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

FORM 10-K

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

For fiscal year ended December 31, 2017

OR

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

COMMISSION FILE NO. 001-06622

WASHINGTON REAL ESTATE INVESTMENT TRUST

(Exact name of registrant as specified in its charter)

MARYLAND
(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," "smaller reporting company," and "emerging growth 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"/>
		Emerging growth 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, 2017, the aggregate market value of such shares held by non-affiliates of the registrant was \$2,436,739,462 (based on the closing price of the stock on June 30, 2017).

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

DOCUMENTS INCORPORATED BY REFERENCE

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

WASHINGTON REAL ESTATE INVESTMENT TRUST

2017 FORM 10-K ANNUAL REPORT

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PART I

ITEM 1: BUSINESS

Washington REIT Overview

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

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

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

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

Our Regional Economy and Real Estate Markets

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

Office

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

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

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

According to JLL, a commercial real estate firm, the increase in average asking rents in the Washington metro region was primarily due to higher demand throughout the region, particularly in areas close to Metro stations. The 2017 total vacancy rate is higher than the prior year, and above the national average of 14.9%. The higher vacancy rate is primarily due to the delivery of 3.5 million square feet of new office space, primarily in Washington, DC and Northern Virginia, over the last year. JLL projects downward pressure on occupancy and effective rents in 2018 due to the influx of new space.

Multifamily

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

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

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

Retail

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

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

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

Our Portfolio

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

REIT Tax Status

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

Generally, and subject to our ongoing qualification as a REIT, no provisions for income taxes are necessary except for taxes on undistributed taxable income and taxes on the income generated by our taxable REIT subsidiaries ("TRSs"). Our TRSs are subject to corporate U.S. federal, state and local income tax on their taxable income at regular statutory rates (see note 1 to the consolidated financial statements for further disclosure).

Tax Treatment of Recent Disposition Activity

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

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

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

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

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

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

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

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

Availability of Reports

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

ITEM 1A: RISK FACTORS

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

Risks Related to our Business and Operations

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

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

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

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

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

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

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

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

We face risks associated with property development/redevelopment.

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

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

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

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

We face risks associated with property acquisitions.

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

- we may have difficulty finding properties that are consistent with our strategies and that meet our standards;
- we may have difficulty negotiating with new or existing tenants;
- we may be unable to finance acquisitions on favorable terms or at all;
- the occupancy levels, lease-up timing and rental rates may not meet our expectations;
- even if we enter into an acquisition agreement for a property, we may be unable to complete that acquisition after making a non-refundable deposit and incurring certain other acquisition-related costs;
- competition from other real estate investors may significantly increase the purchase price;
- we may be unable to acquire a desired property because of competition from other real estate investors, including publicly traded real estate investment trusts, institutional investment funds and private investors;
- even if we enter into an acquisition agreement for a property, it is subject to customary conditions to closing, including completion of due diligence investigations which may have findings that are unacceptable;
- the timing of property acquisitions may lag the timing of property dispositions, leading to periods of time where projects' proceeds are not invested as profitably as we desire;
- the acquired properties may fail to perform as we expected in analyzing our investments;
- the actual returns realized on acquired properties may not exceed our cost of capital;
- we may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into our existing operations;
- our estimates of capital expenditures required for an acquired property, including the costs of repositioning or redeveloping, may be inaccurate;
- and

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- properly managing and maintaining the ACM;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Financing

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Our Organizational Structure

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Our Common Shares

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

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

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

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

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

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

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

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

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

Risks Related to our Status as a REIT

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The maximum tax rate applicable to income from "qualified dividends" payable by non-REIT "C" corporations to U.S. shareholders that are individuals, trusts and estates generally is 20% (excluding the 3.8% net investment income tax). Dividends payable by REITs, however, generally are not eligible for the maximum 20% reduced rate and are taxed at applicable ordinary income tax rates, except to the extent that certain holding requirements have been met and a REIT's dividends are attributable to dividends received by a REIT from taxable corporations (such as a TRS), to income that was subject to tax at the REIT/corporate level, or to dividends properly designated by the REIT as "capital gain dividends." Effective for taxable years beginning after December 31, 2017 and before January 1, 2026, those U.S. shareholders may deduct 20% of their dividends from REITs (excluding qualified dividend income and capital gains dividends). For those U.S. shareholders in the top marginal tax bracket of 37%, the deduction for REIT dividends yields an effective income tax rate of 29.6% (exclusive of the net investment income tax) on REIT dividends, which is higher than the 20% tax rate on qualified dividend income paid by non-REIT "C" corporations (although the maximum effective rate applicable to such dividends, after taking into account the 21% federal income tax rate applicable to non-REIT "C" corporations is 36.8% (exclusive of the 3.8% net investment income tax)). Although the reduced rates applicable to dividend income from non-REIT "C" corporations does not adversely affect the taxation of REITs or dividends payable by REITs could cause investors who are non-corporate taxpayers to perceive investments in REITs to be relatively less attractive than investments in the shares of non-REIT "C" corporations that pay dividends, which could adversely affect the value of the stock of REITs, including our common shares.

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

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

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

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

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

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

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

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

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

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

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

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

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

The IRS, the United States Treasury Department and Congress frequently review U.S. federal income tax legislation, regulations and other guidance. We cannot predict whether, when or to what extent new U.S. federal tax laws, regulations, interpretations or rulings will be adopted. Any legislative action may prospectively or retroactively modify our tax treatment and, therefore, may adversely affect our taxation or taxation of our shareholders. In particular, the TCJA makes many significant changes to the U.S. federal income tax laws that will profoundly impact the taxation of individuals and corporations (both regular non-REIT C corporations as well as corporations that have elected to be taxed as REITs). A number of changes that affect noncorporate taxpayers will expire at the end of 2025 unless Congress acts to extend them. These changes will impact us and our shareholders in various ways, some of which are adverse or potentially adverse compared to prior law. To date, the IRS has issued only limited guidance with respect to certain of the new provisions, and there are numerous interpretive issues that will require guidance. It is highly likely that technical corrections legislation will be needed to clarify certain aspects of the new law and give proper effect to Congressional intent. There can be no assurance, however, that technical clarifications or changes needed to prevent unintended or unforeseen tax consequences will be enacted by Congress in the near future.

ITEM 1B: UNRESOLVED STAFF COMMENTS

None.

ITEM 2: PROPERTIES

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

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

Schedule of Properties

Properties	Location	Year Acquired	Year Constructed/Renovated	Net Rentable Square Feet	Percent Leased, as of December 31, 2017 ⁽¹⁾	Ending Occupancy, as of December 31, 2017 ⁽¹⁾
<u>Office Buildings</u>						
1901 Pennsylvania Avenue	Washington, DC	1977	1960	100,000	97%	87%
515 King Street	Alexandria, VA	1992	1966	75,000	94%	94%
1220 19 th Street	Washington, DC	1995	1976	105,000	99%	97%
1600 Wilson Boulevard	Arlington, VA	1997	1973	170,000	100%	98%
Silverline Center	Tysons, VA	1997	1972/2015	549,000	97%	96%
Courthouse Square	Alexandria, VA	2000	1979	118,000	93%	91%
1776 G Street	Washington, DC	2003	1979	264,000	100%	100%
Monument II	Herndon, VA	2007	2000	208,000	88%	84%
2000 M Street	Washington, DC	2007	1971	233,000	100%	99%
2445 M Street	Washington, DC	2008	1986	292,000	100%	99%
925 Corporate Drive	Stafford, VA	2010	2007	135,000	69%	69%
1000 Corporate Drive	Stafford, VA	2010	2009	136,000	63%	63%
1140 Connecticut Avenue	Washington, DC	2011	1966	184,000	92%	91%
1227 25th Street	Washington, DC	2011	1988	137,000	95%	94%
Braddock Metro Center	Alexandria, VA	2011	1985	356,000	97%	60%
John Marshall II	Tysons, VA	2011	1996/2010	223,000	100%	100%
Fairgate at Ballston	Arlington, VA	2012	1988	146,000	94%	92%
Army Navy Building	Washington, DC	2014	1912/1987	109,000	91%	79%
1775 Eye Street, NW	Washington, DC	2014	1964	188,000	100%	99%
Watergate 600	Washington, DC	2017	1972/1997	293,000	100%	98%
Subtotal				4,021,000	95%	90%

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

Properties	Location	Year Acquired	Year Constructed/Renovated	# of Units	Net Rentable Square Feet	Percent Leased, as of December 31, 2017 ⁽¹⁾	Ending Occupancy, as of December 31, 2017 (1)
Retail Centers							
Takoma Park	Takoma Park, MD	1963	1962		51,000	100%	100%
Westminster	Westminster, MD	1972	1969		150,000	98%	95%
Concord Centre	Springfield, VA	1973	1960		75,000	77%	77%
Wheaton Park	Wheaton, MD	1977	1967		74,000	92%	92%
Bradlee Shopping Center	Alexandria, VA	1984	1955		172,000	97%	97%
Chevy Chase Metro Plaza	Washington, DC	1985	1975		49,000	89%	89%
Shoppes of Foxchase	Alexandria, VA	1994	1960/2006		134,000	98%	97%
Frederick County Square	Frederick, MD	1995	1973		228,000	93%	93%
800 S. Washington Street	Alexandria, VA	1998	1951/1959		46,000	93%	93%
Centre at Hagerstown	Hagerstown, MD	2002	2000		333,000	95%	86%
Frederick Crossing	Frederick, MD	2005	1999/2003		295,000	89%	89%
Randolph Shopping Center	Rockville, MD	2006	1972		83,000	88%	67%
Montrose Shopping Center	Rockville, MD	2006	1970		147,000	97%	97%
Gateway Overlook	Columbia, MD	2010	2007		220,000	100%	98%
Olney Village Center	Olney, MD	2011	1979/2003		198,000	99%	95%
Spring Valley Village	Washington, DC	2014	1941/1950		78,000	86%	82%
Subtotal					2,333,000	94%	91%
Multifamily Buildings							
3801 Connecticut Avenue	Washington, DC	1963	1951	307	178,000	97%	94%
Roosevelt Towers	Falls Church, VA	1965	1964	191	170,000	95%	94%
Park Adams	Arlington, VA	1969	1959	200	173,000	96%	94%
The Ashby at McLean	McLean, VA	1996	1982	256	274,000	96%	96%
Bethesda Hill Apartments	Bethesda, MD	1997	1986	195	225,000	95%	95%
Bennett Park	Arlington, VA	2001	2007	224	215,000	96%	96%
Clayborne	Alexandria, VA	2003	2008	74	60,000	95%	95%
Kenmore Apartments	Washington, DC	2008	1948	374	268,000	95%	92%
The Paramount	Arlington, VA	2013	1984	135	141,000	96%	96%
Yale West	Washington, DC	2014	2011	216	173,000	97%	96%
The Maxwell	Arlington, VA	2011	2014	163	116,000	98%	98%
The Wellington	Arlington, VA	2015	1960	711	600,000	97%	95%
Riverside Apartments	Alexandria, VA	2016	1971	1,222	1,001,000	97%	96%
Subtotal				4,268	3,594,000	97%	95%
TOTAL					9,948,000		

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

ITEM 3: LEGAL PROCEEDINGS

None.

ITEM 4: MINE SAFETY DISCLOSURES

N/A.

PART II

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

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

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

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

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

- *"Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Dividends";*
- *and*
- *"Item 1A - Risk Factors - Risks Related to Our Common Shares - We cannot assure you we will continue to pay dividends at current rates."*

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

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

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

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

ITEM 6: SELECTED FINANCIAL DATA

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

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

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

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

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

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

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

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

Overview

Operating Results

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

	Year Ended December 31,		
	2017	2016	Change
Net income attributable to the controlling interests	\$ 19,668	\$ 119,339	\$ (99,671)
NOI ⁽¹⁾	\$ 209,428	\$ 198,251	\$ 11,177
NAREIT FFO ⁽²⁾	\$ 140,982	\$ 125,990	\$ 14,992

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

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

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

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

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

Investment Activity

Significant investment transactions during 2017 included the following:

- The acquisition of Watergate 600, which we refer to as the 2017 acquisition, a 293,000 net rentable square foot office building in Washington, DC, for a contract purchase price of \$135.0 million. The purchase transaction was structured to include the issuance of 12,124 operating partnership units in WashREIT Watergate 600 OP LP, a consolidated subsidiary of Washington REIT, representing \$0.4 million of the purchase price. We incurred \$2.8 million of acquisition costs related to this transaction.
- The sale of Walker House Apartments, a 212-unit multifamily property in Gaithersburg, Maryland, for a contract sale price of \$32.2 million. We recognized a gain on sale of real estate of \$23.8 million.
- The execution of a purchase and sale agreement for the sale of Braddock Metro Center, a 356,000 square foot office property in Alexandria, Virginia, for a contract sale price of \$93.0 million.

