

WASHINGTON REAL ESTATE INVESTMENT TRUST
Form 10-Q
November 09, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

OR

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

For the quarterly period ended September 30, 2007

Commission File Number: 1-6622

WASHINGTON REAL ESTATE INVESTMENT TRUST

(Exact name of registrant as specified in its charter)

MARYLAND
(State or other jurisdiction of

53-0261100
(IRS Employer

incorporation or organization)

Identification Number)

6110 EXECUTIVE BOULEVARD, SUITE 800, ROCKVILLE, MARYLAND 20852

(Address of principal executive office) (Zip code)

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

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(Former name, former address and former fiscal year, if changed since last report)

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 twelve (12) months (or such shorter period that the Registrant was required to file such report) and (2) has been subject to such filing requirements for the past ninety (90) days. YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act). (Check One):

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

Number of shares outstanding of common stock, as of November 5, 2007: 46,670,630

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Part I

FINANCIAL INFORMATION

The information furnished in the accompanying unaudited Consolidated Balance Sheets, Statements of Income, Statements of Cash Flows and Statement of Changes in Shareholders' Equity reflects all adjustments, consisting of normal recurring items, which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods. The accompanying financial statements and notes thereto should be read in conjunction with the financial statements and notes for the three years ended December 31, 2006 included in the Trust's 2006 Annual Report on Form 10-K filed with the Securities and Exchange Commission.

ITEM I. FINANCIAL STATEMENTS

WASHINGTON REAL ESTATE INVESTMENT TRUST

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

	(Unaudited) September 30, 2007	December 31, 2006
Assets		
Land	\$ 338,203	\$ 288,821
Income producing property	1,522,790	1,264,442
	1,860,993	1,553,263
Accumulated depreciation and amortization	(321,840)	(277,016)
Net income producing property	1,539,153	1,276,247
Development in progress	138,093	120,656
Total investment in real estate, net	1,677,246	1,396,903
Investment in real estate held for sale, net		29,551
Cash and cash equivalents	9,919	8,721
Restricted cash	46,002	4,151
Rents and other receivables, net of allowance for doubtful accounts of \$5,096 and \$3,464, respectively	35,677	31,649
Prepaid expenses and other assets	76,957	58,192
Other assets related to properties held for sale		2,098
Total assets	\$ 1,845,801	\$ 1,531,265
Liabilities		
Notes payable	\$ 879,094	\$ 728,255
Mortgage notes payable	253,500	237,073
Lines of credit payable	128,500	61,000
Accounts payable and other liabilities	65,335	45,089
Advance rents	6,561	5,894
Tenant security deposits	10,075	9,231
Other liabilities related to properties held for sale		1,053
Total liabilities	1,343,065	1,087,595

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Minority Interest	5,593	1,739
Shareholders' Equity		
Shares of beneficial interest; \$0.01 par value; 100,000 shares authorized: 46,669 and 45,042 shares issued and outstanding	467	451
Additional paid-in capital	560,695	500,727
Distributions in excess of net income	(64,019)	(59,247)
Total Shareholders' Equity	497,143	441,931
Total Liabilities and Shareholders' Equity	\$ 1,845,801	\$ 1,531,265

See accompanying notes to the financial statements.

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WASHINGTON REAL ESTATE INVESTMENT TRUST
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)

(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Revenue				
Real estate rental revenue	\$ 66,028	\$ 54,857	\$ 191,028	\$ 155,428
Expenses				
Real estate expenses	20,604	17,025	59,319	46,643
Depreciation and amortization	18,285	13,588	51,543	37,546
General and administrative	3,174	2,230	11,424	10,161
	42,063	32,843	122,286	94,350
Real estate operating income	23,965	22,014	68,742	61,078
Other income (expense)				
Interest expense	(15,824)	(12,527)	(45,498)	(34,453)
Other income	357	293	1,395	637
Other income from life insurance proceeds			1,303	
	(15,467)	(12,234)	(42,800)	(33,816)
Income from continuing operations	8,498	9,780	25,942	27,262
Discontinued operations:				
Gain on sale of real estate	25,022		25,022	
Income from operations of properties held for sale	870	450	2,475	1,319
Net income	\$ 34,390	\$ 10,230	\$ 53,439	\$ 28,581
Basic net income per share				
Continuing operations	\$ 0.18	\$ 0.22	\$ 0.57	\$ 0.63
Discontinued operations	0.56	0.01	0.60	0.03
Basic net income per share	\$ 0.74	\$ 0.23	\$ 1.17	\$ 0.66
Diluted net income per share				
Continuing operations	\$ 0.18	\$ 0.22	\$ 0.57	\$ 0.63
Discontinued operations	0.55	0.01	0.59	0.03
Diluted net income per share	\$ 0.73	\$ 0.23	\$ 1.16	\$ 0.66
Weighted average shares outstanding basic	46,596	44,874	45,678	43,270
Weighted average shares outstanding diluted	46,802	45,093	45,877	43,453
Dividends paid per share	\$ 0.4225	\$ 0.4125	\$ 1.2575	\$ 1.2275

