities and shareholders' equity	\$2,191,168	\$2,108,317

See accompanying notes to the consolidated financial statements.

WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	Year Ended December 31,		
	2015	2014	2013
Revenue			
Real estate rental revenue	\$306,427	\$288,637	\$263,024
Expenses			
Utilities	18,004	18,056	16,311
Real estate taxes	37,152	33,436	29,052
Repairs and maintenance	14,095	13,375	12,261
Property administration and management	23,099	20,460	18,410
Operating services and common area maintenance	15,974	15,068	13,469
Other real estate expenses	3,910	3,300	3,790
Depreciation and amortization	108,935	96,011	85,740
Acquisition costs	2,056	5,710	1,265
Real estate impairment	5,909	—	—
General and administrative	20,257	19,761	17,535
	249,391	225,177	197,833
Other operating income			
Gain on sale of real estate	91,107	570	—
Real estate operating income	148,143	64,030	65,191
Other income (expense)			
Interest expense	(59,546)	(59,785)	(63,573)
Other income	709	825	926
Loss on extinguishment of debt	(119)	—	(2,737)
	(58,956)	(58,960)	(65,384)
Income (loss) from continuing operations	89,187	5,070	(193)
Discontinued operations:			
Income from operations of properties sold or held for sale	—	546	15,395
Gain on sale of real estate	—	105,985	22,144
Net income	89,187	111,601	37,346
Less: Net loss attributable to noncontrolling interests in subsidiaries	553	38	—
Net income attributable to the controlling interests	\$89,740	\$111,639	\$37,346
Basic net income attributable to the controlling interests per share			
Continuing operations	\$1.31	\$0.08	\$—
Discontinued operations, including gain on sale of real estate	—	1.59	0.55
Net income attributable to the controlling interests per share	\$1.31	\$1.67	\$0.55
Diluted net income attributable to the controlling interests per share			
Continuing operations	\$1.31	\$0.08	\$—
Discontinued operations, including gain on sale of real estate	—	1.59	0.55
Net income attributable to the controlling interests per share	\$1.31	\$1.67	\$0.55
Weighted average shares outstanding – basic	68,177	66,795	66,580
Weighted average shares outstanding – diluted	68,310	66,837	66,580
See accompanying notes to the consolidated financial statements.			

WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (IN THOUSANDS)

	Year Ended December 31,		
	2015	2014	2013
Net income	\$89,187	\$111,601	\$37,346
Other comprehensive loss:			
Unrealized loss on interest rate hedge	(550)	—	—
Comprehensive income	88,637	111,601	37,346
Less: Net loss attributable to noncontrolling interests	553	38	—
Comprehensive income attributable to the controlling interests	\$89,190	\$111,639	\$37,346

See accompanying notes to the financial statements.

WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(IN THOUSANDS)

	Shares	Shares of Beneficial Interest at Par Value	Additional Paid in Capital	Distributions in Excess of Net Income	Accumulated Other Comprehensive Loss	Total Shareholders' Equity	Non- controlling Interests in Subsidiaries	Total Equity
Balance, December 31, 2012	66,437	\$ 664	\$ 1,145,515	\$ (354,122)	\$ —	\$ 792,057	\$ 4,086	\$ 796,143
Net income attributable to the controlling interests	—	—	—	37,346	—	37,346	—	37,346
Contributions from noncontrolling interest	—	—	—	—	—	—	401	401
Dividends	—	—	—	(80,104)	—	(80,104)	—	(80,104)
Share grants, net of share grant amortization and forfeitures	94	1	5,659	—	—	5,660	—	5,660
Balance, December 31, 2013	66,531	665	1,151,174	(396,880)	—	754,959	4,487	759,446
Net income attributable to the controlling interests	—	—	—	111,639	—	111,639	—	111,639
Net income attributable to noncontrolling interests	—	—	—	—	—	—	(38)	(38)
Distributions to noncontrolling interests	—	—	—	—	—	—	(1,784)	(1,784)
Contributions from noncontrolling interest	—	—	—	—	—	—	9	9
Dividends	—	—	—	(80,277)	—	(80,277)	—	(80,277)
Equity offerings, net of issuance costs	1,125	11	30,679	—	—	30,690	—	30,690
Share grants, net of share grant amortization and forfeitures	163	2	2,542	—	—	2,544	—	2,544
Balance, December 31, 2014	67,819	678	1,184,395	(365,518)	—	819,555	2,674	822,229
	—	—	—	89,740	—	89,740	—	89,740

Net income attributable to the controlling interests								
Net loss attributable to noncontrolling interests and deconsolidation of noncontrolling interest	—	—	—	—	—	—	(1,316)	(1,316)
Unrealized loss on interest rate hedge	—	—	—	—	(550)	(550)	—	(550)
Contributions from noncontrolling interest	—	—	—	—	—	—	5	5
Dividends	—	—	—	(82,003)	—	(82,003)	—	(82,003)
Equity offerings, net of issuance costs	184	2	5,213	—	—	5,215	—	5,215
Share grants, net of share grant amortization and forfeitures	188	2	3,690	—	—	3,692	—	3,692
Balance, December 31, 2015	68,191	\$ 682	\$ 1,193,298	\$ (357,781)	\$ (550)	\$ 835,649	\$ 1,363	\$ 837,012

See accompanying notes to the consolidated financial statements.

WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	Year Ended December 31,		
	2015	2014	2013
Cash flows from operating activities			
Net income	\$89,187	\$111,601	\$37,346
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain on sale of real estate	(91,107)	(106,555)	(22,144)
Depreciation and amortization, including amounts in discontinued operations	108,935	96,011	97,901
Provision for losses on accounts receivable	1,368	1,402	3,772
Real estate impairment	5,909	—	—
Share-based compensation expense	5,112	4,995	6,246
Amortization of debt premiums, discounts and related financing costs	3,486	3,588	4,158
Loss on extinguishment of debt, net	119	—	2,737
Changes in other assets	(10,388)	(23,306)	(10,591)
Changes in other liabilities	(5,266)	(7,035)	(6,107)
Net cash provided by operating activities	107,355	80,701	113,318
Cash flows from investing activities			
Real estate acquisitions, net	(151,682)	(194,536)	(48,200)
Capital improvements to real estate	(41,507)	(57,810)	(55,829)
Development in progress	(31,203)	(43,264)	(15,826)
Net cash received from sale of real estate	137,014	190,864	313,765
Real estate deposits, net	—	—	(3,900)
Cash held in replacement reserve escrows	(3,511)	(1,417)	—
Non-real estate capital improvements	(2,129)	(1,719)	(162)
Net cash (used in) provided by investing activities	(93,018)	(107,882)	189,848
Cash flows from financing activities			
Line of credit borrowings, net	55,000	50,000	—
Principal payments – mortgage notes payable	(4,512)	(3,954)	(58,679)
Borrowing under construction loan	4,558	20,393	7,297
Notes payable repayments	(150,000)	(100,000)	(60,000)
Proceeds from term loan	150,000	—	—
Payment of financing costs	(5,095)	(742)	(843)
Dividends paid	(61,510)	(80,277)	(80,104)
Contributions from noncontrolling interests	5	9	401
Distributions to noncontrolling interests	—	(3,454)	—
Net proceeds from equity offerings	5,215	30,690	—
Net cash used in financing activities	(6,339)	(87,335)	(191,928)
Net increase (decrease) in cash and cash equivalents	7,998	(114,516)	111,238
Cash and cash equivalents at beginning of year	15,827	130,343	19,105
Cash and cash equivalents at end of year	\$23,825	\$15,827	\$130,343
Supplemental disclosure of cash flow information:			
Cash paid for interest, net of capitalized interest expense	\$57,179	\$58,023	\$62,744
Cash paid for income taxes	\$261	\$156	\$54
Increase in accrued capital improvements and development costs	\$(4,229)	\$(4,154)	\$(328)
Dividends payable	\$20,434	\$—	\$—

Mortgage notes payable assumed in connection with the acquisition of real estate	\$—	\$ 100,861	\$—
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See accompanying notes to the consolidated financial statements.

62

WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013

NOTE 1: NATURE OF BUSINESS

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

Federal Income Taxes

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, among other things, required to distribute 90% of our REIT taxable income (which is, generally, our ordinary taxable income, with certain modifications), excluding any net capital gains and any deductions for dividends paid to our shareholders on an annual basis. When selling a property, we generally have the option of (a) reinvesting the sales proceeds of property sold, in a way that allows us to defer recognition of some or all taxable gain realized on the sale, (b) distributing gains to the shareholders with no tax to us or (c) treating net long-term capital gains as having been distributed to our shareholders, paying the tax on the gain deemed distributed and allocating the tax paid as a credit to our shareholders. During the three years ended December 31, 2015, we sold our interests in the following properties (in thousands):

Disposition Date	Property	Type	Gain on Sale
March 20, 2015	Country Club Towers	Multifamily	\$30,277
September 9, 2015	1225 First Street ⁽¹⁾	Multifamily	—
October 21, 2015	Munson Hill Towers	Multifamily	51,395
December 14, 2015	Montgomery Village Center	Retail	7,981
		Total 2015 ⁽²⁾	\$89,653
January 21, 2014	Medical Office Portfolio Transactions III & IV ⁽³⁾	Medical Office	\$105,985
May 2, 2014	5740 Columbia Road	Retail	570
		Total 2014	\$106,555
March 19, 2013	Atrium Building	Office	\$3,195
November 2013	Medical Office Portfolio Transactions I & II ⁽⁴⁾	Medical Office / Office	18,949
		Total 2013	\$22,144

⁽¹⁾ Interest in land held for future development.

⁽²⁾ Excludes gain related to parcel of land at Montrose Shopping Center condemned as part of an eminent domain taking action (see note 3 under "Properties Sold").

⁽³⁾ Woodburn Medical Park I and II and Prosperity Medical Center I, II and III.

⁽⁴⁾ 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 at 4661 Kenmore Avenue.

We reinvested a portion of the Medical Office Portfolio, Country Club Towers, Munson Hill Towers and Montgomery Village Center sales proceeds in replacement properties through deferred tax exchanges. Generally, and subject to our ongoing qualification as a REIT, no provisions for income taxes are necessary except for taxes on undistributed taxable income and taxes on the income generated by our taxable REIT subsidiaries (“TRSs”). Our TRSs are subject to corporate federal and state income tax on their taxable income at regular statutory rates, or as calculated under the alternative minimum tax, as appropriate. As of December 31,

2015 and 2014, our TRSs had no net deferred tax assets and net deferred tax liabilities of \$0.7 million and \$0.6 million, respectively. These deferred tax liabilities are primarily related to temporary differences in the timing of the recognition of revenue, amortization and depreciation. During 2011, we recognized a \$14.5 million impairment charge at Dulles Station, Phase II, a property held for future development included in one of our TRSs. The impairment charge created a deferred tax asset of \$5.7 million at this TRS, but we have determined that it is more likely than not that this deferred tax asset will not be realized. 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.