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

Financing Activity

Significant financing transactions during 2017 included the following:

- The prepayment at par of the remaining \$49.6 million of the mortgage note secured by the Army Navy Building in February 2017.
- The draw of the remaining \$50.0 million on the seven year, \$150 million unsecured term loan agreement maturing on July 21, 2023. We used the borrowing to refinance maturing secured debt.
- The issuance of approximately 3.6 million common shares under our ATM program at a weighted average price to the public of \$32.06 per share, for net proceeds of approximately \$113.2 million.

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

Capital Requirements

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

Results of Operations

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

Net Operating Income

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

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

2017 Compared to 2016

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

	Same-Store		\$ Change	% Change	Non-Same-Store						\$ Change	% Change		
	2017	2016			Acquisitions ⁽¹⁾		Development/Redevelopment ⁽²⁾		Held for Sale or Sold ⁽³⁾				All Properties	
					2017	2016	2017	2016	2017	2016			2017	2016
Real estate rental revenue	\$ 270,040	\$ 259,555	\$ 10,485	4.0%	\$ 36,800	\$ 13,113	\$ 4,559	\$ 4,926	\$ 13,679	\$ 35,670	\$ 325,078	\$ 313,264	\$ 11,814	3.8 %
Real estate expenses	94,150	93,674	476	0.5%	13,826	5,475	2,639	2,787	5,035	13,077	115,650	115,013	637	0.6 %
NOI	\$ 175,890	\$ 165,881	\$ 10,009	6.0%	\$ 22,974	\$ 7,638	\$ 1,920	\$ 2,139	\$ 8,644	\$ 22,593	\$ 209,428	\$ 198,251	\$ 11,177	5.6 %
Reconciliation to net income attributable to the controlling interests:														
Depreciation and amortization											(112,056)	(108,406)	(3,650)	3.4 %
Acquisition costs											—	(1,178)	1,178	(100.0)%
General and administrative expenses											(22,580)	(19,545)	(3,035)	15.5 %
Real estate (impairment) and casualty gain, net											(33,152)	676	(33,828)	(5,004.1)%
Gain on sale of real estate											24,915	101,704	(76,789)	(75.5)%
Interest expense											(47,534)	(53,126)	5,592	(10.5)%
Other income											507	297	210	70.7 %
Income tax benefit											84	615	(531)	(86.3)%
Net income											19,612	119,288	(99,676)	(83.6)%
Less: Net income attributable to noncontrolling interests											56	51	5	9.8 %
Net income attributable to the controlling interests											\$ 19,668	\$ 119,339	\$ (99,671)	(83.5)%

(1) Acquisitions:
2017 Office – Watergate 600
2016 Multifamily – Riverside Apartments

(2) Development/redevelopment properties:
Office redevelopment properties – Army Navy Building

(3) Held for Sale:
2017 Office – Braddock Metro Center
Sold:
2017 Multifamily – Walker House Apartments
2016 Office – Maryland Office Portfolio (6110 Executive Boulevard, 600 Jefferson Plaza, Wayne Plaza, West Gude Drive, 51 Monroe Street and One Central Plaza)

Real Estate Rental Revenue

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

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

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

- *Minimum base rent*: Increase primarily due to higher rental income (\$10.3 million), partially offset by higher abatements (\$1.1 million) and amortization of capitalized lease incentives (\$0.3 million).
- *Recoveries from tenants*: Increase primarily due to higher reimbursements for operating expenses (\$0.4 million), partially offset by lower reimbursements for real estate taxes (\$0.1 million).
- *Provision for doubtful accounts*: Increase primarily due to higher provisions in the retail segment (\$0.2 million).
- *Lease termination fees*: Increase primarily due to higher fees in the retail (\$0.3 million) and office (\$0.2 million) segments.
- *Parking and other tenant charges*: Increase primarily due to higher parking income.

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

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

- *Office*: Increase primarily due to higher rental income (\$9.2 million), parking income (\$0.4 million) and lease termination fees (\$0.2 million), partially offset by higher rent abatements (\$1.5 million).
- *Multifamily*: Increase primarily due to higher rental income (\$1.0 million).
- *Retail*: Increase primarily due to higher reimbursements (\$0.3 million) and lease termination fees (\$0.3 million).

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

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

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

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

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

- *Office*: The increase in same-store ending occupancy was primarily due to higher ending occupancy at Fairgate at Ballston, 1776 G Street and Silverline Center, partially offset by lower ending occupancy at Quantico Corporate Center. The decrease in non-same-store ending occupancy was primarily due to the non-renewal of a large tenant at Braddock Metro Center.
- *Multifamily*: The decrease in same-store ending occupancy was primarily due to lower ending occupancy at The Ashby at McLean and Kenmore Apartments.
- *Retail*: The decrease in same-store ending occupancy was primarily due to lower ending occupancy at Frederick Crossing and Centre at Hagerstown.

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

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

⁽¹⁾ Consist of tenant improvements and leasing commissions.

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

Real Estate Expenses

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

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

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

- *Office*: Increase primarily due to higher real estate tax (\$0.9 million), custodial (\$0.5 million) and administrative (\$0.3 million) expenses.
- *Multifamily*: Decrease primarily due to lower utilities (\$0.2 million), repairs and maintenance (\$0.2 million) and snow removal (\$0.1 million) expenses.
- *Retail*: Decrease primarily due to lower bad debt (\$0.4 million) and snow removal (\$0.3 million) expenses.

Other Expenses

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

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

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

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

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

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

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

- *Notes payable:* Increase primarily due to executing the \$150.0 million term loan in 2016, which has a floating interest rate effectively fixed at 2.9% by interest rate swaps. We borrowed \$100.0 million on the term loan in the fourth quarter of 2016, and borrowed the remaining \$50.0 million during the first quarter of 2017.
- *Mortgage notes payable:* Decrease primarily due to the repayment of the mortgage notes secured by John Marshall II, 3801 Connecticut Avenue, Bethesda Hill Apartments, Walker House Apartments, 2445 M Street and the Army Navy Building in 2017 and 2016.
- *Lines of credit:* Increase primarily due to a weighted average interest rate of 2.54% during 2017, as compared to 1.64% during 2016.
- *Capitalized interest:* Increase primarily due to capitalization of interest on spending related to the Trove, the multifamily development adjacent to The Wellington.

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

2016 Compared to 2015

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

	Same-Store		\$ Change	% Change	Non-Same-Store						\$ Change	% Change		
	2016	2015			Acquisitions ⁽¹⁾		Development/Redevelopment ⁽²⁾		Held for Sale or Sold ⁽³⁾				All Properties	
					2016	2015	2016	2015	2016	2015			2016	2015
Real estate rental revenue	\$ 243,858	\$ 239,865	\$ 3,993	1.7%	\$ 26,477	\$ 6,797	\$ 22,662	\$ 18,952	\$ 20,267	\$ 40,813	\$ 313,264	\$ 306,427	\$ 6,837	2.2 %
Real estate expenses	86,814	84,708	2,106	2.5%	10,706	2,708	9,997	9,394	7,496	15,424	115,013	112,234	2,779	2.5 %
NOI	<u>\$ 157,044</u>	<u>\$ 155,157</u>	<u>\$ 1,887</u>	1.2%	<u>\$ 15,771</u>	<u>\$ 4,089</u>	<u>\$ 12,665</u>	<u>\$ 9,558</u>	<u>\$ 12,771</u>	<u>\$ 25,389</u>	<u>\$ 198,251</u>	<u>\$ 194,193</u>	<u>\$ 4,058</u>	2.1 %
Reconciliation to net income attributable to the controlling interests:														
Depreciation and amortization											(108,406)	(108,935)	529	(0.5)%
Acquisition costs											(1,178)	(2,056)	878	(42.7)%
General and administrative expenses											(19,545)	(20,123)	578	(2.9)%
Casualty gain and real estate (impairment), net											676	(5,909)	6,585	(111.4)%
Gain on sale of real estate											101,704	91,107	10,597	11.6 %
Interest expense											(53,126)	(59,546)	6,420	(10.8)%
Other income											297	709	(412)	(58.1)%
Loss on extinguishment of debt											—	(119)	119	(100.0)%
Income tax benefit (expense)											615	(134)	749	(559.0)%
Net income											119,288	89,187	30,101	33.8 %
Less: Net income attributable to noncontrolling interests											51	553	(502)	(90.8)%
Net income attributable to the controlling interests											<u>\$ 119,339</u>	<u>\$ 89,740</u>	<u>\$ 29,599</u>	33.0 %

(1) Acquisitions:
2016 Multifamily – Riverside Apartments
2015 Multifamily – The Wellington

(2) Development/redevelopment properties:
Multifamily development property – The Maxwell
Office redevelopment properties – Silverline Center and Army Navy Building

(3) Sold:
2016 Office – 6110 Executive Boulevard, 600 Jefferson Plaza, Wayne Plaza, West Gude Drive, 51 Monroe Street and One Central Plaza
2015 Multifamily – Country Club Towers and Munson Hill Towers
2015 Retail – Montgomery Village Center

Real Estate Rental Revenue

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

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

- *Minimum base rent*: Increase primarily due to higher rental rates (\$3.5 million), partially offset by lower occupancy (\$1.2 million), higher abatements (\$0.6 million) and lower amortization of net intangible lease liabilities (\$0.3 million).
- *Recoveries from tenants*: Increase primarily due to higher reimbursements for operating expenses (\$0.7 million) and real estate taxes (\$0.3 million) due to higher expenses.
- *Provision for doubtful accounts*: Decrease primarily due to lower provisions in the office segment (\$0.6 million).

- *Lease termination fees*: Decrease primarily due to lower fees in the retail (\$0.2 million) and office (\$0.1 million) segments, partially offset by higher fees in the multifamily (\$0.2 million) segment.
- *Parking and other tenant charges*: Increase primarily due to higher parking income (\$0.6 million) primarily in the office segment, move-in charges (\$0.1 million) in the multifamily segment and short term rent (\$0.1 million) and percentage rent (\$0.1 million) in the retail segment.

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

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

- *Office*: Increase primarily due to higher rental rates (\$2.1 million), lower provisions for uncollectible accounts (\$0.6 million), and higher parking income (\$0.4 million), partially offset by higher rent abatements (\$1.0 million) and lower occupancy (\$0.1 million).
- *Multifamily*: Increase primarily due to higher occupancy (\$0.3 million), lower rent abatements (\$0.3 million) and higher rental rates (\$0.2 million).
- *Retail*: Increase primarily due to higher rental rates (\$1.2 million), reimbursements (\$1.1 million), percentage rent (\$0.1 million) and parking income (\$0.1 million), partially offset by lower occupancy (\$1.4 million).

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

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

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

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

- *Office*: The increase in same-store ending occupancy was primarily due to higher occupancy at 1775 Eye Street, 1600 Wilson Boulevard and 1776 G Street, partially offset by lower occupancy at Monument II. The increase in non-same-store ending occupancy was primarily due to higher occupancy at Silverline Center, partially offset by lower occupancy at the Army Navy Building.
- *Multifamily*: The increase in same-store ending occupancy was primarily due to higher occupancy at 3801 Connecticut Avenue and The Ashby. The increase in non-same-store ending occupancy was primarily due to the lease-up of The Maxwell.
- *Retail*: The increase in same-store ending occupancy was primarily due to higher occupancy at Chevy Chase Metro Center, Bradlee Shopping Center and Montrose Shopping Center.