See accompanying notes to the financial statements.

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WASHINGTON REAL ESTATE INVESTMENT TRUST
 CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands)

(UNAUDITED)

	Shares	Par Value	Additional Paid in Capital	Distributions In Excess of Net Income	Shareholders' Equity
Balance, December 31, 2006	45,042	\$ 451	\$ 500,727	\$ (59,247)	\$ 441,931
Net income				53,439	53,439
Dividends				(58,211)	(58,211)
Equity offering	1,600	16	57,745		57,761
Share options exercised	10		262		262
Share grants and amortization, net of forfeitures	17		1,961		1,961
Balance, September 30, 2007	46,669	\$ 467	\$ 560,695	\$ (64,019)	\$ 497,143

See accompanying notes to the financial statements.

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WASHINGTON REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	(Unaudited)	
	Nine Months Ended September 30,	
	2007	2006
Cash flows from operating activities		
Net income	\$ 53,439	\$ 28,581
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of real estate	(25,022)	
Depreciation and amortization	51,940	39,096
Provision for losses on accounts receivable	1,720	1,336
Amortization of share grants	1,961	2,249
Changes in other assets	(12,585)	(17,512)
Changes in other liabilities	15,879	15,892
Net cash provided by operating activities	87,332	69,642
Cash flows from investing activities		
Real estate acquisitions, net of mortgages assumed*	(219,353)	(226,349)
Proceeds from sale of real estate	56,344	
Tax free exchange escrow	(40,110)	
Capital improvements to real estate	(29,469)	(28,058)
Development in progress	(53,297)	(42,922)
Non-real estate capital improvements	(2,912)	(863)
Cash used in investing activities	(288,797)	(298,192)
Cash flows from financing activities		
Line of credit borrowings, net	67,500	4,000
Dividends paid	(58,211)	(54,106)
Principal payments mortgage notes payable	(10,371)	(8,171)
Proceeds from debt offering	150,839	255,815
Deferred financing costs	(5,117)	(4,156)
Note repayments		(50,000)
Net proceeds from equity offering	57,761	90,906
Net proceeds from the exercise of share options	262	1,156
Net cash provided by financing activities	202,663	235,444
Net (decrease)/increase in cash and cash equivalents	1,198	6,894
Cash and cash equivalents, beginning of period	8,721	4,938
Cash and cash equivalents, end of period	\$ 9,919	\$ 11,832
<u>Supplemental disclosure of cash flow information:</u>		
Cash paid for interest	\$ 48,042	\$ 35,632

* See Note 3 for the supplemental discussion of non-cash investing and financing activities.
See accompanying notes to the financial statements.

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WASHINGTON REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2007

(UNAUDITED)

NOTE 1: NATURE OF BUSINESS

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

Federal Income Taxes

We believe that we qualify as a Real Estate Investment Trust (REIT) under Sections 856-860 of the Internal Revenue Code and intend to continue to qualify as such. To maintain our status as a REIT, we are required to distribute at least 90% of our ordinary taxable income to our shareholders. When selling properties, we have the option of (i) reinvesting the sale price of properties sold, allowing for a deferral of income taxes on the sale, (ii) paying out capital gains to the shareholders with no tax to the company or (iii) treating the capital gains as having been distributed to the shareholders, paying the tax on the gain deemed distributed and allocating the tax paid as a credit to the shareholders. In September 2007, Maryland Trade Centers I and II were sold for a gain of \$25.0 million. The proceeds from the sale are expected to be reinvested in replacement properties. No properties were sold in the year 2006.