The following is a breakdown of the taxable percentage of our dividends for these years ended December 31, 2015, 2014 and 2013, (unaudited):

	2015	2014	2013	
Ordinary income	78	% 40	% 62	%
Return of capital	22	% 52	% 38	%
Qualified dividends	—	% —	% —	%
Unrecaptured Section 1250 gain	—	% 8	% —	%
Capital gain	—	% —	% —	%

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

Principles of Consolidation and Basis of Presentation

The accompanying audited consolidated financial statements include the consolidated accounts of Washington REIT, our majority-owned subsidiaries and entities in which Washington REIT has a controlling interest, including where Washington REIT has been determined to be a primary beneficiary of a variable interest entity ("VIE"). See note 3 for additional information on the properties for which there is a noncontrolling interest. All intercompany balances and transactions have been eliminated in consolidation.

We have prepared the accompanying audited consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission.

Use of Estimates in the Financial Statements

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

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update No. 2016-02, Leases (Topic 842), which amends existing accounting standards for lease accounting, including by requiring lessees to recognize most leases on the balance sheet and making certain changes to lessor accounting. The new standard is effective for public entities for fiscal years beginning after December 15, 2018 and for interim periods therein with early adoption permitted. We are currently evaluating the impact the new standard may have on Washington REIT's consolidated financial statements.

During 2015, the FASB issued Accounting Standards Update No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30) - Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03") and Accounting Standards Update No. 2015-15, Interest - Imputation of Interest (Subtopic 835-30) - Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements, which require that debt issuance costs related to a

recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts, except for debt issuance costs associated with line of credit arrangements, which can continue to be recorded as an asset. The recognition and measurement guidance for debt issuance costs are not affected by the new standards. The new standards are effective for public entities for fiscal years beginning after December 15, 2015 and for interim periods therein. Early adoption is permitted for financial statements that have not been previously issued. We early adopted these new standards as of December 31, 2015 and as such, the December 31, 2014 balance sheet has been recast. In implementing this standard, debt issuance costs associated with securing a revolving line of credit remain presented as an asset (included in Prepaid expenses and other assets in the consolidated balance sheets), regardless of whether a balance on the line of credit is outstanding.

The impact of implementation of ASU 2015-03 on our consolidated balance sheets is as follows (in thousands):

	December 31,	
	2015	2014
Prepaid expenses and other assets (prior to adoption of ASU 2015-03)	\$ 114,913	\$ 121,082
Reclassification of debt issuance costs, excluding line of credit costs	(5,126	) (5,390
Prepaid expenses and other assets (after adoption of ASU 2015-03)	\$ 109,787	\$ 115,692
Notes payable (prior to adoption of ASU 2015-03)	\$ 747,638	\$ 747,208
Reclassification of debt issuance costs	(4,457	) (4,059
Notes payable (after adoption of ASU 2015-03)	\$ 743,181	\$ 743,149
Mortgage notes payable (prior to adoption of ASU 2015-03)	\$ 418,721	\$ 418,525
Reclassification of debt issuance costs	(669	) (1,331
Mortgage notes payable (after adoption of ASU 2015-03)	\$ 418,052	\$ 417,194

In June 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which creates a single source of revenue guidance. The new standard provides accounting guidance for all revenue arising from contracts with customers and affects all entities that enter into contracts to provide goods or services to their customers (unless the contracts are in the scope of other U.S. GAAP requirements, such as the leasing literature). The guidance also provides a model for the measurement and recognition of gains and losses on the sale of certain nonfinancial assets, such as property and equipment, including real estate. The new standard is effective for public entities for fiscal years beginning after December 15, 2017 and for interim periods therein. Early adoption is permitted for public entities beginning after December 15, 2016. We are currently evaluating the impact the new standard may have on Washington REIT.

Revenue Recognition

We lease multifamily properties under operating leases with terms of generally one year or less. We lease commercial properties (our office and retail segments) under operating leases with an average term of seven years. Substantially all commercial leases contain fixed escalations or, in some instances, changes based on the Consumer Price Index, which occur at specified times during the term of the lease. We recognize rental income and rental abatements from our multifamily and commercial leases when earned on a straight-line basis over the lease term. Recognition of rental income commences when control of the leased space has been given to the tenant.

We recognize sales of real estate at closing only when sufficient down payments have been obtained, possession and other attributes of ownership have been transferred to the buyer and we have no significant continuing involvement.

We recognize cost reimbursement income from pass-through expenses on an accrual basis over the periods in which the expenses were incurred. Pass-through expenses are comprised of real estate taxes, operating expenses and common area maintenance costs which are reimbursed by tenants in accordance with specific allowable costs per tenant lease agreements.

Parking revenues are derived from leases, monthly parking agreements and transient parking. We recognize parking revenues from leases on a straight-line basis over the lease term and other parking revenues as earned.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable primarily represents amounts accrued and unpaid from tenants in accordance with the terms of the respective leases, subject to our revenue recognition policy. We review receivables monthly and establish reserves

when, in the opinion of management, collection of the receivable is doubtful. We establish reserves for tenants whose rent payment histories or financial conditions cast doubt upon the tenants' abilities to perform under their lease obligations. When we determine the collection of a receivable to be doubtful in the same quarter that we established the receivable, we recognize the allowance for that receivable as an offset to real estate revenues. When we determine a receivable that was initially established in a prior quarter to be doubtful, we recognize the allowance as an operating expense in Other real estate expenses in the consolidated statements of income. In addition to rents due currently, accounts receivable include amounts representing minimal rental income accrued on a straight-line basis to be paid by tenants over the remaining term of their respective leases.

Our accounts receivable balances include \$3.9 million and \$4.4 million of notes receivable as of December 31, 2015 and 2014,

respectively.

Debt Issuance Costs

We amortize external debt issuance costs using the effective interest rate method or the straight-line method which approximates the effective interest rate method, over the estimated life of the related debt. We record debt issuance costs related to notes and mortgage notes, net of amortization, on our consolidated balance sheets as an offset to their related debt. We record debt issuance costs related to revolving lines of credit on our consolidated balance sheets with Prepaid expenses and other assets, regardless of whether a balance on the line of credit is outstanding. We record the amortization of all debt issuance costs as interest expense.

Deferred Leasing Costs

We capitalize and amortize costs associated with the successful negotiation of leases, both external commissions and internal direct costs, on a straight-line basis over the terms of the respective leases. We record the amortization of deferred leasing costs in Depreciation and amortization on the consolidated statements of income. If an applicable lease terminates prior to the expiration of its initial lease term, we write off the carrying amount of the costs to amortization expense.

We capitalize and amortize against revenue leasing incentives associated with the successful negotiation of leases on a straight-line basis over the terms of the respective leases. We record the amortization of deferred leasing incentives as a reduction of revenue. If an applicable lease terminates prior to the expiration of its initial lease term, we write off the carrying amount of the costs as a reduction of revenue.

Real Estate and Depreciation

We depreciate buildings on a straight-line basis over estimated useful lives ranging from 28 to 50 years. We capitalize all capital improvements associated with replacements, improvements or major repairs to real property that extend its useful life and depreciate them using the straight-line method over their estimated useful lives ranging from 3 to 30 years. We also capitalize costs incurred in connection with our development projects, including capitalizing interest incurred on borrowing obligations and other internal costs during periods in which qualifying expenditures have been made and activities necessary to get the development projects ready for their intended use are in progress.

Capitalization of these costs begin when the activities and related expenditures commence and cease when the project is substantially complete and ready for its intended use, at which time the project is placed in service and depreciation commences. In addition, we capitalize tenant leasehold improvements when certain criteria are met, including when we supervise construction and will own the improvements. We depreciate all tenant improvements over the shorter of the useful life of the improvements or the term of the related tenant lease.

Real estate depreciation expense from continuing operations was \$80.7 million, \$71.4 million, \$63.4 million during the years ended December 31, 2015, 2014 and 2013, respectively.

We charge maintenance and repair costs that do not extend an asset's useful life to expense as incurred.

Interest expense from continuing operations and interest capitalized to real estate assets related to development and major renovation activities for the three years ended December 31, 2015 were as follows (in thousands):

	Year Ended December 31,		
	2015	2014	2013
Total interest expense from continuing operations	\$60,204	\$61,927	\$64,809
Capitalized interest	658	2,142	1,236

Interest expense from continuing operations, net of capitalized interest	\$59,546	\$59,785	\$63,573
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We recognize impairment losses on long-lived assets used in operations, development assets or land held for future development, if indicators of impairment are present and the net undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount and estimated undiscounted cash flows associated with future development expenditures. If such carrying amount is in excess of the estimated cash flows from the operation and disposal of the property, we would recognize an impairment loss equivalent to an amount required to adjust the carrying amount to its estimated fair value, calculated in accordance with current GAAP fair value provisions (see note 3). Assets held for sale are recorded at the lower of cost or fair value less costs to sell.

We record acquired or assumed assets, including physical assets and in-place leases, and liabilities, based on their fair values. 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 have attributed no value to customer relationships as of December 31, 2015 and 2014.

We discount the amounts used to calculate net lease intangibles using an interest rate which reflects the risks associated with the leases acquired. We classify tenant origination costs as Income producing property on our consolidated balance sheets and amortize the tenant origination costs as depreciation expense on a straight-line basis over 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 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 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, leasing commissions, absorption costs and net lease intangible associated with that lease, over its new, shorter term.

Balances, net of accumulated depreciation or amortization, as appropriate, of the components of the fair value of in-place leases at December 31, 2015 and 2014 were as follows (in thousands):

	December 31,			2014		
	Gross Carrying Value	Accumulated Amortization	Net	Gross Carrying Value	Accumulated Amortization	Net
Tenant origination costs	\$55,664	\$41,138	\$14,526	\$56,327	\$35,463	\$20,864
Leasing commissions/absorption costs	97,678	75,014	22,664	93,729	60,289	33,440
Net lease intangible assets	19,655	12,434	7,221	19,724	9,495	10,229
Net lease intangible liabilities	34,027	23,444	10,583	34,027	20,974	13,053
Below-market ground lease intangible asset	12,080	1,524	10,556	12,080	1,335	10,745

Amortization of these combined components from continuing operations during the three years ended December 31, 2015, 2014 and 2013 was as follows:

	Year Ended December 31,		
	2015	2014	2013
Depreciation and amortization expense	\$22,244	\$19,854	\$17,923

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Real estate rental revenue, net decrease (increase)	538	456	(633)
	\$22,782	\$20,310	\$17,290	

67

Amortization of these combined components from continuing operations over the next five years is projected to be as follows (in thousands):

	Depreciation and amortization expense	Real estate rental revenue, net decrease (increase)	Total
2016	\$12,574	\$372	\$12,946
2017	8,860	(185)	) 8,675
2018	6,078	(668)	) 5,410
2019	3,572	(530)	) 3,042
2020	2,349	(321)	) 2,028

Discontinued Operations

We classify properties as held for sale when they meet the necessary criteria, which include: (a) senior management commits to and actively embarks upon a plan to sell the assets, (b) the sale is expected to be completed within one year under terms usual and customary for such sales and (c) actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. We generally consider that a property has met these criteria when a sale of the property has been approved by the board of trustees, or a committee with authorization from the board of trustees, there are no known significant contingencies related to the sale and management believes it is probable that the sale will be completed within one year. Depreciation on these properties is discontinued at the time they are classified as held for sale, but operating revenues, operating expenses and interest expense continue to be recognized until the date of sale.