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

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

⁽¹⁾ Consist of tenant improvements and leasing commissions.

Real Estate Expenses

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

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

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

- *Office*: Increase primarily due to higher real estate taxes (\$0.3 million), repairs and maintenance (\$0.3 million), operating services and supplies (\$0.3 million) and bad debt (\$0.2 million) expenses, partially offset by lower utilities expenses (\$0.4 million) due to lower usage of electricity.
- *Multifamily*: Slight decrease primarily due to lower property management (\$0.2 million) and administrative (\$0.2 million) expenses, offset by higher bad debt expense (\$0.3 million) related to a retail restaurant tenant at Bennett Park.
- *Retail*: Increase primarily due to higher real estate tax (\$0.7 million), legal (\$0.1 million), advertising (\$0.1 million), repairs and maintenance (\$0.1 million) and common area maintenance (\$0.1 million) expenses.

Other Expenses

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

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

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

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

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

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

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

- *Notes payable:* Increase primarily due to executing a \$150.0 million term loan in September 2015 and borrowing \$100.0 million on another term loan facility in December 2016, partially offset by the repayment of \$150.0 million of our 5.35% senior notes in May 2015.
- *Mortgage notes payable:* Decrease primarily due to the repayment of the mortgage notes secured by John Marshall II, 3801 Connecticut Avenue, Bethesda Hill Apartments, Walker House Apartments and 2445 M Street, and the purchase of the construction loan secured by The Maxwell (a consolidated entity) during 2016.
- *Lines of credit:* Increase primarily due to weighted average daily borrowings of \$215.0 million during 2017, as compared to \$167.6 million during 2016.
- *Capitalized interest:* Small increase primarily due to capitalization of interest on spending related to the multifamily development adjacent to The Wellington, offset by placing into service our development project at The Maxwell and redevelopment project at Silverline Center.

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

Liquidity and Capital Resources

Capital Structure

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

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

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

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

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

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

Debt Financing

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

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

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

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

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

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

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

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

Mortgage Debt

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

Unsecured Credit Facility and Term Loan

During the second quarter of 2015, we terminated our \$100.0 million unsecured line of credit maturing in June 2015 and our \$400.0 million unsecured line of credit maturing in July 2016, and executed a new \$600.0 million unsecured credit agreement ("Revolving Credit Facility") that matures in June 2019, unless extended pursuant to one or both of the two six-month extension options. The Revolving Credit Facility is our primary source of liquidity. We can borrow up to \$600.0 million under this line, which bears interest at an adjustable spread over LIBOR based on our public debt rating. The Revolving Credit Facility has an accordion feature that allows us to increase the facility to \$1.0 billion, subject to the extent the lenders agree to provide additional revolving loan commitments or term loans. The Revolving Credit Facility bears interest at a rate of either LIBOR plus a margin ranging from 0.875% to 1.55% or the base rate plus a margin ranging from 0.0% to 0.55% (in each case depending upon our credit rating). The base rate is the highest of the administrative agent's prime rate, the federal funds rate plus 0.5% and the LIBOR market index rate plus 1.0%. In addition, the Revolving Credit Facility requires the payment of a facility fee ranging from 0.125% to 0.30% (depending on our credit rating) on the \$600.0 million committed capacity, without regard to usage. As of December 31, 2017, the interest rate on the facility is LIBOR plus 1.00% and the facility fee is 0.20%.

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

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

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

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

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

Unsecured Notes

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

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

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

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

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

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

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

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

Common Equity

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

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

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

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

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

Preferred Equity

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

Dividends

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

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

	Year Ended December 31,		
	2017	2016	2015
Common dividends	\$ 91,666	\$ 85,648	\$ 61,510
Noncontrolling interest distributions	4,199	196	—
	<u>\$ 95,865</u>	<u>\$ 85,844</u>	<u>\$ 61,510</u>

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

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

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

Capital Commitments

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

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

Office	\$	6,100
Multifamily		16,500
Retail		1,900
Total	\$	<u>24,500</u>

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

Contractual Obligations

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

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

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

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

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

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

We have various standing or renewable contracts with vendors. The majority of these contracts can be canceled with immaterial or no cancellation penalties, with the exception of our elevator maintenance and electricity and natural gas purchase agreements, which are included above on the purchase obligations line. Contract terms on leases that can be canceled are generally one year or less. We are currently committed to fund tenant-related capital improvements as described in the table above for executed leases. However, expected leasing levels could require additional tenant-related capital improvements which are not currently committed. We expect that total tenant-related capital improvements, including those already committed, will be approximately \$28 million in 2018.

Historical Cash Flows

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

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

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

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

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

Capital Improvements and Development Costs

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

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

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

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

Accretive Capital Improvements

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

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

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

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

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

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

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

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

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

Other Capital Improvements

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

Off Balance Sheet Arrangements

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

Forward-Looking Statements

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

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

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

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

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

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

Funds From Operations

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

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

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

Critical Accounting Policies and Estimates

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

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

Accounting for Real Estate Acquisitions

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

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

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

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

Allowance for Doubtful Accounts

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

Capitalized Interest

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

Real Estate Impairment

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

Stock Based Compensation

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

Federal Income Taxes

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

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

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

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

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

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

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

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

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

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary data appearing on pages [60](#) to [95](#) are incorporated herein by reference.

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

None.

ITEM 9A: CONTROLS AND PROCEDURES

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

During the third quarter of 2017, we implemented upgrades to our accounting information systems. The implementation of our upgraded systems was not made in response to any identified deficiency or weakness in our internal controls over financial reporting. The implementation was subject to various testing and review procedures prior to and after execution. We have updated our internal controls over financial reporting, as necessary, to accommodate any modifications to our business processes or accounting procedures due to the implementation. Management does not believe that the implementation of the upgraded systems has had an adverse effect on our internal controls over financial reporting and will continue to monitor, test and evaluate the systems during the post-implementation period to ensure that adequate controls over financial reporting continue to be maintained.

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2017. Based on the foregoing, our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer concluded that our disclosure controls and procedures were effective at a reasonable assurance level.

Internal Control over Financial Reporting

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

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

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

ITEM 9B: OTHER INFORMATION

None.

PART III

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

ITEM 10: DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

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

ITEM 11: EXECUTIVE COMPENSATION

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

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

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

Equity Compensation Plan Information

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

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

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

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

ITEM 14: PRINCIPAL ACCOUNTANT FEES AND SERVICES

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

PART IV

ITEM 15: EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

	<u>Page</u>
1. <u>Financial Statements</u>	
Management's Report on Internal Control Over Financial Reporting	57
Report of Independent Registered Public Accounting Firm	58
Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting	59
Consolidated Balance Sheets as of December 31, 2017 and 2016	60
Consolidated Statements of Income for the Years Ended December 31, 2017, 2016 and 2015	61
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2017, 2016 and 2015	62
Consolidated Statements of Equity for the Years Ended December 31, 2017, 2016 and 2015	63
Consolidated Statements of Cash Flows for the Years Ended December 31, 2017, 2016 and 2015	64
Notes to Consolidated Financial Statements	66
2. <u>Financial Statement Schedules</u>	
Schedule II – Valuation and Qualifying Accounts	92
Schedule III – Consolidated Real Estate and Accumulated Depreciation	93
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. <u>Exhibits:</u>	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File Number	Exhibit	Filing Date	
3.1	Articles of Amendment and Restatement	DEF 14A	001-06622	B	4/1/2011	
3.2	Articles of Amendment to the Washington Real Estate Investment Trust Articles of Amendment and Restatement	8-K	001-06622	3.1	6/7/2017	
3.3	Amended and Restated Bylaws of Washington Real Estate Investment Trust, as adopted on February 8, 2017	8-K	001-06622	3.1	2/14/2017	
4.1	Indenture dated as of August 1, 1996 between Washington REIT and The First National Bank of Chicago	8-K	001-06622	(c)	8/13/1996	
4.2	Form of 2028 Notes	8-K	001-06622	99.1	2/25/1998	
4.3	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	
4.4	Form of 4.95% Senior Notes due October 1, 2020	8-K	001-06622	4.1	9/30/2010	
4.5	Officers' Certificate establishing the terms of the 4.95% Senior Notes due October 1, 2020	8-K	001-06622	4.2	9/30/2010	
4.6	Form of 3.95% Senior Notes due October 15, 2022	8-K	001-06622	4.1	9/17/2012	
4.7	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	
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(nn)	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	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File Number	Exhibit	Filing Date	
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	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	
10.19	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	
10.20	Amended and Restated Deferred Compensation Plan for Directors, effective October 22, 2013	10-Q	001-06622	10.53	11/1/2013	
10.21*	Employment Agreement dated August 19, 2013 with Paul T. McDermott	10-Q	001-06622	10.54	11/1/2013	
10.22*	Change in control agreement dated October 1, 2013 with Paul T. McDermott	10-K	001-06622	10.44	3/3/2014	
10.23*	Amendment to Deferred Compensation Plan for Officers, adopted February 18, 2014	10-K	001-06622	10.45	3/3/2014	
10.24*	Amendment to Deferred Compensation Plan for Directors as Amended and Restated, adopted February 18, 2014	10-K	001-06622	10.46	3/3/2014	
10.25*	Short Term Incentive Compensation Plan (effective January 1, 2014)	10-Q	001-06622	10.47	5/7/2014	
10.26*	Change in control agreement dated April 21, 2014 with Thomas O. Bakke	10-Q	001-06622	10.48	5/7/2014	
10.27*	Long Term Incentive Plan (effective January 1, 2014)	10-Q	001-06622	10.50	8/5/2014	
10.28*	Amendment to Short Term Incentive Plan (effective January 1, 2014)	10-Q	001-06622	10.51	8/5/2014	
10.29*	Executive Officer Severance Pay Plan, adopted August 4, 2014	10-Q	001-06622	10.54	10/30/2014	
10.30*	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	
10.31*	Change in control agreement dated April 1, 2013 with Edward J. Murn IV	10-K	001-06622	10.52	3/2/2015	
10.32*	Offer Letter to Thomas O. Bakke	10-K	001-06622	10.53	3/2/2015	
10.33*	Description of Washington REIT Trustee Compensation Plan, effective January 1, 2015	10-K	001-06622	10.54	3/2/2015	
10.34*	Offer Letter to Stephen E. Riffie	10-K	001-06622	10.55	3/2/2015	
10.35*	Change in control agreement dated February 27, 2015 with Stephen E. Riffie	10-K	001-06622	10.56	3/2/2015	
10.36*	Revised Description of Washington REIT Trustee Compensation Plan, effective January 1, 2015	10-Q	001-06622	10.57	5/5/2015	
10.37*	Statement of Amendment of STIP and LTIP for S. Riffie	10-Q	001-06622	10.58	5/5/2015	
10.38	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	
10.39*	Amendment to Long Term Incentive Plan	10-Q	001-06622	10.60	11/4/2015	
10.40*	Amended and restated Trustee Deferred Compensation Plan	10-Q	001-06622	10.61	11/4/2015	
10.41	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	
10.42	Purchase and Sale Agreement, dated April 26, 2016, for Riverside Apartments	10-Q	001-06622	10.49	8/1/2016	
10.43	Purchase and Sale Agreement, dated April 26, 2016, for Wayne Plaza, West Gude Drive, 600 Jefferson Plaza and 6110 Executive Boulevard	10-Q	001-06622	10.50	8/1/2016	
10.44	Purchase and Sale Agreement, dated April 26, 2016, for 51 Monroe Street and One Central Plaza	10-Q	001-06622	10.51	8/1/2016	
10.45	First Amendment to Purchase and Sale Agreement, dated June 3, 2016, for Wayne Plaza, West Gude Drive, 600 Jefferson Plaza and 6110 Executive Boulevard	10-Q	001-06622	10.52	8/1/2016	
10.46*	2016 Omnibus Incentive Plan	DEF 14A		Annex A	3/23/2016	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File Number	Exhibit	Filing Date	
10.47	Term Loan Agreement, dated as of July 22, 2016, by and among Washington Real Estate Investment Trust, as borrower, the financial institutions party thereto as lenders, and Capital One, National Association, as administrative agent, with Capital One, National Association, and U.S. Bank National Association as joint lead arrangers and joint bookrunners, and U.S. Bank National Association as syndication agent	10-Q	001-06622	10.54	11/2/2016	
10.48*	Separation Agreement and General Release between Thomas C. Morey and Washington Real Estate Investment Trust, dated July 26, 2016	10-Q	001-06622	10.55	11/2/2016	
10.49*	Revocation of Statement of Amendment of STIP and LTIP					X
10.50*	Offer letter to Taryn D. Fielder					X
10.51*	Change in control agreement dated July 21, 2017 with Taryn D. Fielder	10-Q	001-06622	10.1	7/31/2017	
10.52	Purchase and sale agreement, dated December 29, 2017, for Arlington Tower					X
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	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act					X
31.3	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, 2017 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 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.