NOTE 2: ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although we believe that the disclosures made are adequate to make the information presented not misleading. In addition, in the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These unaudited financial statements should be read in conjunction with the financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2006.

Within these notes to the financial statements, we refer to the three and nine months ended September 30, 2007 as the 2007 Quarter and the 2007 Period , respectively, and the three and nine months ended September 30, 2006 as the 2006 Quarter and the 2006 Period , respectively.

New Accounting Pronouncements

In July 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of SFAS 109, Accounting for Income Taxes (FIN 48), FIN 48 prescribes how we should recognize, measure and present in our financial statements uncertain tax positions that have been taken or are expected to be taken in a tax return. Pursuant to FIN 48, 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 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 realized upon settlement.

We are subject to U.S. federal income tax as well as income tax of the states of Maryland and Virginia and the District of Columbia but, as a REIT, we generally are not subject to income tax on our net income distributed as dividends to our shareholders. As required, we adopted FIN 48 effective January 1, 2007 and have concluded that the effect is not material to our consolidated financial statements. Accordingly, we did not record a cumulative effect adjustment related to the adoption of FIN 48.

Tax returns filed for the 2003 through 2006 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.

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In September 2006, the FASB also issued FASB Statement No. 157, Fair Value Measurements . SFAS No. 157 defines fair value, establishes a framework for measuring fair value in U.S. generally accepted accounting principles, and expands disclosures about fair

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WASHINGTON REAL ESTATE INVESTMENT TRUST
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value measurements. The effective date of this statement is for fiscal years beginning after November 15, 2007 and accordingly all the provisions of SFAS No. 157 will be considered when we adopt it in January 2008. We are currently evaluating the provisions of this revision to determine the impact on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115*. SFAS No. 159 permits entities to choose to measure eligible items at fair value at specified election dates and report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating what effect, if any, the adoption of SFAS No. 159 will have on our financial position, results of operations, or cash flows.

The FASB has released an exposure draft of FASB Staff Position (FSP) APB 14-a for comment. This proposed guidance clarifies the accounting for convertible debt instruments that may be settled in cash (including partial cash settlement) upon conversion. If issued in final form, the guidance will significantly impact the accounting of the Company's convertible debt. The proposed FSP would require bifurcation of a component of the debt, classification of that component in stockholders' equity, and then accretion of the resulting discount on the debt to result in interest expense equal to issuer's nonconvertible debt borrowing rate. The calculation of earnings-per-share would not be affected, other than the impact on net income from the debt discount amortization. The Company is in the process of assessing the impact of the FSP on its financial statements.

Revenue Recognition

Residential properties (our multifamily segment) are leased under operating leases with terms of generally one year or less, and commercial properties (our office, medical office, retail and industrial segments) are leased under operating leases with average terms of three to seven years. We recognize rental income and rental abatements from our residential and commercial leases when earned on a straight-line basis in accordance with SFAS No. 13 *Accounting for Leases*. Recognition of rental income commences when control of the facility has been given to the tenant. We record a provision for losses on accounts receivable equal to the estimated uncollectible amounts. This estimate is based on our historical experience and a review of the current status of the Company's receivables. Percentage rents, which represent additional rents based on gross tenant sales, are recognized when tenants' sales exceed specified thresholds.

In accordance with SFAS No. 66, *Accounting for Sales of Real Estate*, sales are recognized 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.

Minority Interest

We entered into an operating agreement with members of a limited liability company (LLC) that previously owned Northern Virginia Industrial Park in conjunction with the acquisition of this property in May 1998. This resulted in a minority ownership interest in this limited liability company based upon defined company ownership units at the date of purchase. We account for this activity by recording minority expense by applying the minority owner's percentage ownership interest to the net income of the property and including such amount in our general and administrative expenses, thereby reducing net income.

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In August 2007 WRIT 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 units in a consolidated subsidiary of WRIT.

Minority interest expense was \$101,000 and \$207,000 for the 2007 Quarter and 2007 Period, respectively, and \$52,000 and \$148,000 for the 2006 Quarter and 2006 Period, respectively. Quarterly distributions are made to the minority owners equal to the quarterly dividend per share for each ownership unit.