Under ASU No. 2014-08, which we adopted as of January 1, 2014, revenues and expenses of properties that are either sold or classified as held for sale are presented as discontinued operations for all periods presented in the consolidated statements of income if the dispositions represent a strategic shift that has (or will have) a major effect on our operations and financial results. Interest on debt that can be identified as specifically attributed to these properties is included in discontinued operations. If the dispositions do not represent a strategic shift that has (or will have) a major effect on our operations and financial results, then the revenues and expenses of the properties that are classified as sold or held for sale are presented as continuing operations in the consolidated statements of income for all periods presented. The provisions of ASU No. 2014-08 apply only to properties classified as held for sale or sold after our adoption date of January 1, 2014.

Segments

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

Cash and Cash Equivalents

Cash and cash equivalents include cash and commercial paper with original maturities of 90 days or less. Washington REIT maintains cash deposits with financial institutions that at times exceed applicable insurance limits. Washington REIT reduces this risk by maintaining such deposits with high quality financial institutions that management believes are credit-worthy.

Restricted Cash

Restricted cash includes funds escrowed for tenant security deposits, real estate tax, insurance and mortgage escrows and escrow deposits required by lenders on certain of our properties to be used for future building renovations or tenant improvements.

Earnings Per Common Share

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

We also determine “Diluted earnings per share” under the two-class method with respect to the unvested restricted share awards. We further evaluate any other potentially dilutive securities at the end of the period and adjust the basic earnings per share calculation for the impact of those securities that are dilutive. Our dilutive earnings per share calculation includes the dilutive impact of employee stock options based on the treasury stock method and our performance share units under the contingently issuable method. The dilutive earnings per share calculation also considers our operating partnership units that were outstanding in 2013.

Stock Based Compensation

We currently maintain equity based compensation plans for trustees, officers and employees.

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

Accounting for Uncertainty in Income Taxes

We can recognize a tax benefit only if it is “more likely than not” that a particular tax position will be sustained upon examination or audit. To the extent that the “more likely than not” standard has been satisfied, the benefit associated with a tax position is measured as the largest amount that is greater than 50% likely of being recognized upon settlement. As of December 31, 2015 and 2014, we did not have any unrecognized tax benefits. We do not believe that there will be any material changes to our uncertain tax positions over the next twelve months.

We are subject to federal income tax as well as income tax of the states of Maryland and Virginia, and the District of Columbia. However, as a REIT, we generally are not subject to income tax on our taxable income to the extent it is distributed as dividends to our shareholders.

Tax returns filed for 2011 through 2015 tax years are subject to examination by taxing authorities. We classify interest and penalties related to uncertain tax positions, if any, in our financial statements as a component of general and administrative expense.

Derivatives

We borrow funds at a combination of fixed and variable rates. Borrowings under our revolving credit facility and term loans bear interest at variable rates. Our interest rate risk management objectives are to minimize interest rate fluctuation on long-term indebtedness and limit the impact of interest rate changes on earnings and cash flows. To achieve these objectives, from time to time, we may enter into interest rate hedge contracts such as collars, swaps, caps and treasury lock agreements in order to mitigate our interest rate risk with respect to various debt instruments. We generally do not hold or issue these derivative contracts for trading or speculative purposes. The interest rate swaps we enter into are recorded at fair value on a recurring basis. We assess effectiveness of our cash flow hedges both at inception and on an ongoing basis. The effective portion of changes in fair value of the interest rate swaps associated with our cash flow hedges is recorded in accumulated other comprehensive loss. Our cash flow hedges

become ineffective if critical terms of the hedging instrument and the debt instrument such as notional amounts, settlement dates, reset dates, calculation period and LIBOR do not perfectly match. In addition, we evaluate the default risk of the counterparty by monitoring the creditworthiness of the counterparty. When ineffectiveness of a cash flow hedge exists, the ineffective portion of changes in fair value of the interest rate swaps associated with our cash flow hedges is recognized in earnings in the period affected.

NOTE 3: REAL ESTATE

As of December 31, 2015 and 2014, our real estate investment portfolio, at cost, consists of properties as follows (in thousands):

	December 31,	
	2015	2014
Office	\$1,554,334	\$1,502,052
Retail	442,039	463,716
Multifamily	641,424	505,185
	\$2,637,797	\$2,470,953

Our results of operations are dependent on the overall economic health of our markets, tenants and the specific segments in which we own properties. These segments include office, retail and multifamily. All segments are affected by external economic factors, such as inflation, consumer confidence and unemployment rates, as well as changing tenant and consumer requirements.

As of December 31, 2015, no single property or tenant accounted for more than 10% of total assets or total real estate rental revenue.

We have properties under development and held for current or future development as of December 31, 2015. In the office segment, we have a redevelopment project to renovate Silverline Center. During the second quarter of 2015, we substantially completed major construction activities at Silverline Center and placed into service assets totaling \$25.9 million. We will place into service the remaining assets totaling \$10.2 million in 2016. We also have land for future potential development at Dulles Station, Phase II in Herndon, Virginia. In the multifamily segment, we have land held for future development adjacent to The Wellington, a multifamily property. During the fourth quarter of 2014, we substantially completed major construction activities at The Maxwell, a multifamily property, and placed into service assets totaling \$31.3 million. During 2015, we placed into service the remaining assets totaling \$19.2 million.

The cost of our real estate portfolio under development or held for future development as of December 31, 2015 and 2014 is as follows (in thousands):

	December 31,	
	2015	2014
Office	\$18,711	\$36,379
Retail	1,076	500
Multifamily	16,307	39,356
	\$36,094	\$76,235

Acquisitions

Our current strategy is to recycle legacy assets that lack the income growth potential we seek and to invest in high-quality assets with compelling value-add returns through redevelopment opportunities in our existing portfolio and acquisitions that meet our stringent investment criteria. We focus on properties inside the Washington metro region's Beltway, near major transportation nodes and in areas with strong employment drivers and superior growth demographics. Properties and land for development acquired during the three years ended December 31, 2015 were as follows:

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Acquisition Date	Property	Type	# of units (unaudited)	Rentable Square Feet (unaudited)	Contract Purchase Price (in thousands)
July 1, 2015	The Wellington	Multifamily	711	N/A	\$167,000
February 21, 2014	Yale West	Multifamily	216	N/A	\$73,000
March 26, 2014	The Army Navy Club Building	Office	N/A	108,000	79,000
May 1, 2014	1775 Eye Street, NW	Office	N/A	185,000	104,500
October 1, 2014	Spring Valley Retail Center	Retail	N/A	75,000	40,500
		Total 2014	216	368,000	\$297,000
October 1, 2013	The Paramount	Multifamily	135	N/A	\$48,200

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

The revenue and earnings of our acquisitions during their year of acquisition for the three years ended December 31, 2015 are as follows (in thousands):

	Year Ended December 31,		
	2015	2014	2013
Real estate rental revenue	\$6,797	\$16,260	\$907
Net loss	(2,748	) (3,168	) (105

As discussed in note 2, we record the acquired physical assets (land, building and tenant improvements), in-place leases (absorption, tenant origination costs, leasing commissions, and net lease intangible assets/liabilities), and any other liabilities at their fair values.

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

	2015	2014	2013
Land	\$30,548	\$104,403	\$8,568
Land held for development	15,000	—	—
Buildings	116,563	172,671	37,930
Tenant origination costs	—	9,377	32
Leasing commissions/absorption costs	4,889	16,474	943
Net lease intangible assets	—	7,331	102
Net lease intangible liabilities	—	(8,323	) (117
Fair value of assumed mortgage	—	(107,125) —
Furniture, fixtures & equipment	—	932	742
Total	\$167,000	\$195,740	\$48,200

The leasing commissions/absorption costs acquired in 2015 were fully amortized as of December 31, 2015.

The difference in the total contract price of \$167.0 million for the 2015 acquisition and cash paid for the acquisition per the consolidated statements of cash flows of \$166.7 million is primarily due to credits received at settlement totaling \$0.3 million.

The difference in the total contract price of \$297.0 million for the 2014 acquisitions and cash paid for the acquisitions per the consolidated statements of cash flows of \$194.5 million is primarily due to the assumption of two mortgage

notes secured by Yale West and The Army Navy Club Building for an aggregate \$100.9 million and the payment of a \$3.6 million deposit for Yale West in 2013, partially offset by a credit to the seller for building renovations at 1775 Eye Street, NW for \$1.9 million.

The following unaudited pro-forma combined condensed statements of operations set forth the consolidated results of operations for the years ended December 31, 2015 and 2014 as if the above described acquisition in 2015 had occurred on January 1, 2014. The pro forma adjustments include reclassifying costs related to the above-described acquisition to 2014. The unaudited pro-forma information does not purport to be indicative of the results that actually would have occurred if the acquisitions had been in effect

for the years ended December 31, 2015 and 2014. The unaudited data presented is in thousands, except per share data.

	Year Ended December 31,	
	2015	2014
Real estate revenues	\$313,114	\$302,120
Income from continuing operations	\$96,735	\$4,466
Net income	\$96,735	\$110,997
Diluted earnings per share	\$1.41	\$1.66

Noncontrolling Interests in Subsidiaries

In August 2007, we acquired a 0.8 acre parcel of land located at 4661 Kenmore Avenue, Alexandria, Virginia for future medical office development. The acquisition was funded by issuing operating partnership units in an operating partnership, which is a consolidated subsidiary of Washington REIT. This resulted in a noncontrolling ownership interest in this property based upon defined company operating partnership units at the date of purchase. In November 2013, 4661 Kenmore Avenue was sold as part of the Medical Office Portfolio (see "Properties Sold ") and in 2014, we distributed to the noncontrolling interest holder their share of the proceeds.

Variable Interest Entities

In November 2011, we executed a joint venture operating agreement with a real estate development company to develop a high-rise multifamily property at 1225 First Street in Alexandria, Virginia. Washington REIT and the real estate development company owned 95% and 5% of the joint venture, respectively. During the second quarter of 2015, we determined that we would not develop the property and began negotiations to sell our interest in the joint venture. We recognized a \$5.9 million impairment charge for the second quarter of 2015 in order to reduce the carrying value of the property to its estimated fair value. We based this fair value on the contract sale price in the purchase and sale agreement. This fair valuation falls into Level 2 of the fair value hierarchy. During the third quarter of 2015, we sold our 95% interest in the joint venture for a contract sale price of \$14.5 million and deconsolidated the entity, as this joint venture had previously been consolidated as Washington REIT was the primary beneficiary of the VIE.