ITEM 16: FORM 10-K SUMMARY

We have chosen not to include a Form 10-K Summary.

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 20, 2018

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.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Charles T. Nason*</u> Charles T. Nason	Chairman, Trustee	February 20, 2018
<u>/s/ Paul T. McDermott</u> Paul T. McDermott	President, Chief Executive Officer and Trustee	February 20, 2018
<u>/s/ Benjamin S. Butcher*</u> Benjamin S. Butcher	Trustee	February 20, 2018
<u>/s/ William G. Byrnes*</u> William G. Byrnes	Trustee	February 20, 2018
<u>/s/ Edward S. Civera*</u> Edward S. Civera	Trustee	February 20, 2018
<u>/s/ Ellen M. Goitia*</u> Ellen M. Goitia	Trustee	February 20, 2018
<u>/s/ Thomas H. Nolan, Jr.*</u> Thomas H. Nolan, Jr.	Trustee	February 20, 2018
<u>/s/ Anthony L. Winns*</u> Anthony L. Winns	Trustee	February 20, 2018
<u>/s/ Stephen E. Riffée</u> Stephen E. Riffée	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 20, 2018
<u>/s/ W. Drew Hammond</u> W. Drew Hammond	Vice President, Chief Accounting Officer and Treasurer (Principal Accounting Officer)	February 20, 2018

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

**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, 2017, 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, 2017, 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 59 of this annual report.

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Trustees of
Washington Real Estate Investment Trust

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Washington Real Estate Investment Trust and Subsidiaries (the Company) as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and financial statement schedules listed in the Index at Item 15(a) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, 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 20, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2002.

Tysons, Virginia
February 20, 2018

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Trustees of
Washington Real Estate Investment Trust

Opinion on Internal Control over Financial Reporting

We have audited Washington Real Estate Investment Trust and Subsidiaries' internal control over financial reporting as of December 31, 2017, 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). In our opinion, Washington Real Estate Investment Trust and Subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the 2017 consolidated financial statements of the Company and our report dated February 20, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

The Company'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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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.

Definition and Limitations of Internal Control Over Financial Reporting

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.

/s/ Ernst & Young LLP

Tysons, Virginia
February 20, 2018

WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES

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

	December 31,	
	2017	2016
Assets		
Land	\$ 588,025	\$ 573,315
Income producing property	2,113,977	2,112,088
	2,702,002	2,685,403
Accumulated depreciation and amortization	(683,692)	(657,425)
Net income producing property	2,018,310	2,027,978
Properties under development or held for future development	54,422	40,232
Total real estate held for investment, net	2,072,732	2,068,210
Investment in real estate sold or held for sale, net	68,534	—
Cash and cash equivalents	9,847	11,305
Restricted cash	2,776	6,317
Rents and other receivables, net of allowance for doubtful accounts of \$2,426 and \$2,377, respectively	69,766	64,319
Prepaid expenses and other assets	125,087	103,468
Other assets related to properties sold or held for sale	10,684	—
Total assets	<u>\$ 2,359,426</u>	<u>\$ 2,253,619</u>
Liabilities		
Notes payable, net	\$ 894,358	\$ 843,084
Mortgage notes payable, net	95,141	148,540
Lines of credit	166,000	120,000
Accounts payable and other liabilities	61,565	46,967
Dividend payable	23,581	22,414
Advance rents	12,487	11,750
Tenant security deposits	9,149	8,802
Other liabilities related to properties sold or held for sale	1,809	—
Total liabilities	1,264,090	1,201,557
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: 78,510 and 74,606 shares issued and outstanding at December 31, 2017 and 2016, respectively	785	746
Additional paid in capital	1,483,980	1,368,636
Distributions in excess of net income	(399,213)	(326,047)
Accumulated other comprehensive income	9,419	7,611
Total shareholders' equity	1,094,971	1,050,946
Noncontrolling interests in subsidiary	365	1,116
Total equity	1,095,336	1,052,062
Total liabilities and equity	<u>\$ 2,359,426</u>	<u>\$ 2,253,619</u>

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,		
	2017	2016	2015
Revenue			
Real estate rental revenue	\$ 325,078	\$ 313,264	\$ 306,427
Expenses			
Real estate expenses	115,650	115,013	112,234
Depreciation and amortization	112,056	108,406	108,935
Acquisition costs	—	1,178	2,056
Real estate impairment and casualty (gain), net	33,152	(676)	5,909
General and administrative	22,580	19,545	20,123
	283,438	243,466	249,257
Other operating income			
Gain on sale of real estate	24,915	101,704	91,107
Real estate operating income	66,555	171,502	148,277
Other income (expense)			
Interest expense	(47,534)	(53,126)	(59,546)
Other income	507	297	709
Loss on extinguishment of debt	—	—	(119)
Income tax benefit (expense)	84	615	(134)
	(46,943)	(52,214)	(59,090)
Net income	19,612	119,288	89,187
Less: Net loss attributable to noncontrolling interests in subsidiaries	56	51	553
Net income attributable to the controlling interests	\$ 19,668	\$ 119,339	\$ 89,740
Basic net income attributable to the controlling interests per share	\$ 0.25	\$ 1.65	\$ 1.31
Diluted net income attributable to the controlling interests per share	\$ 0.25	\$ 1.65	\$ 1.31
Weighted average shares outstanding – basic	76,820	72,163	68,177
Weighted average shares outstanding – diluted	76,935	72,339	68,310

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,		
	2017	2016	2015
Net income	\$ 19,612	\$ 119,288	\$ 89,187
Other comprehensive income (loss):			
Unrealized gain (loss) on interest rate hedges	1,808	8,161	(550)
Comprehensive income	21,420	127,449	88,637
Less: Net loss attributable to noncontrolling interests	56	51	553
Comprehensive income attributable to the controlling interests	<u>\$ 21,476</u>	<u>\$ 127,500</u>	<u>\$ 89,190</u>

See accompanying notes to the financial statements.

WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY
(IN THOUSANDS)

	Shares	Shares of Beneficial Interest at Par Value	Additional Paid in Capital	Distributions in Excess of Net Income	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity	Non-controlling Interests in Subsidiaries	Total Equity
Balance, December 31, 2014	67,819	\$ 678	\$ 1,184,395	\$ (365,518)	\$ —	\$ 819,555	\$ 2,674	\$ 822,229
Net income attributable to the controlling interests	—	—	—	89,740	—	89,740	—	89,740
Net loss attributable to noncontrolling interests and deconsolidation of noncontrolling interest	—	—	—	—	—	—	(1,316)	(1,316)
Unrealized loss on interest rate hedges	—	—	—	—	(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
Adjustment for retrospective application of new accounting principle (see note 2)	—	—	—	(35)	—	(35)	—	(35)
Net income attributable to the controlling interests	—	—	—	119,339	—	119,339	—	119,339
Net loss attributable to noncontrolling interests	—	—	—	—	—	—	(51)	(51)
Unrealized gain on interest rate hedges	—	—	—	—	8,161	8,161	—	8,161
Distributions to noncontrolling interests	—	—	—	—	—	—	(196)	(196)
Dividends	—	—	—	(87,570)	—	(87,570)	—	(87,570)
Equity offerings, net of issuance costs	6,223	62	172,874	—	—	172,936	—	172,936
Shares issued under Dividend Reinvestment Program	23	—	700	—	—	700	—	700
Share grants, net of share grant amortization and forfeitures	169	2	1,764	—	—	1,766	—	1,766
Balance, December 31, 2016	74,606	746	1,368,636	(326,047)	7,611	1,050,946	1,116	1,052,062
Net income attributable to the controlling interests	—	—	—	19,668	—	19,668	—	19,668
Net loss attributable to noncontrolling interests	—	—	—	—	—	—	(56)	(56)
Unrealized gain on interest rate hedges	—	—	—	—	1,808	1,808	—	1,808
Distributions to noncontrolling interests	—	—	(3,128)	—	—	(3,128)	(1,071)	(4,199)
Contributions from noncontrolling interest	—	—	—	—	—	—	376	376
Dividends	—	—	—	(92,834)	—	(92,834)	—	(92,834)
Equity offerings, net of issuance costs	3,587	36	113,158	—	—	113,194	—	113,194
Shares issued under Dividend Reinvestment Program	80	1	2,575	—	—	2,576	—	2,576
Share grants, net of share grant amortization, forfeitures and tax withholdings	237	2	2,739	—	—	2,741	—	2,741
Balance, December 31, 2017	78,510	\$ 785	\$ 1,483,980	\$ (399,213)	\$ 9,419	\$ 1,094,971	\$ 365	\$ 1,095,336

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,		
	2017	2016 (as adjusted)	2015 (as adjusted)
Cash flows from operating activities			
Net income	\$ 19,612	\$ 119,288	\$ 89,187
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain on sale of real estate	(24,915)	(101,704)	(91,107)
Depreciation and amortization	112,056	108,406	108,935
Provision for losses on accounts receivable	882	1,706	1,368
Deferred tax benefit	(84)	(698)	—
Real estate impairment and casualty (gain), net	33,152	(676)	5,909
Share-based compensation expense	4,771	3,491	5,112
Amortization of debt premiums, discounts and related financing costs	1,897	3,187	3,486
Loss on extinguishment of debt, net	—	—	119
Changes in other assets	(20,199)	(15,713)	(10,496)
Changes in other liabilities	3,454	(2,562)	(3,195)
Net cash provided by operating activities	130,626	114,725	109,318
Cash flows from investing activities			
Real estate acquisitions, net	(138,371)	(227,413)	(151,917)
Capital improvements to real estate	(60,515)	(57,094)	(41,507)
Development in progress	(18,150)	(22,572)	(31,203)
Net cash received from sale of real estate	30,798	243,624	136,930
Real estate deposits, net	(6,250)	—	—
Insurance proceeds	—	883	—
Non-real estate capital improvements	(3,866)	(920)	(2,129)
Net cash used in investing activities	(196,354)	(63,492)	(89,826)
Cash flows from financing activities			
Line of credit borrowings, net	46,000	15,000	55,000
Principal payments – mortgage notes payable	(52,571)	(270,061)	(4,512)
Borrowing under construction loan	—	—	4,558
Notes payable repayments	—	—	(150,000)
Proceeds from dividend reinvestment program	2,576	700	—
Proceeds from term loan	50,000	100,000	150,000
Payment of financing costs	(319)	(1,590)	(5,095)
Dividends paid	(91,666)	(85,648)	(61,510)
Contributions from noncontrolling interests	—	—	5
Distributions to noncontrolling interests	(4,199)	(196)	—
Net proceeds from equity offerings	113,194	172,936	5,215
Payment of tax withholdings for restricted share awards	(2,286)	(1,960)	(2,071)
Net cash provided by (used in) financing activities	60,729	(70,819)	(8,410)
Net (decrease) increase in cash, cash equivalents and restricted cash	(4,999)	(19,586)	11,082
Cash, cash equivalents and restricted cash at beginning of year	17,622	37,208	26,126
Cash, cash equivalents and restricted cash at end of year	\$ 12,623	\$ 17,622	\$ 37,208

WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	Year Ended December 31,		
	2017	2016 (as adjusted)	2015 (as adjusted)
Supplemental disclosure of cash flow information:			
Cash paid for interest, net of capitalized interest expense	\$ 45,730	\$ 51,054	\$ 57,179
Cash paid for income taxes	\$ 17	\$ 65	\$ 261
Change in accrued capital improvements and development costs	\$ 3,264	\$ (3,788)	\$ (4,229)
Dividends payable	\$ 23,581	\$ 22,414	\$ 20,434
Reconciliation of cash, cash equivalents and restricted cash:			
Cash and cash equivalents	\$ 9,847	\$ 11,305	\$ 23,825
Restricted cash	2,776	6,317	13,383
Cash, cash equivalents and restricted cash	\$ 12,623	\$ 17,622	\$ 37,208

See accompanying notes to the consolidated financial statements.

WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

NOTE 1: NATURE OF BUSINESS

Washington Real Estate Investment Trust ("Washington REIT"), a Maryland real estate investment trust, is a self-administered 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 of 1986, as amended (the "Code"), and intend to continue to qualify as such. We have considered the provisions of the Tax Cuts and Jobs Act (the "TCJA"), which was signed into law on December 22, 2017 and which generally takes effect for taxable years beginning on or after January 1, 2018, and do not expect the TCJA to have a material impact on our ability to continue to qualify as a REIT. 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, 2017, we sold our interests in the following properties (in thousands):

Disposition Date	Property	Type	Gain on Sale
October 23, 2017	Walker House Apartments	Multifamily	\$ 23,838
		Total 2017	\$ 23,838
May 26, 2016	Dulles Station II ⁽¹⁾	Office	\$ 527
June 27, 2016	Maryland Office Portfolio Transaction I ⁽²⁾	Office	23,585
September 22, 2016	Maryland Office Portfolio Transaction II ⁽³⁾	Office	77,592
		Total 2016	\$ 101,704
March 20, 2015	Country Club Towers	Multifamily	\$ 30,277
September 9, 2015	1225 First Street ⁽⁴⁾	Multifamily	—
October 21, 2015	Munson Hill Towers	Multifamily	51,395
December 14, 2015	Montgomery Village Center	Retail	7,981
		Total 2015	\$ 89,653

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

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

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

⁽⁴⁾ Interest in land held for future development.

The taxable gains for Walker House Apartments, Dulles Station II and the properties included in Maryland Office Portfolio Transaction I were distributed to shareholders through the quarterly dividends. The properties included in Maryland Office Portfolio Transaction II were identified for a reverse deferred exchange under Section 1031 of the Code. We acquired the replacement property, Riverside Apartments, during the second quarter of 2016 (see note 3, under "Acquisition"). We reinvested a portion of the 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. During the second quarter of 2016, we recognized an income tax benefit of \$0.7 million from a

reduction of the valuation allowance for a deferred tax asset at one of our taxable REIT subsidiaries. As of December 31, 2017, a deferred tax asset of our TRSs of \$1.4 million was fully reserved. As of December 31, 2016, our TRSs had a deferred tax asset of \$0.5 million, net of a valuation allowance of \$2.9 million. As of December 31, 2017 and 2016, our TRSs had deferred tax liabilities of \$0.0 million and \$0.4 million, respectively. Additionally, in connection with the acquisition of Watergate 600 (see note 3), we recorded a deferred state and local tax liability of approximately \$0.6 million. These deferred tax liabilities are primarily related to temporary differences in the timing of the recognition of revenue, amortization and depreciation.

The following is a breakdown of the taxable percentage of our dividends for the years ended December 31, 2017, 2016 and 2015 (unaudited):

	2017	2016	2015
Ordinary income	76 %	66 %	78 %
Return of capital	— %	33 %	22 %
Qualified dividends	2 %	— %	— %
Unrecaptured Section 1250 gain	8 %	1 %	— %
Capital gain	14 %	— %	— %

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 and our subsidiaries and entities in which Washington REIT has a controlling financial 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

Pronouncements Adopted

In November 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2016-18, *Statement of Cash Flows (Topic 230) - Restricted Cash*, which requires that restricted cash and cash equivalents be included with cash and cash equivalents when reconciling beginning-of-period and end-of-period total amounts shown on the consolidated statements of cash flows. The new standard is effective for public entities for fiscal years beginning after December 15, 2017 and for interim periods therein, with early adoption permitted. We adopted ASU 2016-18 as of December 31, 2017. The impact of the implementation was as follows:

	Year Ended December 31,		
	2017	2016	2015
Net cash provided by operating activities (prior to adoption of ASU 2016-18)	\$ 130,715	\$ 116,931	\$ 109,426
Impact of including restricted cash with cash and cash equivalents	(89)	(2,206)	(108)
Net cash provided by operating activities (after adoption of ASU 2016-18)	<u>\$ 130,626</u>	<u>\$ 114,725</u>	<u>\$ 109,318</u>
Net cash used in investing activities (prior to adoption of ASU 2016-18)	\$ (192,902)	\$ (58,632)	\$ (93,018)
Impact of including restricted cash with cash and cash equivalents	(3,452)	(4,860)	3,192
Net cash used in investing activities (after adoption of ASU 2016-18)	<u>\$ (196,354)</u>	<u>\$ (63,492)</u>	<u>\$ (89,826)</u>

Pronouncements Not Yet Adopted

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities*. The purpose of this updated guidance is to better align a company's financial reporting for hedging activities with the economic objectives of those activities. The transition guidance provides companies with the option of early adopting the new standard using a modified retrospective transition method in any interim period after issuance of the update, or alternatively requires adoption for fiscal years beginning after December 15, 2018. We adopted the new standard as of January 1, 2018 and adoption does not have a material impact on our consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, *Compensation - Stock Compensation (Topic 718) - Scope of Modification Accounting*, which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The new standard is effective for all entities for fiscal years beginning after December 15, 2017 and for interim periods therein, with early adoption permitted. We adopted the new standard as of January 1, 2018 and adoption does not have a material impact on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*, which provides specific guidance on how cash receipts and payments should be presented and classified in the statement of cash flows for eight specific issues. The new standard is effective for public entities for fiscal years beginning after December 15, 2017 and for interim periods therein, with early adoption permitted. We adopted the new standard as of January 1, 2018 and adoption does not have a material impact on our consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"), 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. generally accepted accounting principles ("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. We adopted the new standard for the fiscal year beginning on January 1, 2018. We evaluated the requirements for recognition of revenue from contracts with customers and measuring gains and losses on the sale of properties in accordance with ASU 2014-09 and concluded that adoption of the new standard will not impact the amount or timing of our revenue recognition.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* ("ASU 2016-02"), 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. Upon adoption, for leases in which we are the lessor, the lease contract will be separated into lease and non-lease components in accordance with the provisions outlined within ASU 2014-09. The lease component of the contract will be recognized on a straight-line basis in accordance with ASU 2016-02, while the non-lease component will be recognized under the provisions of ASU 2014-09. For lease contracts with a duration of more than one year in which we are the lessee, the present value of future lease payments will be recognized on our balance sheet as a right-of-use asset and a corresponding lease liability. Also, only direct leasing costs may be capitalized under the new standard, while current accounting standards allow for the capitalization of indirect leasing costs. We are currently evaluating the impact ASU 2016-02 may have on Washington REIT's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*, which requires financial assets measured at an amortized cost basis, including trade receivables, to be presented at the net amount expected to be collected.

The new standard is effective for public entities for fiscal years beginning after December 15, 2019 and for interim periods therein with adoption one year earlier permitted. We are currently evaluating the impact the new standard may have on Washington REIT's consolidated financial statements.

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 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 \$0.4 million and \$2.4 million of notes receivable as of December 31, 2017 and 2016, respectively. The decrease is due to the repayment during the fourth quarter of 2017 of a note receivable acquired in 2008 with the purchase of 2445 M Street.

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 \$90.1 million, \$84.1 million, \$80.7 million during the years ended December 31, 2017, 2016 and 2015, respectively.

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

Interest expense and interest capitalized to real estate assets related to development and major renovation activities for the three years ended December 31, 2017 were as follows (in thousands):

	Year Ended December 31,		
	2017	2016	2015
Total interest incurred	\$ 48,498	\$ 53,794	\$ 60,204
Capitalized interest	(964)	(668)	(658)
Interest expense, net of capitalized interest	\$ 47,534	\$ 53,126	\$ 59,546

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 undiscounted 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. Assets held for sale are recorded at the lower of cost or fair value less costs to sell.

Acquisitions

The properties we acquire typically are not businesses as defined by ASU 2017-01, *Business Combinations (Topic 805) - Clarifying the Definition of a Business*. Per this definition, a set of transferred assets and activities is not a business when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. We therefore account for such acquisitions as asset acquisitions. Acquisition costs are capitalized and identifiable assets (including physical assets and in-place leases), liabilities assumed and any noncontrolling interests are measured by allocating the cost of the acquisition on a relative fair value basis. Acquisitions executed prior to our adoption of ASU 2017-01 as of January 1, 2017 were accounted for as business combinations.

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, 2017 and 2016.

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, 2017 and 2016 were as follows (in thousands):

	December 31,					
	2017			2016		
	Gross Carrying Value	Accumulated Amortization	Net	Gross Carrying Value	Accumulated Amortization	Net
Tenant origination costs	\$ 66,378	\$ 50,157	\$ 16,221	\$ 54,352	\$ 44,823	\$ 9,529
Leasing commissions/absorption costs	123,992	95,115	28,877	101,311	86,210	15,101
Net lease intangible assets	19,362	16,089	3,273	18,903	14,193	4,710
Net lease intangible liabilities	43,230	28,174	15,056	33,687	25,359	8,328
Below-market ground lease intangible asset	12,080	1,903	10,177	12,080	1,714	10,366

Amortization of these combined components during the three years ended December 31, 2017, 2016 and 2015 was as follows (in thousands):

	Year Ended December 31,		
	2017	2016	2015
Depreciation and amortization expense	\$ 14,911	\$ 17,655	\$ 22,244
Real estate rental revenue (increase) decrease, net	(922)	410	538
	\$ 13,989	\$ 18,065	\$ 22,782

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

	Depreciation and amortization expense	Real estate rental revenue, net increase	Total
2018	\$ 13,456	\$ (1,574)	\$ 11,882
2019	6,485	(1,633)	4,852
2020	4,905	(1,335)	3,570
2021	3,729	(1,191)	2,538
2022	3,058	(1,155)	1,903
Thereafter	23,642	(4,895)	18,747

Software Developed for Internal Use

The costs of software developed for internal use that qualify for capitalization are included with Prepaid expenses and other assets on our consolidated balance sheets. These capitalized costs include external direct costs utilized in developing or obtaining the applications and expenses for employees who are directly associated with the development of the applications. Capitalization of such costs begins when the preliminary project stage is complete and continues until the project is substantially complete and is ready for its intended purpose. Completed projects are amortized on a straight-line basis over their estimated useful lives.

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.

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.

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. We maintain cash deposits with financial institutions that at times exceed applicable insurance limits. We reduce 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 diluted 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.

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. If an award's service inception date precedes the grant date, 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, 2017 and 2016, 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 2013 through 2017 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 income (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, 2017 and 2016, our real estate investment portfolio classified as held and used, at cost, consists of properties as follows (in thousands):

	December 31,	
	2017	2016
Office	\$ 1,355,033	\$ 1,349,378
Multifamily	895,811	885,084
Retail	451,158	450,941
	<u>\$ 2,702,002</u>	<u>\$ 2,685,403</u>

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, 2017, no property accounted for more than 10% of total assets. No single property or tenant accounted for more than 10% of the real estate rental revenue.

We have properties under development/redevelopment and held for current or future development as of December 31, 2017 and 2016. In the office segment, we had a redevelopment project at the Army Navy Building, an office property in Washington, DC,

to upgrade its common areas and add significant amenities in order to make the property more competitive within its sub-market. As of December 31, 2017, we had invested \$4.8 million in the redevelopment and placed substantially all of the project into service.

In the multifamily segment, we have The Trove, a multifamily development adjacent to The Wellington, and own land held for future multifamily development adjacent to Riverside Apartments. As of December 31, 2017, we had invested \$29.7 million and \$19.2 million, including the costs of acquired land, in the Trove and the development adjacent to Riverside Apartments, respectively.