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WASHINGTON REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2007

(UNAUDITED)

Deferred Financing Costs

External costs associated with the issuance or assumption of mortgages, notes payable and fees associated with the lines of credit are capitalized and amortized using the effective interest rate method or the straight-line method which approximates the effective interest rate method over the term of the related debt. As of September 30, 2007 and December 31, 2006, the deferred financing costs of \$23.9 million and \$16.6 million, respectively, net of accumulated amortization of \$7.2 million and \$5.5 million, respectively, were included in Prepaid Expenses and Other Assets on the balance sheets. The amortization is included in interest expense on the accompanying consolidated statements of income. The amortization of debt costs included in interest expense totaled \$0.7 million and \$1.8 million for the 2007 Quarter and 2007 Period, respectively, and \$0.4 million and \$1.2 million for the 2006 Quarter and 2006 Period, respectively.

Deferred Leasing Costs

Costs associated with the successful negotiation of leases, both external commissions and internal direct costs, are capitalized and amortized on a straight-line basis over the terms of the respective leases. If an applicable lease terminates prior to the expiration of its initial lease term, the carrying amount of the costs are written-off to expense. As of September 30, 2007 and December 31, 2006, deferred leasing costs of \$22.7 million and \$19.0 million, respectively, net of accumulated amortization of \$7.9 million and \$6.5 million, respectively, were included in Prepaid and Other Assets on the balance sheets. The amortization of deferred leasing costs included in expense for properties classified as continuing operations totaled \$0.8 million and \$0.7 million for the 2007 and 2006 Quarters, respectively, and \$2.3 million and \$1.8 million for the 2007 and 2006 Periods, respectively.

Real Estate and Depreciation

Buildings are depreciated on a straight-line basis over estimated useful lives ranging from 28 to 50 years. All capital improvement expenditures associated with replacements, improvements, or major repairs to real property that extend its useful life are capitalized and depreciated 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 and other internal costs during periods in which development projects are in progress. In addition, we capitalize tenant leasehold improvements when certain criteria are met, including when we supervise construction and will own the improvements. All tenant improvements are amortized over the shorter of the useful life of the improvements or the term of the related tenant lease. Real estate depreciation expense, for properties classified as continuing operations, was \$15.0 million and \$11.8 million for the 2007 and 2006 Quarters, respectively, and \$41.6 million and \$33.0 million for the 2007 and 2006 Periods, respectively. Maintenance and repair costs are charged to expense as incurred.

We capitalize interest costs recognized on borrowing obligations while qualifying assets are being readied for their intended use in accordance with SFAS No. 34, Capitalization of Interest Cost. Total interest expense capitalized to real estate assets related to development and major renovation activities was \$1.7 million and \$4.6 million for the 2007 Quarter and Period, respectively, and \$1.0 million and \$2.5 million for the 2006 Quarter and Period, respectively. Interest capitalized is depreciated over the useful life of the related underlying assets when those assets are placed into service upon completion of development or construction.

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 market value. There were no property impairments recognized during the 2007 and 2006 Quarters or the 2007 and 2006 Periods.

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We allocate the purchase price of acquired properties to the related physical assets and in-place leases based on their fair values, in accordance with SFAS No. 141, Business Combinations. The fair values of acquired buildings are determined on an as-if-vacant basis considering a variety of factors, including the physical condition and quality of the buildings, estimated rental and absorption rates, estimated future cash flows and valuation assumptions consistent with current market conditions. The as-if-vacant fair value is allocated to land, building and tenant improvements based on property tax assessments and other relevant information obtained in connection with the acquisition of the property.

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WASHINGTON REAL ESTATE INVESTMENT TRUST
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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The fair value of in-place leases consists of the following components (1) 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-through expenses (referred to as Absorption Cost); (2) the estimated cost of tenant improvements and other direct costs associated with obtaining a new tenant (referred to as Tenant Origination Cost); (3) estimated leasing commissions associated with obtaining a new tenant (referred to as Leasing Commissions); (4) the above/at/below market cash flow of the leases, determined by comparing the projected cash flows of the leases in place to projected cash flows of comparable market-rate leases (referred to as Net Lease Intangibles); and (5) 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).