In June 2011, we executed a joint venture operating agreement with a real estate development company to develop The Maxwell, a mid-rise multifamily property at 650 North Glebe Road in Arlington, Virginia. Major construction activities at The Maxwell ended during December 2014, and the building became available for occupancy during the first quarter of 2015. Washington REIT is the 90% owner of the joint venture.

We have determined that The Maxwell joint venture is a VIE primarily based on the fact that the equity investment at risk is not sufficient to permit the entity to finance its activities without additional financial support. As of December 31, 2015, \$32.2 million was outstanding on The Maxwell's construction loan. We also determined that Washington REIT was the primary beneficiary of the VIE due to the fact that Washington REIT was determined to have a controlling financial interest in the entity.

We include joint venture land acquisitions and related capitalized development costs on our consolidated balance sheets in properties under development or held for future development until placed in service or sold. As of December 31, 2014, the land and capitalized development costs for 1225 First Street totaled \$20.8 million.

As of December 31, 2015 and 2014, The Maxwell's assets were as follows (in thousands):

	December 31,	
	2015	2014
Land	\$12,851	\$12,851

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Income producing property	37,791	18,432
Accumulated depreciation and amortization	(2,347) —
Properties under development or held for future development	—	17,947
Other assets	1,188	—
	\$49,483	\$49,230

72

As of December 31, 2015 and 2014, The Maxwell's liabilities were as follows (in thousands):

	December 31,	
	2015	2014
Mortgage notes payable, net	\$32,214	\$27,690
Accounts payable and other liabilities	256	2,196
Tenant security deposits	82	17
	\$32,552	\$29,903

Subsequent to the end of 2015, Washington REIT exercised its right to purchase without penalty The Maxwell's construction loan from the original third-party lender. Upon the purchase, the loan became an intercompany payable from the consolidated VIE to Washington REIT that is eliminated in consolidation.

Properties Sold

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

During the second quarter of 2015, 15,000 square feet of land at Montrose Shopping Center, a retail property in Rockville, Maryland, was condemned as part of an eminent domain taking action. The taken land was at the periphery of the property and its taking did not impact the property's operations. We received \$2.0 million as compensation for the taken land, and recognized a \$1.4 million gain on sale of real estate during the second quarter of 2015.

We sold our interests in the following properties during the three years ended December 31, 2015:

Disposition Date	Property	Segment	# of units (unaudited)	Rentable Square Feet (unaudited)	Contract Sales Price (in thousands)	Gain on Sale (in thousands)
March 20, 2015	Country Club Towers ⁽¹⁾	Multifamily	227	N/A	\$ 37,800	\$ 30,277
September 9, 2015	1225 First Street ^{(1), (2)}	Multifamily	N/A	N/A	14,500	—
October 21, 2015	Munson Hill Towers ⁽¹⁾	Multifamily	279	N/A	57,050	51,395
December 14, 2015	Montgomery Village Center ⁽¹⁾	Retail	N/A	197,000	27,750	7,981
		Total 2015	506	197,000	\$ 137,100	\$ 89,653
January 21, 2014	Medical Office Portfolio Transactions III & IV ⁽³⁾	Medical Office	N/A	427,000	\$ 193,561	\$ 105,985
May 2, 2014	5740 Columbia Road ⁽¹⁾	Retail	N/A	3,000	1,600	570
		Total 2014	N/A	430,000	\$ 195,161	\$ 106,555
March 19, 2013	Atrium Building	Office	N/A	79,000	\$ 15,750	\$ 3,195
Various	Medical Office Portfolio Transactions I & II	Medical Office/ Office	N/A	1,093,000	307,189	18,949
		Total 2013	N/A	1,172,000	\$ 322,939	\$ 22,144

⁽¹⁾ These properties are classified as continuing operations. All other sold properties are classified as discontinued operations.

⁽²⁾ Interest in land held for future development.

⁽³⁾ These properties were initially classified as held for sale during 2013.

In September 2013, we entered into four separate purchase and sale agreements to effectuate the sale 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 sale was structured as four transactions. Transactions I & II closed in November 2013 and Transactions III & IV in January 2014. We do not have significant continuing involvement in the operations of the disposed properties.

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

	Year Ending December 31,		
	2015	2014	2013
Real estate revenues	\$—	\$892	\$41,012
Net income	—	546	14,044
Basic and diluted net income per share	—	0.01	0.21

Income from properties classified as discontinued operations for the three years ended December 31, 2015 was as follows (in thousands):

	Year Ending December 31,		
	2015	2014	2013
Revenues	\$—	\$892	\$45,791
Property expenses	—	(346)	(17,039)
Depreciation and amortization	—	—	(12,161)
Interest expense	—	—	(1,196)
	\$—	\$546	\$15,395

Income from properties classified as discontinued operations by property or disposal group for the three years ended December 31, 2015 was as follows (in thousands):

Property	Segment	Year Ending December 31,		
		2015	2014	2013
Atrium Building	Office	\$—	\$—	\$185
Medical Office Portfolio	Medical/Office	—	546	15,210
		\$—	\$546	\$15,395

NOTE 4: MORTGAGE NOTES PAYABLE

As of December 31, 2015 and 2014, we had outstanding mortgage notes payable, each collateralized by one or more buildings and related land from our portfolio, as follows (in thousands):

Properties	Assumption/Issuance Date ⁽¹⁾	Effective Interest Rate ⁽²⁾	December 31,		Payoff Date/Maturity Date
			2015	2014	
Army Navy Club Building	3/26/2014	3.18	% \$50,750	\$51,844	5/1/2017
Yale West ⁽³⁾	2/21/2014	3.75	% 47,502	47,903	1/31/2022
The Maxwell ⁽⁴⁾	2/21/2013	2.27	% 32,248	27,690	1/27/2016
John Marshall II ⁽⁵⁾	9/15/2011	5.79	% 51,011	51,810	2/8/2016
Olney Village Center	8/30/2011	4.94	% 16,503	18,053	10/1/2023
Kenmore Apartments	2/2/2009	5.37	% 33,637	34,305	3/1/2019
2445 M Street ⁽⁶⁾	12/2/2008	7.25	% 101,866	101,866	1/6/2017
3801 Connecticut Avenue, Walker House and Bethesda Hill ⁽⁷⁾	5/29/2008	5.71	% 81,029	81,029	6/1/2016
			414,546	414,500	
Premiums and discounts, net			4,175	4,025	
Debt issuance costs, net			(669)	(1,331)	
			\$418,052	\$417,194	

(1) Each of these mortgages was assumed with the acquisition of the collateralized properties, except for the mortgage notes secured by 3801 Connecticut Avenue, Walker House, Bethesda Hill, Kenmore Apartments, and the construction loan secured by the development project at The Maxwell, which were originally executed by Washington REIT. We record mortgages assumed in an

74

acquisition at fair value.

(2) Yield on the assumption/issuance date, including the effects of any premiums, discounts or fair value adjustments on the notes.

(3) The maturity date of the mortgage note is January 1, 2052, but can be prepaid, without penalty, beginning on January 31, 2022.

(4) Interest rate on The Maxwell construction loan was variable, based on LIBOR plus 2.0%. Interest and principal was payable monthly starting March 2016 until the extended maturity date of February 20, 2017, upon which all unpaid principal and interest were payable in full. In January 2016, Washington REIT exercised its right to purchase the construction loan without penalty from the lender (see note 3, under "Variable Interest Entities").

(5) The note was prepaid without penalty in February 2016.

(6) Interest only is payable monthly until the maturity date upon which all unpaid principal and interest are payable in full. The maturity date of the mortgage note is January 6, 2017, but can be prepaid, without penalty, beginning on October 6, 2016.

(7) Interest only is payable monthly until the maturity date, which can be extended for one year upon which the interest rate is reset on June 1, 2016. At maturity on June 1, 2017, all unpaid principal and interest are payable in full.

Except as noted above, principal and interest are payable monthly until the maturity date, upon which all unpaid principal and interest are payable in full.

Total carrying amount of the above mortgaged properties was \$619.4 million and \$607.8 million at December 31, 2015 and 2014, respectively.

Scheduled principal payments subsequent to December 31, 2015 are as follows (in thousands):

2016	\$ 168,195
2017	154,436
2018	3,135
2019	33,909
2020	2,659
Thereafter	52,212
	\$414,546

NOTE 5: UNSECURED LINES OF CREDIT PAYABLE

During the second quarter of 2015, we terminated our \$100.0 million unsecured line of credit maturing in June 2015 ("Prior Credit Facility No. 1") and our \$400.0 million unsecured line of credit maturing in July 2016 ("Prior Credit Facility No. 2"), and executed a new \$600.0 million unsecured credit agreement ("New Credit Facility") that matures in June 2019, unless extended pursuant to one or both of the two six-month extension options. The New Credit Facility has an accordion feature that allows us to increase the facility to \$1.0 billion, subject to the extent the lenders agree to provide additional revolving loan commitments or term loans. We utilized a portion of the New Credit Facility's accordion feature in September 2015, as discussed in note 6.

The amount of the New Credit Facility unused and available at December 31, 2015 was as follows (in thousands):

Committed capacity	\$ 600,000
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Borrowings outstanding	(105,000)
Letters of credit issued ⁽¹⁾	(15,474)
Unused and available	\$479,526	

75

We executed borrowings and repayments on the unsecured lines of credit during 2015 as follows (in thousands):

	Prior Credit Facility No. 1	Prior Credit Facility No. 2	New Credit Facility
Balance at December 31, 2014	\$5,000	\$45,000	\$—
Borrowings	3,000	150,000	445,000
Repayments	(8,000)	(195,000)	(340,000)
Balance at December 31, 2015	\$—	\$—	\$105,000

The New Credit Facility bears interest at a rate of either one month LIBOR plus a margin ranging from 0.875% to 1.55% or the base rate plus a margin ranging from 0% to 0.55% (in each case depending upon Washington REIT's credit rating). The base rate is the highest of the administrative agent's prime rate, the federal funds rate plus 0.5% and the one month LIBOR market index rate plus 1.0%. As of December 31, 2015, the interest rate on the facility is one month LIBOR plus 1.0% and the one month LIBOR was 0.43%.

All outstanding advances for the New Credit Facility are due and payable upon maturity in June 2019, unless extended pursuant to one or both of the two six-month extension options. Interest only payments are due and payable generally on a monthly basis. In addition, the New Credit Facility requires the payment of a facility fee ranging from 0.125% to 0.30% (depending on Washington REIT's credit rating) on the \$600 million committed capacity, without regard to usage. As of December 31, 2015, the facility fee is 0.20%.

For the three years ended December 31, 2015, we recognized interest expense (excluding facility fees) and facility fees as follows (in thousands):

	Year Ended December 31,		
	2015	2014	2013
Interest expense (excluding facility fees)	\$2,266	\$196	\$867
Facility fees	1,241	1,267	1,267

The unsecured credit facilities contain certain financial and non-financial covenants, all of which we have met as of December 31, 2015 and 2014. Included in these covenants are limits on our total indebtedness, secured and unsecured indebtedness and required debt service payments.