In the retail segment, we currently have a redevelopment project to add rentable space at Spring Valley Village. As of December 31, 2017, we had invested \$3.6 million in the redevelopment.

The cost of our real estate portfolio under development or held for future development as of December 31, 2017 and 2016 is as follows (in thousands):

	December 31,	
	2017	2016
Office	\$ 680	\$ 2,640
Multifamily	49,616	36,013
Retail	4,126	1,579
	<u>\$ 54,422</u>	<u>\$ 40,232</u>

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, 2017 were as follows:

Acquisition Date	Property	Type	# of units (unaudited)	Rentable Square Feet (unaudited)	Contract Purchase Price (in thousands)
April 4, 2017	Watergate 600	Office	N/A	293,000	\$ 135,000
May 20, 2016	Riverside Apartments	Multifamily	1,222	N/A	\$ 244,750
July 1, 2015	The Wellington	Multifamily	711	N/A	\$ 167,000

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, 2017 are as follows (in thousands):

	Year Ended December 31,		
	2017	2016	2015
Real estate rental revenue	\$ 14,518	\$ 13,112	\$ 6,797
Net income (loss)	2,226	(1,688)	(2,748)

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 on a relative fair value basis.

We recorded the total cost of the above acquisitions as follows (in thousands):

	2017	2016	2015
Land	\$ 45,981	\$ 38,924	\$ 30,548
Land held for development	—	15,968	15,000
Buildings	66,241	184,854	116,563
Tenant origination costs	12,084	—	—
Leasing commissions/absorption costs	23,161	4,992	4,889
Net lease intangible assets	498	22	—
Net lease intangible liabilities	(9,585)	(10)	—
Deferred tax liability	(560)	—	—
Total	<u>\$ 137,820</u>	<u>\$ 244,750</u>	<u>\$ 167,000</u>

The weighted remaining average life for 2017 acquisition components above, other than land and building, are 89 months for tenant origination costs, 82 months for leasing commissions/absorption costs, 13 months for net lease intangible assets and 102 months for net lease intangible liabilities.

The difference in the total contract purchase price of \$135.0 million for the 2017 acquisition and cash paid for the acquisition per the consolidated statements of cash flows of \$138.4 million is primarily due to capitalized acquisition-related costs (\$2.8 million) and a net credit to the buyer for certain expenditures (\$1.0 million), partially offset by the issuance of 12,124 operating partnership units (“Operating Partnership Units”) as part of the consideration (\$0.4 million). The Operating Partnership Units are units in WashREIT Watergate 600 OP LP, a consolidated subsidiary of Washington REIT. These Operating Partnership Units may be redeemed for either cash equal to the fair market value of a share of Washington REIT common stock at the time of redemption (based on a 20-day average price) or, at the option of Washington REIT, one registered or unregistered share of Washington REIT common stock. In connection with the 2017 acquisition, we granted registration rights to the two contributors of the Watergate 600 property relating to the resale of any shares issued upon exchange of Operating Partnership Units pursuant to a shelf registration statement that we have an obligation to make available to the contributors approximately one year after the issuance of the Operating Partnership Units.

The difference in the total contract price of \$244.8 million for the 2016 acquisition and cash paid for the acquisition per the consolidated statements of cash flows of \$227.4 million is primarily due to acquisition of land for development of \$16.0 million and credits received at settlement totaling \$1.4 million.

The difference in the total contract price of \$167.0 million for the 2015 acquisitions and cash paid for the acquisitions per the consolidated statements of cash flows of \$151.9 million is primarily due to acquisition of land for development of \$15.0 million and credits received at settlement totaling \$0.1 million.

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 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 was the 90% owner of the joint venture. The real estate development company owned 10% of the joint venture and was responsible for the development and construction of the property. During the fourth quarter of 2017, we purchased the 10% joint venture interest from the real estate development company for a contract purchase price of \$4.1 million. Upon the completion of this transaction, the joint venture ended and Washington REIT became sole owner of The Maxwell.

We determined that, prior to completion of this transaction, The Maxwell joint venture was a VIE primarily based on the fact that the equity investment at risk was not sufficient to permit the entity to finance its activities without additional financial support. 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. In January 2016, Washington REIT exercised its right to purchase at par The Maxwell's construction loan from the original third-party lender. Upon the purchase, the construction loan became an intercompany loan payable from the consolidated VIE to Washington REIT that is eliminated in consolidation. The intercompany loan payable was extinguished as part of Washington REIT's purchase of the joint venture partner's 10% interest during the fourth quarter of 2017.

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. The Maxwell was placed into service during the fourth quarter of 2014 and first quarter of 2015.

As of December 31, 2016, The Maxwell joint venture's assets were as follows (in thousands):

	December 31, 2016
Land	\$ 12,851
Income producing property	37,949
Accumulated depreciation and amortization	(4,571)
Other assets	456
	<u>\$ 46,685</u>

As of December 31, 2016, The Maxwell joint venture's liabilities were as follows (in thousands):

	December 31, 2016
Mortgage notes payable, net ⁽¹⁾	\$ 31,869
Accounts payable and other liabilities	186
Tenant security deposits	99
	<u>\$ 32,154</u>

⁽¹⁾The mortgage notes payable balance as of December 31, 2016 was eliminated in consolidation due to the purchase of the loan by Washington REIT in January 2016. The mortgage note payable was extinguished during the fourth quarter of 2017 due to Washington REIT's purchase of the joint venture partner's interest.

Properties Sold and Held for Sale

We intend to hold our properties for investment with a view to long-term appreciation, to engage in the business of acquiring, developing and owning our properties, and to make occasional sales of the properties 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. Depreciation on these properties is discontinued when classified as held for sale, but operating revenues, other operating expenses and interest continue to be recognized until the date of sale.

During the second quarter of 2017, we executed a purchase and sale agreement for the sale of Walker House Apartments, a 212 unit multifamily property in Gaithersburg, Maryland, for a contract sale price of \$32.2 million. We closed on the sale during the fourth quarter of 2017, recognizing a gain on sale of \$23.8 million.

During the fourth quarter of 2017, we executed a purchase and sale agreement for the sale of Braddock Metro Center, a 356,000 square foot office property in Alexandria, Virginia for a contract sale price of \$93.0 million, and closed on the sale in January 2018. We determined that the property met the criteria for classification as held for sale as of December 31, 2017. Due to the negotiations to sell the property, we evaluated Braddock Metro Center for impairment and recognized a \$9.1 million impairment charge during 2017 in order to reduce the carrying value of the property to its estimated fair value, less selling costs. We based this fair valuation on the expected sale price from a potential sale. There are few observable market transactions for similar properties. This fair valuation falls into Level 2 of the fair value hierarchy due to its reliance on a quoted price in a market that is not active.

During the fourth quarter of 2017, we marketed for sale 2445 M Street, a 292,000 square foot office property in Washington, DC. The property did not meet the criteria for classification as held for sale as of December 31, 2017. Due to the negotiations to sell

the property, we evaluated 2445 M Street for impairment and recognized a \$24.1 million impairment charge during 2017 in order to reduce the carrying value of the property to its estimated fair value. We based this fair valuation on the expected sale price from a potential sale. There are few observable market transactions for similar properties. This fair valuation falls into Level 2 of the fair value hierarchy due to its reliance on a quoted price in a market that is not active.

On January 23, 2018, we executed a purchase and sale agreement to sell 2445 M Street for a contract sale price of \$100.0 million. We anticipate settlement in the third quarter of 2018, however, there can be no assurances that this proposed sale will be consummated. Upon execution of the purchase and sale agreement, the property met the criteria for classification as held for sale.

During the second quarter of 2016, we sold Dulles Station, Phase II, which consists of land held for future development and an interest in a parking garage in Herndon, Virginia, for \$12.1 million. Also during the second quarter of 2016, we executed two purchase and sale agreements with a single buyer for the sale of a portfolio of six office properties located in Maryland: 6110 Executive Boulevard, Wayne Plaza, 600 Jefferson Plaza, West Gude Drive, 51 Monroe Street and One Central Plaza (collectively, the "Maryland Office Portfolio") for an aggregate contract sale price of \$240.0 million. We closed on the first sale transaction in June 2016 and closed on the second sale transaction in September 2016.

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

Disposition Date	Property	Segment	# of units (unaudited)	Rentable Square Feet (unaudited)	Contract Sale Price (in thousands)	Gain on Sale (in thousands)
October 23, 2017	Walker House Apartments	Multifamily	212	N/A	\$ 32,200	\$ 23,838
Total 2017					\$ 32,200	\$ 23,838
May 26, 2016	Dulles Station, Phase II ⁽¹⁾	Office	N/A	N/A	\$ 12,100	\$ 527
June 27, 2016	Maryland Office Portfolio Transaction I ⁽²⁾	Office	N/A	692,000	111,500	23,585
September 22, 2016	Maryland Office Portfolio Transaction II ⁽³⁾	Office	N/A	491,000	128,500	77,592
Total 2016					\$ 252,100	\$ 101,704
March 20, 2015	Country Club Towers	Multifamily	227	N/A	\$ 37,800	\$ 30,277
September 9, 2015	1225 First Street ⁽⁴⁾	Multifamily	N/A	N/A	14,500	—
October 21, 2015	Munson Hill Towers	Multifamily	279	N/A	57,050	51,395
December 14, 2015	Montgomery Village Center	Retail	N/A	197,000	27,750	7,981
Total 2015					\$ 137,100	\$ 89,653

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

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

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

⁽⁴⁾ Interest in land held for future development.

We do not have significant continuing involvement in the operations of the disposed properties.

While the Maryland Office Portfolio, in the aggregate, constitutes an individually significant disposition, it does not qualify for presentation and disclosure as a discontinued operation as it does not represent a strategic shift in our operations.

Real estate rental revenue and net income for the Maryland Office Portfolio for the three years ended December 31, 2017 are as follows:

	Year Ending December 31,		
	2017	2016	2015
Real estate rental revenue	\$ —	\$ 20,266	\$ 32,423
Net income	—	9,376	9,848

Casualty Gains

We recorded a net casualty gain of \$0.7 million during the second quarter of 2016 associated with a fire at Bethesda Hill Towers that damaged four units, which is included in real estate impairment and casualty (gain), net on our consolidated statements of income. The net casualty gain is comprised of \$0.9 million in third-party insurance proceeds received by us, which were partially offset by casualty charges of \$0.2 million to write off the net book value of the damaged units at Bethesda Hill Towers.

NOTE 4: MORTGAGE NOTES PAYABLE

As of December 31, 2017 and 2016, 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
			2017	2016	
Army Navy Building ⁽³⁾	3/26/2014	3.18 %	\$ —	\$ 49,618	2/1/2017
Yale West ⁽⁴⁾	2/21/2014	3.75 %	46,629	47,078	1/31/2022
Olney Village Center	8/30/2011	4.94 %	13,091	14,851	10/1/2023
Kenmore Apartments ⁽⁵⁾	2/2/2009	5.37 %	32,194	32,938	9/1/2018
			91,914	144,485	
Premiums and discounts, net			3,385	4,354	
Debt issuance costs, net			(158)	(299)	
			<u>\$ 95,141</u>	<u>\$ 148,540</u>	

⁽¹⁾ Each of these mortgages was assumed with the acquisition of the collateralized properties, except for the mortgage note secured by Kenmore Apartments, which was originally executed by Washington REIT. We record mortgages assumed in an 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 note was prepaid without penalty in February 2017.

⁽⁴⁾ The maturity date of the mortgage note is January 1, 2052, but can be prepaid, without penalty, beginning on January 31, 2022.

⁽⁵⁾ The maturity date of the mortgage note is March 1, 2019, but can be prepaid, without penalty, beginning on September 1, 2018.

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 cost basis of the above mortgaged properties was \$208.3 million and \$280.4 million at December 31, 2017 and 2016, respectively.