Tenant Origination Costs are included in Income Producing Property Assets on our balance sheets and are amortized as depreciation expense on a straight-line basis over the remaining life of the underlying leases. Leasing Commissions and Absorption Costs are classified as Other Assets and are amortized as amortization expense on a straight-line basis over the remaining life of the underlying leases. The amounts used to calculate Net Lease Intangibles are discounted using an interest rate which reflects the risks associated with the leases acquired. Net Lease Intangible Assets are classified as Other Assets and are amortized on a straight-line basis as a decrease to Real Estate Rental Revenue over the remaining term of the underlying leases. Net Lease Intangible Liabilities are classified as Other Liabilities and are amortized on a straight-line basis as an increase to Real Estate Rental Revenue over the remaining term of the underlying leases. Should a tenant terminate its lease, the unamortized portions of the Tenant Origination Cost, Leasing Commissions and Absorption Costs and Net Lease Intangibles associated with that lease are written off to depreciation expense, amortization expense, and rental revenue, respectively.

Balances net of accumulated depreciation or amortization, as appropriate, of the components of the fair value of in-place leases at September 30, 2007 and December 31, 2006 are as follows (in millions):

	September 30, 2007			December 31, 2006		
	Gross Carrying Value	Accumulated Amortization	Net	Gross Carrying Value	Accumulated Amortization	Net
Tenant Origination Costs	\$ 28.0	\$ 9.8	\$ 18.2	\$ 19.8	\$ 6.4	\$ 13.4
Leasing Commissions and Absorption Costs	\$ 27.7	\$ 7.4	\$ 20.3	\$ 16.3	\$ 3.3	\$ 13.0
Net Lease Intangible Assets	\$ 9.4	\$ 4.3	\$ 5.1	\$ 9.2	\$ 3.5	\$ 5.7
Net Lease Intangible Liabilities	\$ 17.8	\$ 5.6	\$ 12.2	\$ 13.0	\$ 3.3	\$ 9.7

Amortization of these components combined was \$2.2 million and \$6.4 million for the 2007 Quarter and Period, respectively, and \$1.1 million and \$2.7 million for the 2006 Quarter and Period, respectively. No value had been assigned to Customer Relationship Value at September 30, 2007 or December 31, 2006.

Discontinued Operations

We classify properties as held for sale when they meet the necessary criteria specified by SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets . These criteria include: senior management commits to and actively embarks upon a plan to sell the assets, the sale is expected to be completed within one year under terms usual and customary for such sales, and 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. Depreciation on these properties is discontinued, but operating revenues, operating expenses and interest expense continue to be recognized until the date of sale.

Under SFAS No. 144, 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.

Cash and Cash Equivalents

Cash and cash equivalents include investments readily convertible to known amounts of cash with original maturities of 90 days or less.

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WASHINGTON REAL ESTATE INVESTMENT TRUST
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(UNAUDITED)

Restricted Cash

Restricted cash at September 30, 2007 and December 31, 2006 consisted of \$46.0 million and \$4.2 million, respectively, in funds escrowed for tenant security deposits for certain tenants, 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. The balance at September 30, 2007 also included \$40.1 million in tax-free exchange account funds resulting from the sale of Maryland Trade Centers I and II during the 2007 Quarter.

Share Based Compensation

We maintain Share Grant Plans and Incentive Stock Option Plans as described in Note 7, Share Options and Grants, which include qualified and non-qualified options and deferred shares for eligible employees. Shares are granted to officers, non-officer employees and trustees under the Share Grant Plans. Officer share grants vesting over five years vest in annual installments commencing one year after the date of grant and share grants that vest over three years vest twenty-five percent one year from date of grant, twenty-five percent two years from date of grant and fifty percent three years from date of grant. Officer performance share units, granted under an amendment to the Share Grant Plan, cliff vest at the end of a three-year performance period. Officer and non-officer employee restricted share units, granted under an amendment to the Share Grant Plan, vest over five years in annual installments commencing one year after date of grant. Trustee share grants are fully vested immediately upon date of share grant and are restricted from sale for the period of the trustee's service. Restricted share units issued to the non-executive Chairman vest over three years from the grant date and are restricted from sale for the period of the non-executive Chairman's service.