Information related to revolving credit facilities for the three years ended December 31, 2015 as follows (in thousands, except percentage amounts):

	Year Ended December 31,		
	2015	2014	2013
Total revolving credit facilities at December 31	\$600,000	\$500,000	\$500,000
Borrowings outstanding at December 31	105,000	50,000	—
Weighted average daily borrowings during the year	167,573	12,849	61,548
Maximum daily borrowings during the year	350,000	55,000	135,000
Weighted average interest rate during the year	1.35	% 1.53	% 1.41
Weighted average interest rate on borrowings outstanding at December 31	1.36	% 1.37	% N/A

The covenants under our line of credit agreements require us to insure our properties against loss or damage in amounts customarily maintained by similar businesses or as they may be required by applicable law. The covenants for the notes require us to keep all of our insurable properties insured against loss or damage at least equal to their then full insurable value. We have an insurance policy that has no terrorism exclusion, except for non-certified nuclear, chemical and biological acts of terrorism. Our financial condition and results of operations are subject to the risks associated with acts of terrorism and the potential for uninsured losses as the result of any such acts. Effective

November 26, 2002, under this existing coverage, any losses caused by certified acts of terrorism would be partially reimbursed by the United States under a formula established by federal law. Under this formula, the United States pays 85% of covered terrorism losses exceeding the statutorily established deductible paid by the insurance provider, and insurers pay 10% until aggregate insured losses from all insurers reach \$100 billion in a calendar year. If the aggregate amount of insured losses under this program exceeds \$100 billion during the applicable period for all insured and insurers combined, then each insurance provider will not be liable for payment of any amount which exceeds the aggregate amount of \$100 billion. On January 12, 2015, the Terrorism Risk Insurance Program Reauthorization Act of 2015 was signed into law and extended the

program through December 31, 2020.

NOTE 6: NOTES PAYABLE

Our unsecured notes outstanding as of December 31, 2015 were as follows (in thousands):

	Coupon/Stated Rate	Effective Rate ⁽¹⁾	Principal Amount	Maturity Date ⁽²⁾
10 Year Unsecured Notes	4.95	% 5.05	% \$250,000	10/1/2020
Term Loan	1 Month LIBOR + 110 basis points	2.72	% 150,000	3/15/2021
10 Year Unsecured Notes	3.95	% 4.02	% 300,000	10/15/2022
30 Year Unsecured Notes	7.25	% 7.36	% 50,000	2/25/2028
Total principal			750,000	
Premiums and discounts, net			(2,362))
Deferred issuance costs, net			(4,457))
Total			\$743,181	

⁽¹⁾ Yield on issuance date, including the effects of discounts on the notes.

⁽²⁾ No principal amounts are due prior to maturity.

We extinguished \$150.0 million of our 5.35% unsecured notes on their maturity date of May 1, 2015.

On September 15, 2015, we entered into a \$150.0 million unsecured term loan by executing a portion of the accordion feature under the New Credit Facility (see note 5). The term loan has a 5.5 year term and an interest rate of one month LIBOR plus 110 basis points, based on Washington REIT's current unsecured debt ratings. We entered into interest rate swaps to effectively fix the interest rate at 2.7% (see note 7).

The required principal payments for the remaining years subsequent to December 31, 2015 are as follows (in thousands):

2016	\$—
2017	—
2018	—
2019	—
2020	250,000
Thereafter	500,000
	\$750,000

Interest on these notes is payable semi-annually, except for the term loan, for which interest is payable monthly. These notes contain certain financial and non-financial covenants, all of which we have met as of December 31, 2015. Included in these covenants is the requirement to maintain a minimum level of unencumbered assets, as well as limits on our total indebtedness, secured indebtedness and required debt service payments.

NOTE 7: DERIVATIVE INSTRUMENTS

On September 15, 2015, we entered into two interest rate swap arrangements with a total notional amount of \$150.0 million to swap the floating interest rate under our term loan (see note 6) to an all-in fixed interest rate of 2.7% starting on October 15, 2015 and extending until the maturity of the term loan on March 15, 2021. The interest rate swaps qualify as cash flow hedges and are recorded at fair value in accordance with GAAP, based on discounted cash flow methodologies and observable inputs. We record the effective portion of changes in fair value of the cash flow hedges in other comprehensive loss. The resulting unrealized loss on the effective portions of the cash flow hedges was the only activity in other comprehensive loss during the periods presented in our consolidated financial statements. We assess the effectiveness of our cash flow hedges both at inception and on an ongoing basis. The cash flow hedges were effective for 2015 and hedge ineffectiveness did not impact earnings in 2015. We had no derivative instruments outstanding as of December 31, 2014.

The fair value and balance sheet locations of the interest rate swaps as of December 31, 2015 and 2014, are as follows (in thousands):

	December 31,	
	2015	2014
Accounts payable and other liabilities	\$550	\$—

The interest rate swaps have been effective since inception. The gains or losses on the effective swaps are recognized in other comprehensive loss, as follows (in thousands):

	Year Ending December 31,		
	2015	2014	2013
Unrealized loss on interest rate hedge	\$(550) \$—	\$—

Amounts reported in accumulated other comprehensive loss related to derivatives will be reclassified to interest expense as interest payments are made on our variable-rate debt. During the next twelve months, we estimate that \$1.4 million will be reclassified as an increase to interest expense.

We have agreements with each of our derivative counterparties that contain a provision whereby we could be declared in default on our derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to our default on the indebtedness. As of December 31, 2015, the fair value of derivatives is in a net liability position of \$0.6 million, which includes accrued interest but excludes any adjustment for nonperformance risk. As of December 31, 2015, we have not posted any collateral related to these agreements. If we had breached any of these provisions at December 31, 2015, we could have been required to settle our obligations under the agreements at their termination value of \$0.6 million.

Derivative instruments expose us to credit risk in the event of non-performance by the counterparty under the terms of the interest rate hedge agreement. We believe that we minimize our credit risk on these transactions by dealing with major, creditworthy financial institutions. We monitor the credit ratings of counterparties and our exposure to any single entity, thus minimizing our credit risk concentration.

NOTE 8: FAIR VALUE DISCLOSURES

Assets and Liabilities Measured at Fair Value

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

- Level 1: Quoted prices in active markets for identical assets
- Level 2: Significant other observable inputs
- Level 3: Significant unobservable inputs

The only assets or liabilities we had at December 31, 2015 and 2014 that are recorded at fair value on a recurring basis are the assets held in the Supplemental Executive Retirement Plan ("SERP"), which primarily consists of investments in mutual funds, and the interest rate swaps (see note 7).

We base the valuations related to the SERP on assumptions derived from significant other observable inputs and accordingly these valuations fall into Level 2 in the fair value hierarchy.

The valuation of the interest rate swaps is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each interest rate swap. This analysis reflects the

contractual terms of the interest rate swaps, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash payments (or receipts) and the discounted expected variable cash receipts (or payments). The variable cash payments (or receipts) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. To comply with the provisions of ASC 820, we incorporate credit valuation adjustments in the fair value measurements to appropriately reflect both our own nonperformance risk and the respective counterparty's nonperformance risk. These credit valuation adjustments were concluded to not be significant inputs for the fair value calculations for the periods presented. In adjusting the fair value of our derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements, such as the posting of collateral, thresholds, mutual puts and guarantees. The valuation

of interest rate swaps fall into Level 2 in the fair value hierarchy.

The fair values of these assets and liabilities at December 31, 2015 and 2014 were as follows (in thousands):

	December 31, 2015				December 31, 2014			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:								
SERP	\$1,408	\$—	\$1,408	\$—	\$2,778	\$—	\$2,778	\$—
Liabilities:								
Derivatives	550	—	550	—	—	—	—	—

Financial Assets and Liabilities Not Measured at Fair Value

The following disclosures of estimated fair value were determined by management using available market information and established valuation methodologies, including discounted cash flow. Many of these estimates involve significant judgment. The estimated fair value disclosed may not necessarily be indicative of the amounts we could realize on disposition of the financial instruments. The use of different market assumptions or estimation methodologies could have an effect on the estimated fair value amounts. In addition, fair value estimates are made at a point in time and thus, estimates of fair value subsequent to December 31, 2015 may differ significantly from the amounts presented.

Below is a summary of significant methodologies used in estimating fair values and a schedule of fair values at December 31, 2015.

Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents and restricted cash include cash and commercial paper with original maturities of less than 90 days, which are valued at the carrying value, which approximates fair value due to the short maturity of these instruments (Level 1 inputs).

Notes Receivable

We acquired a note receivable ("2445 M Street note") in 2008 with the purchase of 2445 M Street. We estimate the fair value of the 2445 M Street note based on a discounted cash flow methodology using market discount rates (Level 3 inputs).

Debt

Mortgage notes payable consist of instruments in which certain of our real estate assets are used for collateral. We estimate the fair value of the mortgage notes payable by discounting the contractual cash flows at a rate equal to the relevant treasury rates (with respect to the timing of each cash flow) plus credit spreads estimated through independent comparisons to real estate assets or loans with similar characteristics. Lines of credit payable consist of bank facilities which we use for various purposes including working capital, acquisition funding and capital improvements. The lines of credit advances are priced at a specified rate plus a spread. We estimate the market value based on a comparison of the spreads of the advances to market given the adjustable base rate. We estimate the fair value of the notes payable by

discounting the contractual cash flows at a rate equal to the relevant treasury rates (with respect to the timing of each cash flow) plus credit spreads derived using the relevant securities' market prices. We classify these fair value measurements as Level 3 as we use significant unobservable inputs and management judgment due to the absence of quoted market prices.

As of December 31, 2015 and 2014, the carrying values and estimated fair values of our financial instruments were as follows (in thousands):

	December 31, 2015		2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	\$23,825	\$23,825	\$15,827	\$15,827
Restricted cash	13,383	13,383	10,299	10,299
2445 M Street note receivable	3,849	4,275	4,404	5,113
Mortgage notes payable	418,052	426,693	417,194	433,762
Lines of credit payable	105,000	105,000	50,000	50,000
Notes payable	743,181	753,816	743,149	782,042

NOTE 9: STOCK BASED COMPENSATION

Washington REIT maintains short-term and long-term incentive plans that allow for stock-based awards to officers and non-officer employees. Stock based awards are provided to officers and non-officer employees, as well as trustees, under the Washington Real Estate Investment Trust 2007 Omnibus Long-Term Incentive Plan which allows for awards in the form of restricted shares, restricted share units, options, and other awards up to an aggregate of 2,000,000 shares over the ten year period in which the plan will be in effect. Restricted share units are converted into shares of our stock upon full vesting through the issuance of new shares. There were no options issued or outstanding as of December 31, 2015 and 2014.