Scheduled principal payments subsequent to December 31, 2017 are as follows (in thousands):

2018	\$ 34,544
2019	2,500
2020	2,659
2021	2,829
2022	46,984
Thereafter	2,398
	<u>\$ 91,914</u>

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 and our \$400.0 million unsecured line of credit maturing in July 2016, and executed a new \$600.0 million unsecured credit agreement ("Revolving Credit Facility") that matures in June 2019, unless extended pursuant to one or both of the two six-month extension options. The Revolving Credit Facility 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. In September 2015, we entered into a \$150.0 million unsecured term loan ("2015 Term Loan") by executing a portion of the accordion feature under the Revolving Credit Facility. The 2015 Term Loan has a 5.5 year term and currently has an interest rate of one month LIBOR plus 110 basis points, based on Washington REIT's current unsecured debt ratings. We entered into two interest rate swaps to effectively fix the interest rate at 2.7% (see note 7).

The amount of the Revolving Credit Facility unused and available at December 31, 2017 was as follows (in thousands):

Committed capacity	\$	600,000
Borrowings outstanding		(166,000)
Unused and available	\$	<u>434,000</u>

We executed borrowings and repayments on the Revolving Credit Facility during 2017 as follows (in thousands):

Balance at December 31, 2016	\$	120,000
Borrowings		274,000
Repayments		(228,000)
Balance at December 31, 2017	\$	<u>166,000</u>

The Revolving Credit Facility bears interest at a rate of either LIBOR plus a margin ranging from 0.875% to 1.55% or the base rate plus a margin ranging from 0% 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 LIBOR market index rate plus 1.0%. As of December 31, 2017, the interest rate on the facility is LIBOR plus 1.0% and the one month LIBOR was 1.56%.

All outstanding advances for the Revolving 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 Revolving 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 \$600.0 million committed capacity, without regard to usage. As of December 31, 2017, the facility fee is 0.20%.

For the three years ended December 31, 2017, we recognized interest expense (excluding facility fees) and facility fees as follows (in thousands):

	Year Ended December 31,		
	2017	2016	2015
Interest expense (excluding facility fees)	\$ 3,857	\$ 3,272	\$ 2,266
Facility fees	1,217	1,220	1,241

The Revolving Credit Facility contains certain financial and non-financial covenants, all of which we have met as of December 31, 2017 and 2016. 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, 2017 as follows (in thousands, except percentage amounts):

	Year Ended December 31,		
	2017	2016	2015
Total revolving credit facilities at December 31	\$ 600,000	\$ 600,000	\$ 600,000
Borrowings outstanding at December 31	166,000	120,000	105,000
Weighted average daily borrowings during the year	179,633	214,962	167,573
Maximum daily borrowings during the year	252,000	358,000	350,000
Weighted average interest rate during the year	2.15 %	1.52 %	1.35 %
Weighted average interest rate on borrowings outstanding at December 31	2.54 %	1.64 %	1.36 %

The covenants under our Revolving Credit Facility 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, 2017 are 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
2015 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
2016 Term Loan	1 Month LIBOR + 165 basis points	2.86 %	150,000	7/21/2023
30 Year Unsecured Notes	7.25 %	7.36 %	50,000	2/25/2028
Total principal			900,000	
Premiums and discounts, net			(1,580)	
Deferred issuance costs, net			(4,062)	
Total			\$ 894,358	

⁽¹⁾ For fixed rate notes, the effective rate represents the yield on issuance date, including the effects of discounts on the notes. For variable rate notes, the effective rate represents the rate as fixed by interest rate derivatives (see note 7).

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

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

The required principal payments as of December 31, 2017 are as follows (in thousands):

2018	\$	—
2019		—
2020		250,000
2021		150,000
2022		300,000
Thereafter		200,000
	<u>\$</u>	<u>900,000</u>

Interest on these notes is payable semi-annually, except for the term loans, 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, 2017. 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 the 2015 Term Loan (see note 6) to an all-in fixed interest rate of 2.72% starting on October 15, 2015 and extending until the maturity of the 2015 Term Loan on March 15, 2021. On July 22, 2016, we entered into two forward interest rate swap arrangements with a total notional amount of \$150.0 million to swap the floating interest rate under the 2016 Term Loan (see note 6) to an all-in fixed interest rate of 2.86%, starting on March 31, 2017 and extending until the maturity of the 2016 Term Loan on July 21, 2023.

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 income (loss). The resulting unrealized loss on the effective portions of the cash flow hedges was the only activity in other comprehensive income (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 2017 and 2016 and hedge ineffectiveness did not impact earnings in 2017 and 2016.

The fair values of the interest rate swaps as of December 31, 2017 and 2016, are as follows (in thousands):

Derivative Instrument	Aggregate Notional Amount	Effective Date	Maturity Date	Fair Value	
				Asset Derivatives	
				December 31,	
				2017	2016
Interest rate swaps	\$ 150,000	October 15, 2015	March 15, 2021	\$ 1,987	\$ 417
Interest rate swaps	150,000	March 31, 2017	July 21, 2023	7,432	7,194
	<u>\$ 300,000</u>			<u>\$ 9,419</u>	<u>\$ 7,611</u>

We record interest rate swaps on our consolidated balance sheets with prepaid expenses and other assets when in a net asset position, and with accounts payable and other liabilities when in a net liability position. The interest rate swaps have been effective since inception. The gains or losses on the effective swaps are recognized in other comprehensive income (loss), as follows (in thousands):

	Year Ending December 31,		
	2017	2016	2015
Unrealized gain (loss) on interest rate hedges	\$ 1,808	\$ 8,161	\$ (550)

Amounts reported in accumulated other comprehensive income (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 \$1.1 million will be reclassified as a decrease 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, 2017, the fair values of derivatives were in a net asset position of \$9.4 million, including accrued

interest but excluding any adjustment for nonperformance risk. As of December 31, 2017, we have not posted any collateral related to these agreements.

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, 2017 and 2016 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, 2017 and 2016 were as follows (in thousands):

	December 31, 2017				December 31, 2016			
	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	\$ 1,858	\$ —	\$ 1,858	\$ —	\$ 1,407	\$ —	\$ 1,407	\$ —
Interest rate swaps	9,419	—	9,419	—	7,611	—	7,611	—

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,

2017 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, 2017.

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. This note was repaid during the fourth quarter of 2017. Prior to its repayment, we estimated 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 and term loans with floating interest rates 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, 2017 and 2016, the carrying values and estimated fair values of our financial instruments were as follows (in thousands):

	December 31,			
	2017		2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	\$ 9,847	\$ 9,847	\$ 11,305	\$ 11,305
Restricted cash	2,776	2,776	6,317	6,317
2445 M Street note receivable	—	—	2,089	2,173
Mortgage notes payable	95,141	97,181	148,540	149,997
Lines of credit payable	166,000	166,000	120,000	120,000
Notes payable	894,358	931,377	843,084	873,516

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 2016 Omnibus Incentive Plan which allows for awards in the form of restricted shares, restricted share units, options, and other awards up to an aggregate of 2,400,000 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, 2017 and 2016.

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. Prior to the adoption of the 2016 Omnibus Incentive Plan, stock based awards to officers, non-officer employees and trustees were issued under the Washington Real Estate Investment Trust 2007 Omnibus Long-Term Incentive Plan which allowed for awards in the form of restricted shares, restricted share units, options and other awards up to an aggregate of 2,000,000 shares while the plan was in effect.

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.

Bonuses payable under the short-term incentive plans for non-executive officers and staff 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 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:

	2017 Awards	2016 Awards	2015 Awards
Expected volatility ⁽¹⁾	18.5% - 18.7%	18.2%	17.2% - 17.5%
Risk-free interest rate ⁽²⁾	1.5%	1.3%	1.0% - 1.1%
Expected term ⁽³⁾	3 and 4 years	3 and 4 years	3 and 4 years
Share price at grant date	\$30.84 - \$32.69	\$27.06	\$27.66 - \$27.76

⁽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 2017 ranged from approximately 37% to 67% for the 50% of the LTIP based on relative TSR and from 13% to 31% 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 2016 ranged from approximately 38% to 66% for the 50% of the LTIP based on relative TSR and from 17% to 30% 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 2015 ranged from approximately 40% to 69% for the 50% of the LTIP based on relative TSR and from 13% to 29% for the 50% of the LTIP based on absolute TSR.

During 2017, our chief executive officer was granted a one-time equity award of 100,000 restricted shares. None of the restricted shares vest until the fifth anniversary of the grant date, at which time 100% of the restricted shares will vest, subject to Mr.

McDermott's continued employment with Washington REIT until such vesting date.

Our non-executive officers and other employees earn restricted share unit awards under a long-term incentive plan for non-executive officers and staff, which became effective on January 1, 2016, 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. For awards made through 2016, the service inception date precedes the grant date. For these awards, we initially measured compensation expense for awards with performance conditions at fair value at the service inception date based on probability of payout, and we remeasured 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 recognized compensation expense for these awards according to a graded vesting schedule over the four-year requisite service period. During 2016, we amended the LTIP for other officers and other employees. Among the changes to the LTIP was the inclusion of strategic goals with subjective performance criteria. As a result of these changes, the service inception date is the same as the grant date for awards made under the amended LTIP. We recognize compensation expense for these awards according to a graded vesting schedule over the three-year requisite service period.

Restricted share awards made to retirement-eligible employees fully vest on the grant date. Employees are considered retirement-eligible when they are both over the age of 55 and have been employed by Washington REIT for at least 20 years, or over the age of 65. We fully recognize compensation expense for such awards as of the grant date.

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 for each of three years ended December 31, 2017.

Total Compensation Expense

Total compensation expense recognized in the consolidated financial statements for each of the three years ended December 31, 2017 for all share based awards was \$4.8 million, \$3.5 million and \$5.1 million, respectively, net of capitalized stock-based compensation expense of \$0.2 million, \$0.1 million and \$0.6 million, respectively.

Restricted Share Awards with Performance and Service Conditions

The activity for the three years ended December 31, 2017 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, 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
Granted	251,694	26.01
Vested during year	(211,771)	29.21
Forfeited	(38,368)	26.14
Unvested at December 31, 2016	107,699	26.47
Granted	330,639	32.46
Vested during year	(194,569)	30.50
Forfeited	(7,075)	27.43
Unvested at December 31, 2017	236,694	27.96

The total fair value of share grants vested for each of the three years ended December 31, 2017 was \$5.9 million, \$6.2 million and \$5.8 million, respectively.

As of December 31, 2017, the total compensation cost related to non-vested share awards not yet recognized was \$6.6 million,

which we expect to recognize over a weighted average period of 35 months.

Restricted and Unrestricted Shares with Market Conditions

Stock based awards with market conditions under the LTIP were granted in 2017, 2016 and 2015 with fair market values, as determined using a Monte Carlo simulation, as follows (in thousands):

	Grant Date Fair Value					
	2017 Awards		2016 Awards		2015 Awards	
	Restricted	Unrestricted	Restricted	Unrestricted	Restricted	Unrestricted
Relative TSR	\$ 222	\$ 666	\$ 182	\$ 546	\$ 191	\$ 634
Absolute TSR	100	299	82	246	76	254

The unamortized value of these awards with market conditions as of December 31, 2017 was as follows (in thousands):

	2017 Awards		2016 Awards		2015 Awards	
	Restricted	Unrestricted	Restricted	Unrestricted	Restricted	Unrestricted
	Relative TSR	\$ 166	\$ 444	\$ 117	\$ 314	\$ 83
Absolute TSR	75	199	53	142	33	66

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 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, 2017, we made contributions to the 401(k) plan of \$0.4 million, \$0.4 million and \$0.5 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 \$1.0 million and \$0.9 million at December 31, 2017 and 2016, respectively.

In November 2005, the board of trustees approved the establishment of a SERP for the benefit of officers. 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, 2017 and 2016, the accrued benefit liability was \$1.8 million and \$1.3 million, respectively. For each of the three years ended December 31, 2017, we recognized current service cost of \$0.3 million, \$0.2 million and \$0.3 million, respectively.