Compensation expense is recognized for share grants over the vesting period equal to the fair market value of the shares on the date of issuance. Compensation expense for trustee grants that vest immediately upon the grant date is fully recognized upon issuance based upon the fair market value of the shares on the date of grant. The unvested portion of officer and non-officer employee share grants is recognized in compensation cost over the vesting period.

Unvested shares are forfeited upon an employee's termination while unvested shares for employees eligible for retirement fully vest upon retirement. For shares granted to employees who are eligible for retirement or will become eligible for retirement during the vesting period, compensation cost is recognized over the explicit service period with acceleration of expense upon determination of the date of actual retirement for these employees. The Company will continue this practice for awards granted prior to January 1, 2006, when FAS 123R was adopted, and for shares granted after the adoption of FAS 123R the Company will recognize compensation expense through the date that the employee is no longer required to provide service to earn the award (e.g. the date the employee is eligible to retire).

Stock options were historically issued annually to officers, trustees and key non-officer employees under the Incentive Stock Option Plans. They were last issued to officers in 2002, to key non-officer employees in 2003 and to trustees in 2004. The options vested over a two-year period in annual installments commencing one year after the date of grant, except for trustee options which vested immediately upon the date of grant. Stock options issued prior to the adoption of FAS No. 123R are accounted for in accordance with APB No. 25, whereby if options are priced at fair market value or above at the date of grant and if other requirements are met then the plans are considered fixed and no compensation expense is recognized. Accordingly, we recognized no compensation expense for stock options.

Earnings per Common Share

We calculate basic and diluted earnings per share in accordance with SFAS No. 128, Earnings per Share. Basic earnings per share is computed as net income divided by the weighted-average common shares outstanding. Diluted earnings per share is computed as net income divided by the total weighted-average common shares outstanding plus the effect of dilutive common equivalent shares outstanding for the period. Dilutive common equivalent shares reflect the assumed issuance of additional common shares pursuant to certain of our share based compensation plans and operating partnership units that could potentially reduce or dilute earnings per share, based on the treasury stock method. Other potentially dilutive common shares, including shares potentially resulting from the senior convertible notes, are considered when calculating diluted

earnings per share.

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 (UNAUDITED)

Use of Estimates in the Financial Statements

The preparation of financial statements in conformity with U. S. generally accepted accounting principles 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.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

NOTE 3: REAL ESTATE INVESTMENTS

Our real estate investment portfolio, at cost, consists of properties located in Maryland, Washington, D.C. and Virginia as follows (in thousands):

	September 30, 2007	December 31, 2006
Office buildings	\$ 732,223	\$ 602,875
Medical office buildings	364,731	246,144
Retail centers	257,587	254,472
Multifamily properties	172,753	145,007
Industrial/Flex properties	333,699	304,765
	\$ 1,860,993	\$ 1,553,263

The amounts above reflect properties classified as continuing operations, which means they are to be held and used in rental operations (income producing property).

We have several properties in development in our office and multifamily sectors and one property in our retail sector that was in redevelopment for most of 2006, but was placed in service in 2006. The mid rise building at Bennett Park is substantially complete and was 70% leased at 2007 quarter end. At Dulles Station, the building shell completion occurred early in the third quarter 2007. The cost of our real estate portfolio in development is illustrated below (in thousands):

	September 30, 2007	December 31, 2006
Office buildings	\$ 44,671	\$ 54,168
Medical office buildings	3,983	
Retail centers		745
Multifamily	89,439	65,743
Industrial/Flex properties		

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\$ 138,093 \$ 120,656

We dispose of assets (sometimes using tax-deferred exchanges) that are inconsistent with our long-term strategic or return objectives and when market conditions for sale are favorable. The proceeds from the sales may be redeployed into other properties, used to fund development operations or to support other corporate needs, or distributed to our shareholders. Properties are considered held for sale when they meet the criteria specified by SFAS No.144 (see Note 2 Discontinued Operations). Depreciation on these properties is discontinued at that time, but operating revenues, other operating expenses and interest continue to be recognized until the date of sale. Two properties, Maryland Trade Centers I and II, were sold as of September 30, 2007 and classified as held for sale at December 31, 2006. The two properties were classified as discontinued operations in the 2007 and 2006 Quarters and Periods. They were sold for a contract sales price of \$58.0 million that resulted in a gain on sale of \$25.0 million.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Revenues	\$ 1,723	\$ 1,818	\$ 5,350	\$ 5,241
Property expenses	(853)	(818)	(2,478)	(2,371)
Depreciation and amortization		(550)	(397)	(1,551)
	\$ 870	\$ 450	\$ 2,475	\$ 1,319