Short-Term Incentive Plan ("STIP")

Under the STIP, executive officers earn awards, payable 50% in cash and 50% in restricted shares, based on a percentage of salary and an achievement rating subject to the discretion of the Compensation Committee of the Board of Trustees in consideration of various performance conditions and other subjective factors during a one-year performance period. With respect to the 50% of the STIP award payable in restricted shares, the restricted shares will vest over a three-year period commencing on the January 1 following the end of the one-year performance period.

The grant date for the 50% of the STIP award payable in restricted shares is the date on which the Compensation Committee approves the STIP awards. We recognize compensation expense on this 50% when the grant date occurs at the end of the one-year period through the three-year vesting period.

Short-term incentive plans for other officers and non-officers are payable 100% in cash.

Long-Term Incentive Plan ("LTIP")

Under the LTIP, executive officers earn awards payable, 75% in unrestricted shares and 25% in restricted shares, based on a percentage of salary and the achievement of certain market conditions. LTIP performance is evaluated based 50% on absolute total shareholder return ("TSR") and 50% on relative TSR over a three-year evaluation period with a new three-year period initiating under the existing plan each year. The officers' total award opportunities under the LTIP stated as a percentage of base salary ranges from 80% to 150% at target level. The unrestricted shares vest immediately at the end of the three-year performance period, and the restricted shares vest over a one-year period commencing on the January 1 following the end of the three-year performance period. In addition, during the transition period from the prior LTIP in 2014, the Board of Trustees awarded similar transition awards with defined performance periods of one and two years and modified vesting to account for the transition.

We recognize compensation expense ratably (over three years for the 75% unrestricted shares and over four years for the 25% restricted shares) based on the grant date fair value, as determined using a Monte Carlo simulation, and regardless of whether the market conditions are achieved and the awards ultimately vest.

We use a binomial model which employs the Monte Carlo method as of the grant date to determine the fair value of the officer LTIP awards. The market condition performance measurement is based on total shareholder return on both an absolute basis (50% weighting) and relative to a defined population of 15 peer companies (50% weighting). The model evaluates the awards for changing total shareholder return over the term of the vesting, on an absolute basis and relative to the peer companies, and uses random simulations that are based on past stock characteristics as well as dividend growth and other factors for Washington REIT and each of the peer companies. The assumptions used to value the officer LTIP awards were as follows:

80

	2015 Awards	2014 Awards	
Expected volatility ⁽¹⁾	17.2 - 17.5%	23.2	%
Risk-free interest rate ⁽²⁾	1.0 - 1.1%	0.8	%
Expected term ⁽³⁾	3 and 4 years	3 and 4 years	
Share price at grant date	\$27.66 - \$27.76		\$24.08

⁽¹⁾ Expected volatility based upon historical volatility of our daily closing share price.

⁽²⁾ Risk-free interest rate based on U.S. treasury constant maturity bonds on the measurement date with a maturity equal to the market condition performance period.

⁽³⁾ Expected term based on the market condition performance period.

The calculated grant date fair value as a percentage of base salary for the officers for the three-year performance period that commenced in 2015 ranged from approximately 36% to 69% for the 50% of the LTIP based on relative TSR and from 15% to 29% for the 50% of the LTIP based on absolute TSR.

The calculated grant date fair value as a percentage of base salary for the officers for the three-year performance period that commenced in 2014 ranged from approximately 35% to 67% for the 50% of the LTIP based on relative TSR and from 20% to 38% for the 50% of the LTIP based on absolute TSR. For the one-year transition awards, the calculated grant date fair value as a percentage of base salary for the officers for the one-year performance period that commenced in 2014 ranged from approximately 11% to 20% for the 50% of the LTIP based on relative TSR and from 10% to 20% for the 50% of the LTIP based on absolute TSR. For the two-year transition awards, the calculated grant date fair value as a percentage of base salary for the officers for the two-year performance period that commenced in 2014 ranged from approximately 23% to 43% for the 50% of the LTIP based on relative TSR and from 16% to 30% for the 50% of the LTIP based on absolute TSR.

Other officers and other employees earn restricted share unit awards under the LTIP based upon various percentages of their salaries and annual performance calculations. The restricted share unit awards vest ratably over three years from December 15 preceding the grant date based upon continued employment. 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 recognize compensation expense for these awards according to a graded vesting schedule over the four-year requisite service period.

Trustee Awards

We award share based compensation to our trustees in the form of restricted shares which vest immediately and are restricted from sale for the period of the trustees' service. The value of share-based compensation for each trustee was \$100,000, \$55,000 and \$55,000 for the each of three years ended December 31, 2015, respectively.

Total Compensation Expense

Total compensation expense recognized in the consolidated financial statements for each of the three years ended December 31, 2015 for all share based awards was \$5.1 million, \$5.0 million and \$6.2 million, respectively. The stock-based compensation expense for 2015 is net of \$0.6 million of capitalized stock-based compensation expense. Prior year amounts were not material.

Washington REIT's prior chief executive officer ("Prior CEO") retired as of December 31, 2013. Under the terms of his separation agreement, all of the Prior CEO's unvested restricted shares and restricted share units under the prior STIP, prior LTIP and deferred compensation plans vested on December 31, 2013. The impact of this modification of the Prior CEO's awards was \$1.0 million for the year ended December 31, 2013.

Restricted Share Awards with Performance and Service Conditions

The activity for the three years ended December 31, 2015 related to our restricted share awards, excluding those subject to market conditions, was as follows:

	Shares	Wtd Avg Grant Fair Value
Unvested at December 31, 2012	149,803	\$27.37
Granted	141,609	26.30
Vested during year	(158,657)	) 26.66
Forfeited	(2,940)	) 27.80
Unvested at December 31, 2013	129,815	27.06
Granted	210,817	23.93
Vested during year	(236,498)	) 25.06
Forfeited	(10,467)	) 25.80
Unvested at December 31, 2014	93,667	25.22
Granted	251,642	27.80
Vested during year	(212,856)	) 27.18
Forfeited	(26,309)	) 26.77
Unvested at December 31, 2015	106,144	27.71

The total fair value of share grants vested for each of the three years ended December 31, 2015 was \$5.8 million, \$6.1 million and \$3.8 million, respectively.

As of December 31, 2015, the total compensation cost related to non-vested share awards not yet recognized was \$1.8 million, which we expect to recognize over a weighted average period of 20 months.

Restricted and Unrestricted Shares with Market Conditions

Stock based awards with market conditions under the LTIP were granted in 2015 and 2014 with fair market values, as determined using a Monte Carlo simulation, as follows (in thousands):

	Grant Date Fair Value			
	2015 Awards		2014 Awards	
	Restricted	Unrestricted	Restricted	Unrestricted
Relative TSR	\$191	\$634	\$458	\$1,376
Absolute TSR	76	254	327	921

The unamortized value of these awards with market conditions as of December 31, 2015 was as follows (in thousands):

	2015 Awards		2014 Awards	
	Restricted	Unrestricted	Restricted	Unrestricted
Relative TSR	\$144	\$383	\$161	\$—
Absolute TSR	57	153	111	—

NOTE 10: OTHER BENEFIT PLANS

We have a Retirement Savings Plan (the “401(k) Plan”), which permits all eligible employees to defer a portion of their compensation in accordance with the Internal Revenue Code. Under the 401(k) Plan, we may make discretionary contributions on behalf of eligible employees. For each of the three years ended December 31, 2015, we made contributions to the 401(k) plan of \$0.5 million, \$0.4 million and \$0.4 million, respectively.

We have adopted non-qualified deferred compensation plans for the officers and members of the Board of Trustees. The plans allow for a deferral of a percentage of annual cash compensation and trustee fees. The plans are unfunded and payments are to be made out of the general assets of Washington REIT. The deferred compensation liability was \$1.7 million and \$1.6 million at

82

December 31, 2015 and 2014, respectively.

In November 2005, the Board of Trustees approved the establishment of a Supplemental Executive Retirement Plan (“SERP”) for the benefit of officers, other than the former CEO. This is a defined contribution plan under which, upon a participant's termination of employment from Washington REIT for any reason other than discharge for cause, the participant will be entitled to receive a benefit equal to the participant's accrued benefit times the participant's vested interest. We account for this plan in accordance with ASC 710-10 and ASC 320-10, whereby the investments are reported at fair value, and unrealized holding gains and losses are included in earnings. At December 31, 2015 and 2014, the accrued benefit liability was \$1.4 million and \$2.8 million, respectively. For each of the three years ended December 31, 2015, we recognized current service cost of \$0.3 million.

NOTE 11: EARNINGS PER COMMON SHARE

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

We also determine “Diluted earnings per share” as the more dilutive of the two-class method or the treasury stock method with respect to the unvested restricted share awards. We further evaluate any other potentially dilutive securities at the end of the period and adjust the basic earnings per share calculation for the impact of those securities that are dilutive. Our dilutive earnings per share calculation includes the dilutive impact of employee stock options (prior to their expiration at December 31, 2014) based on the treasury stock method and our share based awards with performance conditions prior to the grant date and all market condition awards under the contingently issuable method. The dilutive earnings per share calculation also considers operating partnership units for the year ended December 31, 2013 under the if-converted method. We had no operating partnership units as of December 31, 2015 and 2014. We had a loss from continuing operations for the year ended December 31, 2013 and therefore diluted earnings per share is calculated in the same manner as basic earnings per share for that year.

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The computation of basic and diluted earnings per share for the three years ended December 31, 2015 was as follows (in thousands; except per share data):

	Year Ended December 31,		
	2015	2014	2013
Numerator:			
Income (loss) from continuing operations	\$89,187	\$5,070	\$(193)
Net loss attributable to noncontrolling interests	553		—
Allocation of undistributed earnings to unvested restricted share awards and units to continuing operations	(269)	5	—
Adjusted income (loss) from continuing operations attributable to the controlling interests	89,471	5,075	(193)
Income from discontinued operations, including gain on sale of real estate, net of taxes	—	106,531	37,539
Net loss attributable to noncontrolling interests		38	—
Allocation of undistributed earnings to unvested restricted share awards and units to discontinued operations	—	(322)	(415)
Adjusted income from discontinued operations attributable to the controlling interests	—	106,247	37,124
Adjusted net income attributable to the controlling interests	\$89,471	\$111,322	\$36,931
Denominator:			
Weighted average shares outstanding – basic	68,177	66,795	66,580
Effect of dilutive securities:			
Employee stock options and restricted share awards	133	42	—
Weighted average shares outstanding – diluted	68,310	66,837	66,580
Earnings per common share, basic:			
Continuing operations	\$1.31	\$0.08	\$—
Discontinued operations	—	1.59	0.55
	\$1.31	\$1.67	\$0.55
Earnings per common share, diluted:			
Continuing operations	\$1.31	\$0.08	\$—
Discontinued operations	—	1.59	0.55
	\$1.31	\$1.67	\$0.55
Dividends declared per common share	\$1.20	\$1.20	\$1.20

NOTE 12: RENTALS UNDER OPERATING LEASES

As of December 31, 2015, non-cancelable commercial operating leases provide for minimum rental income were as follows (in thousands):

2016	\$194,033
2017	175,606
2018	150,901
2019	134,234
2020	115,195
Thereafter	307,971
	\$1,077,940

Apartment leases are not included as the terms are generally for one year. Most of these commercial leases increase in future years based on agreed-upon percentages or in some instances, changes in the Consumer Price Index.