Operating income by property is summarized below (in thousands):

Property	Segment	Three Months Ended September 30,		Nine Months Ended September 30,	
		2007	2006	2007	2006
Maryland Trade Center I	Office	\$ 498	\$ 227	\$ 1,338	\$ 656
Maryland Trade Center II	Office	372	223	1,137	663
		\$ 870	\$ 450	\$ 2,475	\$ 1,319

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 commercial office, medical office, retail, multifamily and industrial. All sectors are affected by external economic factors, such as inflation, consumer confidence, unemployment rates, etc., as well as by changing tenant and consumer requirements.

WRIT acquired the following properties during the first nine months of 2007:

Acquisition Date	Property Name	Property Type	Rentable Square Feet	Purchase Price (in thousands)
February 8, 2007	270 Technology Park	Industrial/Flex	157,000	\$ 26,500
March 1, 2007	Monument II	Office	205,000	78,200
March 9, 2007	2440 M Street	Medical office	110,000	50,000
June 1, 2007	Woodholme Medical Office Building	Medical office	125,000	29,000
June 1, 2007	Woodholme Center	Office	73,000	20,000
June 1, 2007	Ashburn Farm Office Park	Medical office	75,400	23,000
August 16, 2007	CentreMed I & II	Medical office	52,000	15,300
August 30, 2007	4661 Kenmore Avenue	Land for Development	N/A	3,750

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Total 2007 Period	797,400	\$	245,750
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As discussed in Note 2, we allocate the purchase price to the related physical assets (land, building and tenant improvements) and in-place leases (absorption, tenant origination costs, leasing commissions, and net lease intangible assets/liabilities) based on their fair values, in accordance with SFAS No. 141, Business Combinations. Our acquisition of the properties listed above resulted in the recognition of \$8.4 million in absorption costs and \$3.0 million in leasing commissions, \$0.4 million in net intangible lease assets, \$8.3 million in tenant origination costs and \$4.8 million in net intangible lease liabilities. The weighted average life of these assets ranges from 10 to 115 months. The results of operations from these acquired properties are included in the income statement as of their respective acquisition date and forward.

The purchase of 270 Technology Park in February 2007 was funded from the proceeds of our convertible debt offering in January 2007. The purchase of Monument II in March 2007 was funded with proceeds from the January 2007 convertible debt offering and borrowings of \$30.0 million on our line of credit. The purchases of 2440 M Street, Woodholme Center, Woodholme Medical Office Building, Ashburn Farm Park and CenterMed properties were funded by borrowings on our line of credit. The borrowings for a portion of these acquisitions were outstanding as of September 30, 2007. CentreMed was acquired through partial reverse tax deferred

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exchange from the sale of Maryland Trade Centers I and II in September 2007. The purchase of 4661 Kenmore Avenue was funded by issuing operating units in a consolidated subsidiary (see Note 2-Minority Interest). For the purchase of Woodholme Medical Office Building and Ashburn Farm Park, mortgages were assumed for \$21.2 million and \$6.1 million, respectively. See discussion of the mortgages in Note 4.

The following unaudited pro-forma combined condensed statements of operations present the consolidated results of operations for the 2007 Quarter and Period and the 2006 Quarter and Period, as if the above described acquisitions had occurred at the beginning of the period of acquisition and the same period in the year prior to the acquisition. The unaudited pro-forma information does not purport to be indicative of the results that actually would have occurred if the acquisitions had been in effect for the Quarters and Periods presented. The unaudited data presented is in millions, except per share data.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Real estate revenues	\$ 66.3	\$ 61.2	\$ 197.9	\$ 174.0
Income from continuing operations	\$ 8.7	\$ 11.3	\$ 27.8	\$ 31.8
Net income	\$ 34.6	\$ 11.8	\$ 55.3	\$ 33.1
Diluted earnings per share	\$.74	\$ 0.26	\$ 1.20	\$ 0.76