Real estate tax, operating expense and common area maintenance reimbursement income from continuing operations for the three years ended December 31, 2015 was \$34.6 million, \$31.6 million and \$26.8 million, respectively.

NOTE 13: COMMITMENTS AND CONTINGENCIES

Development Commitments

At December 31, 2015, we had no committed contracts outstanding with third parties in connection with our development and redevelopment projects.

Litigation

We are involved from time to time in various legal proceedings, lawsuits, examinations by various tax authorities and claims that have arisen in the ordinary course of business. Management believes that the resolution of any such current matters will not have a material adverse effect on our financial condition or results of operations.

Other

At December 31, 2015, we had a \$15.5 million letter of credit issued under our New Credit Facility.

NOTE 14: SEGMENT INFORMATION

We evaluate real estate performance and allocate resources by property type and have three reportable segments: office, multifamily, and retail. Office properties provide office space for various types of businesses and professions. Multifamily properties provide rental housing for individuals and families throughout the Washington metro region. Retail properties are typically grocery store anchored neighborhood centers that include other small shop tenants or regional power centers with several junior box tenants.

Real estate rental revenue as a percentage of the total for each of the reportable operating segments in continuing operations for the three years ended December 31, 2015 was as follows:

	Year Ended December 31,			
	2015	2014	2013	
Office	57	% 57	% 58	%
Multifamily	22	% 22	% 21	%
Retail	21	% 21	% 21	%

The percentage of total income producing real estate assets, at cost, for each of the reportable operating segments in continuing operations as of December 31, 2015 and 2014 was as follows:

	December 31,		
	2015	2014	
Office	59	% 61	%
Multifamily	24	% 20	%
Retail	17	% 19	%

The accounting policies of each of the segments are the same as those described in note 2.

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

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The following tables present revenues, net operating income, capital expenditures and total assets for the three years ended December 31, 2015 from these segments, and reconciles net operating income of reportable segments to net income attributable to the controlling interests as reported (in thousands):

	Year Ended December 31, 2015				
	Office	Retail	Multifamily	Corporate and Other	Consolidated
Real estate rental revenue	\$174,378	\$63,507	\$68,542	\$—	\$306,427
Real estate expenses	67,228	15,606	29,400	—	112,234
Net operating income	\$107,150	\$47,901	\$39,142	\$—	\$194,193
Depreciation and amortization					(108,935)
General and administrative					(20,257)
Real estate impairment					(5,909)
Acquisition costs					(2,056)
Interest expense					(59,546)
Other income					709
Gain on sale of real estate					91,107
Loss on extinguishment of debt					(119)
Net income					89,187
Less: Net loss attributable to noncontrolling interests					553
Net income attributable to the controlling interests					\$89,740
Capital expenditures	\$29,745	\$3,897	\$7,865	\$2,129	\$43,636
Total assets	\$1,265,570	\$354,123	\$529,773	\$41,702	\$2,191,168
	Year Ended December 31, 2014				
	Office	Retail	Multifamily	Corporate and Other	Consolidated
Real estate rental revenue	\$166,116	\$60,263	\$62,258	\$—	\$288,637
Real estate expenses	63,903	14,022	25,770	—	103,695
Net operating income	\$102,213	\$46,241	\$36,488	\$—	\$184,942
Depreciation and amortization					(96,011)
General and administrative					(19,761)
Acquisition costs					(5,710)
Interest expense					(59,785)
Other income					825
Gain on sale of real estate					570
Discontinued operations:					
Income from properties sold or held for sale					546
Gain on sale of real estate					105,985
Net income					111,601
Less: Net income attributable to noncontrolling interests					38
Net income attributable to the controlling interests					\$111,639
Capital expenditures	\$43,128	\$5,496	\$9,186	\$1,719	\$59,529
Total assets	\$1,283,950	\$385,074	\$408,114	\$31,179	\$2,108,317

	Year Ended December 31, 2013					
	Office	Medical Office	Retail	Multifamily	Corporate and Other	Consolidated
Real estate rental revenue	\$152,339	\$—	\$56,189	\$54,496	\$—	\$263,024
Real estate expenses	57,293	—	13,768	22,232	—	93,293
Net operating income	\$95,046	\$—	\$42,421	\$32,264	\$—	\$169,731
Depreciation and amortization						(85,740)
General and administrative						(17,535)
Acquisition costs						(1,265)
Interest expense						(63,573)
Other income						926
Loss on extinguishment of debt						(2,737)
Discontinued operations:						
Income from properties sold or held for sale						15,395
Gain on sale of real estate						22,144
Net income						37,346
Less: Net income attributable to noncontrolling interests						—
Net income attributable to the controlling interests						\$37,346
Capital expenditures	\$37,777	\$3,695	\$4,204	\$10,153	\$162	\$55,991
Total assets	\$1,073,055	\$84,001	\$344,084	\$308,123	\$160,080	\$1,969,343

NOTE 15: SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Unaudited financial data by quarter in each of the years ended December 31, 2015 and 2014 were as follows (in thousands, except for per share data):

	Quarter ^{(1), (2), (3)}			
	First	Second	Third	Fourth
2015				
Real estate rental revenue	\$74,856	\$74,226	\$78,243	\$79,102
Net income	\$29,398	\$(2,886)	) \$580	\$62,095
Net income (loss) attributable to the controlling interests	\$29,506	\$(2,546)	) \$647	\$62,133
Net income (loss) per share				
Basic	\$0.43	\$(0.04)	) \$0.01	\$0.91
Diluted	\$0.43	\$(0.04)	) \$0.01	\$0.91
2014				
Real estate rental revenue	\$68,611	\$72,254	\$73,413	\$74,359
(Loss) income from continuing operations	\$(2,265)	) \$1,368	\$3,658	\$2,309
Income from operations of properties sold or held for sale - medical office segment	\$546	\$—	\$—	\$—
Net income	\$104,554	\$1,080	\$3,658	\$2,309
Net income attributable to the controlling interests	\$104,554	\$1,087	\$3,668	\$2,330
(Loss) income from continuing operations per share				
Basic	\$(0.04)	) \$0.02	\$0.05	\$0.03
Diluted	\$(0.04)	) \$0.02	\$0.05	\$0.03
Net income per share				
Basic	\$1.56	\$0.02	\$0.05	\$0.03
Diluted	\$1.56	\$0.02	\$0.05	\$0.03

(1) With regard to per share calculations, the sum of the quarterly results may not equal full year results due to rounding.

The first, second and fourth quarters of 2015 include gains on sale of real estate classified as continuing operations of \$30.3 million, \$1.5 million and \$59.4 million, respectively. The first quarter of 2014 includes gain on the sale of real estate in discontinued operations of \$106.0 million.

(3) The second quarter of 2015 includes a real estate impairment of \$5.9 million.

NOTE 16: SHAREHOLDERS' EQUITY

During the second quarter of 2015, we entered into four separate equity distribution agreements (collectively, the "Equity Distribution Agreements") with each of Wells Fargo Securities, LLC, BNY Mellon Capital Markets, LLC, Citigroup Global Markets Inc. and RBC Capital Markets, LLC relating to the issuance and sale of up to \$200.0 million of our common shares from time to time. Sales of our common shares are made at market prices prevailing at the time of sale. We use net proceeds from the sale of common shares under this program for general corporate purposes, including, without limitation, working capital, the acquisition, renovation, expansion, improvement, development or redevelopment of income producing properties or the repayment of debt. We did not issue any shares under the Equity Distribution Agreements during 2015.

The Equity Distribution Agreements replace Washington REIT's prior sales agency financing agreement ("Prior ATM") with BNY Mellon Capital Markets, LLC, which expired by its terms in June 2015. During 2015 and 2014, Washington REIT issued 0.2 million and 1.1 million common shares, respectively, at a weighted average price of

\$28.34 and \$27.86, respectively, for net proceeds of \$5.2 million and \$30.7 million, respectively. We did not issue any shares under the Prior ATM in 2013.

We have a dividend reinvestment program, whereby shareholders may use their dividends and optional cash payments to purchase common shares. The common shares sold under this program may either be common shares issued by us or common shares purchased in the open market. Net proceeds under this program are used for general corporate purposes. We issued no shares under this program during three years ended December 31, 2015.

NOTE 17: DEFERRED COSTS

As of December 31, 2015 and 2014, deferred leasing costs and deferred leasing incentives were included in prepaid expenses and other assets as follows (in thousands):

	December 31, 2015			2014		
	Gross Carrying Value	Accumulated Amortization	Net	Gross Carrying Value	Accumulated Amortization	Net
Deferred leasing costs	59,382	22,897	36,485	50,943	18,351	32,592
Deferred leasing incentives	18,701	6,066	12,635	14,194	3,605	10,589

Amortization, including write-offs, of deferred leasing costs and deferred leasing incentives from continuing operations for the three years ended December 31, 2015 were as follows (in thousands):

	Year Ended December 31,		
	2015	2014	2013
Deferred leasing costs amortization	5,983	4,699	4,279
Deferred leasing incentives amortization	2,848	1,704	980

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS
 FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
 (IN THOUSANDS)

	Balance at Beginning of Year	Additions Charged to Expenses	Net Deductions (Recoveries)	Balance at End of Year
Allowance for doubtful accounts				
2015	\$3,392	\$1,368	\$(2,463)	) \$2,297
2014	\$6,783	\$1,402	\$(4,793)	) \$3,392
2013	\$10,443	\$3,531	\$(7,191)	) \$6,783
Valuation allowance for deferred tax assets				
2015	\$5,714	\$—	\$(9)	) \$5,705
2014	\$5,741	\$—	\$(27)	) \$5,714
2013	\$5,773	\$—	\$(32)	) \$5,741