NOTE 4: MORTGAGE NOTES PAYABLE

	(in thousands)	
	September 30, 2007	December 31, 2006
On September 27, 1999, we executed a \$50.0 million mortgage note payable secured by Munson Hill Towers, Country Club Towers, Roosevelt Towers, Park Adams Apartments and the Ashby of McLean. The mortgage bears interest at 7.14% per annum and interest only is payable monthly until October 1, 2009, at which time all unpaid principal and interest are payable in full.	\$ 50,000	\$ 50,000
On November 1, 2001, we assumed an \$8.5 million mortgage note payable, with an estimated fair value* of \$9.3 million, as partial consideration for our acquisition of Sullyfield Commerce Center. The mortgage bore interest at 9.00% per annum. Principal and interest were paid monthly until January 2, 2007, at which time all unpaid principal and interest were paid in full.		7,833
On October 9, 2003, we assumed a \$36.1 million mortgage note payable and a \$13.7 million mortgage note payable as partial consideration for our acquisition of the Prosperity Medical Centers. The mortgages bear interest at 5.36% per annum and 5.34% per annum, respectively. Principal and interest are payable monthly until May 1, 2013, at which time all unpaid principal and interest are payable in full.	46,913	47,441
On August 12, 2004, we assumed a \$10.1 million mortgage note payable, with an estimated fair value* of \$11.2 million, as partial consideration for our acquisition of Shady Grove Medical Village II. The mortgage bears interest at 6.98% per annum. Principal and interest are payable monthly until December 1, 2011, at which time all unpaid principal and interest are payable in full.	10,359	10,574
On December 22, 2004, we assumed a \$15.6 million mortgage note payable, with an estimated fair value* of \$17.8 million, and a \$3.9 million mortgage note payable with an estimated fair value of \$4.2 million as partial consideration for our acquisition of Dulles Business Park. The mortgages bear interest at 7.09% per annum and 5.94% per annum, respectively. Principal and interest are payable monthly until August 10, 2012, at which time all unpaid principal and interest are payable in full.	20,389	20,846

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On March 23, 2005 we assumed a \$24.3 million mortgage note payable, with an estimated fair value* of \$25.0 million, as partial consideration for the acquisition of Frederick Crossing. The mortgage bears interest at 5.95% per annum. Principal and interest are payable monthly until January 1, 2013 at which time all unpaid principal and interest are payable in full.	23,902	24,246
On April 13, 2006, we assumed a \$5.7 million mortgage note payable as partial consideration for the acquisition of 9707 Medical Center Drive. The mortgage bears interest at 5.32% per annum. Principal and interest are payable monthly until July 1, 2028 at which time all unpaid principal and interest are payable in full.	5,464	5,569
On June 22, 2006, we assumed a \$4.9 million mortgage note payable as partial consideration for the acquisition of Plumtree Medical Center. The mortgage bears interest at 5.68% per annum. Principal and interest are payable monthly until March 11, 2013 at which time all unpaid principal and interest are payable in full.	4,781	4,836
On July 12, 2006, we assumed an \$8.8 million mortgage note payable as partial consideration for the acquisition of 15005 Shady Grove Road. The mortgage bears interest at 5.73% per annum. Principal and interest are payable monthly until March 11, 2013 at which time all unpaid principal and interest are payable in full.	8,648	8,751
On August 25, 2006, we assumed a \$34.2 million mortgage note payable as partial consideration for the acquisition of 20-50 West Gude Drive. The mortgage bears interest at 5.86% per annum. Principal and interest are payable monthly until March 11, 2013 at which time all unpaid principal and interest are payable in full.	33,565	33,990
On August 25, 2006, we assumed a \$23.1 million mortgage note payable as partial consideration for the acquisition of 902-904 Wind River Lane and 200 Orchard Ridge Road. The mortgage bears interest at 5.82%** per annum. Principal and interest are payable monthly until August 11, 2033** at which time all unpaid principal and interest are payable in full. The note may be repaid without penalty on August 11, 2010.	22,730	22,987
On June 1		