SCHEDULE III

Properties	Location	Initial Cost (b)		Net Improvements (Retirement) since Acquisition	Gross Amounts at Which Carried at December 31, 2015			Accumulated Depreciation at December 31, 2015
		Land	Buildings and Improvements		Land	Buildings and Improvements	Total (c)	
Multifamily Properties								
3801 Connecticut Avenue (a)	Washington, DC	\$420,000	\$2,678,000	\$12,961,000	\$420,000	\$15,639,000	\$16,059,000	\$9,901,000
Roosevelt Towers	Virginia	336,000	1,996,000	11,738,000	336,000	13,734,000	14,070,000	8,886,000
Park Adams	Virginia	287,000	1,654,000	11,270,000	287,000	12,924,000	13,211,000	8,901,000
The Ashby at McLean	Virginia	4,356,000	17,102,000	17,835,000	4,356,000	34,937,000	39,293,000	22,176,000
Walker House Apartments (a)	Maryland	2,851,000	7,946,000	7,042,000	2,851,000	14,988,000	17,839,000	10,197,000
Bethesda Hill Apartments (a)	Maryland	3,900,000	13,412,000	12,733,000	3,900,000	26,145,000	30,045,000	16,650,000
Bennett Park	Virginia	2,861,000	917,000	80,036,000	4,774,000	79,040,000	83,814,000	29,053,000
The Clayborne	Virginia	269,000	—	30,754,000	699,000	30,324,000	31,023,000	12,616,000
The Kenmore (a)	Washington, DC	28,222,000	33,955,000	10,679,000	28,222,000	44,634,000	72,856,000	10,436,000
The Maxwell (a)	Virginia	12,787,000	—	37,854,000	12,851,000	37,790,000	50,641,000	2,347,000
The Paramount	Virginia	8,568,000	38,716,000	1,408,000	8,568,000	40,124,000	48,692,000	3,894,000
Yale West (a)	Washington, DC	14,684,000	62,069,000	245,000	14,684,000	62,314,000	76,998,000	4,196,000
The Wellington	Virginia	30,548,000	116,563,000	420,000	30,548,000	116,983,000	147,531,000	1,947,000
The Wellington Land Parcel (g)	Virginia	15,000,000	—	659,000	—	15,659,000	15,659,000	—
		\$125,089,000	\$297,008,000	\$235,634,000	\$112,496,000	\$545,235,000	\$657,731,000	\$141,200,000
Office Buildings								
1901 Pennsylvania Avenue	Washington, DC	\$892,000	\$3,481,000	\$17,253,000	\$892,000	\$20,734,000	\$21,626,000	\$15,580,000
51 Monroe Street	Maryland	840,000	10,869,000	28,634,000	840,000	39,503,000	40,343,000	29,387,000

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515 King Street 6110	Virginia	4,102,000	3,931,000	6,022,000	4,102,000	9,953,000	14,055,000	5,416,000
Executive Boulevard 1220 19th Street	Maryland	4,621,000	11,926,000	16,383,000	4,621,000	28,309,000	32,930,000	19,283,000
1600 Wilson Boulevard Silverline Center (f)	Washington, DC	7,803,000	11,366,000	15,868,000	7,802,000	27,235,000	35,037,000	13,982,000
600 Jefferson Plaza	Virginia	6,661,000	16,742,000	26,685,000	6,661,000	43,427,000	50,088,000	20,180,000
Wayne Plaza Courthouse Square	Virginia	12,049,000	71,825,000	84,849,000	12,049,000	156,674,000	168,723,000	69,796,000
One Central Plaza	Maryland	2,296,000	12,188,000	7,040,000	2,296,000	19,228,000	21,524,000	10,822,000
1776 G Street	Maryland	1,564,000	6,243,000	9,295,000	1,564,000	15,538,000	17,102,000	8,738,000
Dulles Station, Phase II (f)	Virginia	—	17,096,000	8,390,000	—	25,486,000	25,486,000	13,084,000
West Gude Monument II	Maryland	5,480,000	39,107,000	17,905,000	5,480,000	57,012,000	62,492,000	30,982,000
2000 M Street	Washington, DC	31,500,000	54,327,000	5,774,000	31,500,000	60,101,000	91,601,000	27,965,000
2445 M Street (a) 925	Washington, DC	15,001,000	494,000	(3,400,000)	484,000	11,611,000	12,095,000	515,000
Corporate Drive 1000	Maryland	11,580,000	43,240,000	12,277,000	11,580,000	55,517,000	67,097,000	20,184,000
Corporate Drive 1140	Virginia	10,244,000	65,205,000	8,089,000	10,244,000	73,294,000	83,538,000	22,406,000
Connecticut Avenue	Washington, DC	—	61,101,000	21,541,000	—	82,642,000	82,642,000	24,244,000
1227 25th Street	Washington, DC	46,887,000	106,743,000	6,163,000	46,887,000	112,906,000	159,793,000	31,690,000
	Virginia	4,518,000	24,801,000	940,000	4,518,000	25,741,000	30,259,000	7,475,000
	Virginia	4,897,000	25,376,000	(357,000)	4,898,000	25,018,000	29,916,000	6,824,000
	Washington, DC	25,226,000	50,495,000	12,102,000	25,226,000	62,597,000	87,823,000	13,120,000
	Washington, DC	17,505,000	21,319,000	2,875,000	17,505,000	24,194,000	41,699,000	5,696,000

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Properties	Location	Initial Cost (b)		Net Improvements (Retirement) since Acquisition	Gross Amounts at Which Carried at December 31, 2015			Accumulated Depreciation at December 31, 2015
		Land	Buildings and Improvements		Land	Buildings and Improvements	Total (c)	
Braddock Metro Center	Virginia	18,817,000	71,250,000	10,943,000	18,818,000	82,192,000	101,010,000	16,263,000
John Marshall II (a)	Virginia	13,490,000	53,024,000	2,145,000	13,490,000	55,169,000	68,659,000	9,531,000
Fairgate at Ballston	Virginia	17,750,000	29,885,000	3,722,000	17,750,000	33,607,000	51,357,000	5,835,000
Army Navy Club Bldg (a)	Washington, DC	30,796,000	39,315,000	1,903,000	30,796,000	41,218,000	72,014,000	3,831,000
1775 Eye Street, NW	Washington, DC	48,086,000	51,074,000	4,976,000	48,086,000	56,050,000	104,136,000	4,424,000
		\$342,605,000	\$902,423,000	\$328,017,000	\$328,089,000	\$1,244,956,000	\$1,573,045,000	\$437,260,000
Retail Centers								
Takoma Park	Maryland	\$415,000	\$1,084,000	\$281,000	\$415,000	\$1,365,000	\$1,780,000	\$1,191,000
Westminster	Maryland	519,000	1,775,000	9,802,000	519,000	11,577,000	12,096,000	7,268,000
Concord Centre	Virginia	413,000	850,000	5,456,000	413,000	6,306,000	6,719,000	3,191,000
Wheaton Park	Maryland	796,000	857,000	4,665,000	796,000	5,522,000	6,318,000	3,748,000
Bradlee Shopping Center	Virginia	4,152,000	5,383,000	10,941,000	4,152,000	16,324,000	20,476,000	10,793,000
Chevy Chase Metro Plaza	Washington, DC	1,549,000	4,304,000	5,539,000	1,549,000	9,843,000	11,392,000	6,621,000
Shoppes of Foxchase	Virginia	5,838,000	2,979,000	14,687,000	5,838,000	17,666,000	23,504,000	6,631,000
Frederick County Square	Maryland	6,561,000	6,830,000	4,782,000	6,561,000	11,612,000	18,173,000	7,349,000
800 S. Washington Street	Virginia	2,904,000	5,489,000	5,944,000	2,904,000	11,433,000	14,337,000	4,761,000
Centre at Hagerstown	Maryland	13,029,000	25,415,000	2,435,000	13,029,000	27,850,000	40,879,000	12,855,000

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Frederick Crossing Randolph Shopping Center	Maryland	12,759,000	35,477,000	2,242,000	12,759,000	37,719,000	50,478,000	14,430,000
Montrose Shopping Center	Maryland	4,928,000	13,025,000	940,000	4,928,000	13,965,000	18,893,000	4,785,000
Gateway Overlook Olney Village Center (a)	Maryland	11,612,000	22,410,000	1,860,000	11,020,000	24,862,000	35,882,000	8,490,000
Spring Valley Retail Center	Maryland	28,816,000	52,249,000	370,000	29,110,000	52,325,000	81,435,000	13,734,000
	Washington, DC	15,842,000	39,133,000	1,836,000	15,842,000	40,969,000	56,811,000	6,731,000
		10,836,000	32,238,000	868,000	10,836,000	33,106,000	43,942,000	1,568,000
		\$120,969,000	\$249,498,000	\$72,648,000	\$120,671,000	\$322,444,000	\$443,115,000	\$114,146,000
Total		\$588,663,000	\$1,448,929,000	\$636,299,000	\$561,256,000	\$2,112,635,000	\$2,673,891,000	\$692,608,000
								10,210,000

(a) At December 31, 2015, our properties were encumbered by non-recourse mortgage amounts as follows: \$35.4 million on 3801 Connecticut Avenue, \$16.5 million on Walker House, \$29.1 million on Bethesda Hill, \$33.6 million on The Kenmore, \$100.6 million on 2445 M Street, \$50.1 million on John Marshall II, and \$17.3 million on Olney Village Center, \$51.9 million on Yale West, and \$51.0 million on The Amy Navy Club Building. The Maxwell was encumbered by a construction loan with a 32.2 million million balance at December 31, 2015.

b) The purchase cost of real estate investments has been divided between land and buildings and improvements on the basis of management's determination of the fair values.

c) At December 31, 2015, total land, buildings and improvements are carried at \$2,071.6 million for federal income tax purposes.

d) The useful life shown is for the main structure. Buildings and improvements are depreciated over various useful lives ranging from 3 to 50 years.

e) Residential properties are presented in gross square feet.

f) As of December 31, 2015, Washington REIT had under development an office project with 360,000 square feet of office space and a parking garage to be developed in Herndon, VA (Dulles Station, Phase II). The value not yet placed in service of Dulles Station, Phase II at December 31, 2015 was \$8.5 million. \$3.6 million of Dulles Station, Phase II was placed into service upon the completion of a portion of the parking garage structure. Additionally, Washington REIT had investments in various development or redevelopment projects, including Silverline Center. The value of this redevelopment not yet placed in service is \$10.2 million at December 31, 2015.

g) As of December 31, 2015, Washington REIT had under development a multifamily property in Arlington, Virginia. The value not yet placed into service at December 31, 2015 was \$15.7 million.

WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES

SUMMARY OF REAL ESTATE INVESTMENTS AND ACCUMULATED DEPRECIATION
(IN THOUSANDS)

The following is a reconciliation of real estate assets and accumulated depreciation for the three years ended December 31, 2015 (in thousands):

	Year Ended December 31,		
	2015	2014	2013
Real estate assets			
Balance, beginning of period	\$2,547,188	\$2,289,509	\$2,529,131
Additions:			
Property acquisitions ⁽¹⁾	162,702	289,140	47,444
Improvements ⁽¹⁾	50,954	98,250	71,127
Deductions:			
Impairment write-down	(5,909) —	—
Write-off of disposed assets	(3,291	) (2,857	) (2,017
Property sales	(77,753	) (126,854	) (356,176
Balance, end of period	\$2,673,891	\$2,547,188	\$2,289,509
Accumulated depreciation			
Balance, beginning of period	\$640,434	\$611,408	\$610,536
Additions:			
Depreciation	86,536	77,741	80,510
Deductions:			
Impairment write-down	—	—	—
Write-off of disposed assets	(2,408	) (2,549	) (1,404
Property sales	(31,954	) (46,166	) (78,234
Balance, end of period	\$692,608	\$640,434	\$611,408

⁽¹⁾ Includes non-cash accruals for capital items and assumed mortgages.