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 operating partnership units under the if-converted 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 computation of basic and diluted earnings per share for the three years ended December 31, 2017 was as follows (in thousands; except per share data):

	Year Ended December 31,		
	2017	2016	2015
Numerator:			
Net income	\$ 19,612	\$ 119,288	\$ 89,187
Net loss attributable to noncontrolling interests	56	51	553
Allocation of undistributed earnings to unvested restricted share awards and units to continuing operations	(362)	(310)	(269)
Adjusted net income attributable to the controlling interests	<u>\$ 19,306</u>	<u>\$ 119,029</u>	<u>\$ 89,471</u>
Denominator:			
Weighted average shares outstanding – basic	76,820	72,163	68,177
Effect of dilutive securities:			
Operating partnership units	9	—	—
Employee stock options and restricted share awards	106	176	133
Weighted average shares outstanding – diluted	<u>76,935</u>	<u>72,339</u>	<u>68,310</u>
Basic net income attributable to the controlling interests per common share	\$ 0.25	\$ 1.65	\$ 1.31
Diluted net income attributable to the controlling interests per common share	\$ 0.25	\$ 1.65	\$ 1.31
Dividends declared per common share	\$ 1.20	\$ 1.20	\$ 1.20

NOTE 12: RENTALS UNDER OPERATING LEASES

As of December 31, 2017, non-cancelable commercial operating leases provide for minimum rental income were as follows (in thousands):

2018	\$ 190,391
2019	172,289
2020	157,694
2021	132,150
2022	109,713
Thereafter	376,904
	<u>\$ 1,139,141</u>

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, 2017 was \$35.4 million, \$35.2 million and \$34.6 million, respectively.

NOTE 13: COMMITMENTS AND CONTINGENCIES

Development Commitments

At December 31, 2017, 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.

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, 2017 was as follows:

	Year Ended December 31,		
	2017	2016	2015
Office	52 %	53 %	57 %
Multifamily	29 %	27 %	22 %
Retail	19 %	20 %	21 %

The percentage of income producing real estate assets classified as held and used, at cost, for each of the reportable operating segments in continuing operations as of December 31, 2017 and 2016 was as follows:

	December 31,	
	2017	2016
Office	50 %	50 %
Multifamily	33 %	33 %
Retail	17 %	17 %

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.

The following tables present revenues, net operating income, capital expenditures and total assets for the three years ended December 31, 2017 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, 2017				
	Office	Retail	Multifamily	Corporate and Other	Consolidated
Real estate rental revenue	\$ 167,438	\$ 62,390	\$ 95,250	\$ —	\$ 325,078
Real estate expenses	62,824	15,186	37,640	—	115,650
Net operating income	\$ 104,614	\$ 47,204	\$ 57,610	\$ —	\$ 209,428
Depreciation and amortization					(112,056)
General and administrative					(22,580)
Interest expense					(47,534)
Other income					507
Gain on sale of real estate					24,915
Real estate impairment					(33,152)
Income tax benefit					84
Net income					19,612
Less: Net loss attributable to noncontrolling interests					56
Net income attributable to the controlling interests					\$ 19,668
Capital expenditures	\$ 30,407	\$ 2,128	\$ 27,980	\$ 3,866	\$ 64,381
Total assets	\$ 1,203,187	\$ 346,580	\$ 767,279	\$ 42,380	\$ 2,359,426

	Year Ended December 31, 2016				
	Office	Retail	Multifamily	Corporate and Other	Consolidated
Real estate rental revenue	\$ 165,934	\$ 61,566	\$ 85,764	\$ —	\$ 313,264
Real estate expenses	64,405	15,860	34,748	—	115,013
Net operating income	\$ 101,529	\$ 45,706	\$ 51,016	\$ —	\$ 198,251
Depreciation and amortization					(108,406)
General and administrative					(19,545)
Casualty gain					676
Acquisition costs					(1,178)
Interest expense					(53,126)
Other income					297
Gain on sale of real estate					101,704
Income tax benefit					615
Net income					119,288
Less: Net loss attributable to noncontrolling interests					51
Net income attributable to the controlling interests					\$ 119,339
Capital expenditures	\$ 30,337	\$ 8,821	\$ 17,936	\$ 920	\$ 58,014
Total assets	\$ 1,104,589	\$ 352,056	\$ 762,695	\$ 34,279	\$ 2,253,619

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					(20,123)
Real estate impairment					(5,909)
Acquisition costs					(2,056)
Interest expense					(59,546)
Other income					709
Loss on extinguishment of debt					(119)
Gain on sale of real estate					91,107
Income tax expense					(134)
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

NOTE 15: SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Unaudited financial data by quarter in each of the years ended December 31, 2017 and 2016 were as follows (in thousands, except for per share data):

	Quarter ^{(1), (2)}			
	First	Second	Third	Fourth
2017				
Real estate rental revenue	\$ 77,501	\$ 83,456	\$ 82,819	\$ 81,302
Net income	\$ 6,615	\$ 7,847	\$ 2,813	\$ 2,337
Net income attributable to the controlling interests	\$ 6,634	\$ 7,864	\$ 2,833	\$ 2,337
Net income per share				
Basic	\$ 0.09	\$ 0.10	\$ 0.04	\$ 0.03
Diluted	\$ 0.09	\$ 0.10	\$ 0.04	\$ 0.03
2016				
Real estate rental revenue	\$ 77,137	\$ 79,405	\$ 79,770	\$ 76,952
Net income	\$ 2,379	\$ 31,821	\$ 79,662	\$ 5,426
Net income attributable to the controlling interests	\$ 2,384	\$ 31,836	\$ 79,674	\$ 5,445
Net income per share				
Basic	\$ 0.03	\$ 0.44	\$ 1.07	\$ 0.07
Diluted	\$ 0.03	\$ 0.44	\$ 1.07	\$ 0.07

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

⁽²⁾ The fourth quarter of 2017 includes gain on sale of real estate classified as continuing operations of \$24.9 million. The second and third quarters of 2016 include gains on sale of real estate classified as continuing operations of \$24.1 million and \$77.6 million, respectively. The third and fourth quarters of 2017 include real estate impairments of \$5.0 million and \$28.2 million, respectively.

NOTE 16: SHAREHOLDERS' EQUITY

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

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. During 2017 and 2016, we issued 3.6 million and 0.9 million common shares, respectively, under the Equity Distribution Agreements at a weighted average price of \$32.06 and \$33.32 per share, respectively, raising \$113.2 million and \$29.6 million in net proceeds, respectively.

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

We have a dividend reinvestment program, whereby shareholders may use their dividends and optional cash payments to purchase common shares. The common shares sold under this program may either be common shares issued by us or common shares purchased in the open market. Net proceeds under this program are used for general corporate purposes. During the 2017 and 2016, we issued approximately 80,000 and 23,000 common shares, respectively, under this program at a weighted average price of \$32.25 and \$30.98 per share, respectively, for net proceeds of \$2.6 million and \$0.7 million, respectively.

NOTE 17: DEFERRED COSTS

As of December 31, 2017 and 2016, deferred leasing costs and deferred leasing incentives were included in prepaid expenses and other assets as follows (in thousands):

	December 31,					
	2017			2016		
	Gross Carrying Value	Accumulated Amortization	Net	Gross Carrying Value	Accumulated Amortization	Net
Deferred leasing costs	\$ 68,213	\$ 28,523	\$ 39,690	\$ 58,391	\$ 22,748	\$ 35,643
Deferred leasing incentives	24,946	11,114	13,832	21,157	8,061	13,096

Amortization, including write-offs, of deferred leasing costs and deferred leasing incentives from continuing operations for the three years ended December 31, 2017 were as follows (in thousands):

	Year Ended December 31,		
	2017	2016	2015
Deferred leasing costs amortization	\$ 6,418	\$ 6,076	\$ 5,983
Deferred leasing incentives amortization	3,163	2,994	2,848

NOTE 18: SUBSEQUENT EVENT

On January 18, 2018, we closed on the purchase of Arlington Tower, a 398,000 square foot office building in Arlington, Virginia for a contract purchase price of \$250.0 million. We funded the acquisition with borrowings on our Revolving Credit Facility and proceeds from the sale of Braddock Metro Center (see note 3).

SCHEDULE II

**VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(IN THOUSANDS)**

	Balance at Beginning of Year		Additions Charged to Expenses		Net Deductions (Recoveries)		Balance at End of Year
Allowance for doubtful accounts							
2017	\$ 2,377	\$	882	\$	(833)	\$	2,426
2016	\$ 2,297	\$	1,706	\$	(1,626)	\$	2,377
2015	\$ 3,392	\$	1,368	\$	(2,463)	\$	2,297
Valuation allowance for deferred tax assets							
2017	\$ 2,882	\$	—	\$	(1,469)	\$	1,413
2016	\$ 5,705	\$	—	\$	(2,823)	\$	2,882
2015	\$ 5,714	\$	—	\$	(9)	\$	5,705

SCHEDULE III

Properties	Location	Initial Cost (b)			Net Improvements (Retirement) since Acquisition	Gross Amounts at Which Carried at December 31, 2017			Accumulated Depreciation at December 31, 2017	Year of Construction	Date of Acquisition	Net Rentable Square Feet	Units	Depreciation Life (d)
		Land	Buildings and Improvements			Land	Buildings and Improvements	Total (c)						
Multifamily Properties														
3801 Connecticut Avenue	Washington, DC	\$ 420,000	\$ 2,678,000	\$ 16,263,000	\$ 420,000	\$ 18,941,000	\$ 19,361,000	\$ 11,526,000	1951	Jan 1963	178,000	307	30 years	
Roosevelt Towers	Virginia	336,000	1,996,000	12,890,000	336,000	14,886,000	15,222,000	10,151,000	1964	May 1965	170,000	191	40 years	
Park Adams	Virginia	287,000	1,654,000	12,935,000	287,000	14,589,000	14,876,000	9,968,000	1959	Jan 1969	173,000	200	35 years	
The Ashby at McLean (f)	Virginia	4,356,000	17,102,000	23,569,000	4,356,000	40,671,000	45,027,000	25,312,000	1982	Aug 1996	274,000	256	30 years	
Bethesda Hill Apartments	Maryland	3,900,000	13,412,000	13,896,000	3,900,000	27,308,000	31,208,000	18,904,000	1986	Nov 1997	225,000	195	30 years	
Bennett Park	Virginia	2,861,000	917,000	80,278,000	4,774,000	79,282,000	84,056,000	34,586,000	2007	Feb 2001	215,000	224	28 years	
The Clayborne	Virginia	269,000	—	31,041,000	699,000	30,611,000	31,310,000	15,050,000	2008	Jun 2003	60,000	74	26 years	
The Kenmore (a)	Washington, DC	28,222,000	33,955,000	13,694,000	28,222,000	47,649,000	75,871,000	13,973,000	1948	Sep 2008	268,000	374	30 years	
The Maxwell	Virginia	12,787,000	—	38,035,000	12,851,000	37,971,000	50,822,000	6,811,000	2014	Jun 2011	116,000	163	30 years	
The Paramount	Virginia	8,568,000	38,716,000	2,345,000	8,568,000	41,061,000	49,629,000	7,715,000	1984	Oct 2013	141,000	135	30 years	
Yale West (a)	Washington, DC	14,684,000	62,069,000	786,000	14,684,000	62,855,000	77,539,000	8,808,000	2011	Feb 2014	173,000	216	30 years	
The Wellington	Virginia	30,548,000	116,563,000	10,161,000	30,548,000	126,724,000	157,272,000	11,206,000	1960	Jul 2015	600,000	711	30 years	
Wellington Land Parcel (Trove) (e)	Virginia	15,000,000	—	14,690,000	—	29,690,000	29,690,000	—	n/a	Jul 2015	—	n/a	n/a	
Riverside Apartments	Virginia	38,924,000	184,854,000	20,544,000	38,924,000	205,398,000	244,322,000	11,872,000	1971	May 2016	1,001,000	1,222	30 years	
Riverside Apartments Land Parcel (e)	Virginia	15,968,000	—	3,254,000	—	19,222,000	19,222,000	—	n/a	May 2016	—	n/a	n/a	
		\$ 177,130,000	\$ 473,916,000	\$ 294,381,000	\$ 148,569,000	\$ 796,858,000	\$ 945,427,000	\$ 185,882,000			3,594,000	4,268		
Office Buildings														
1901 Pennsylvania Avenue	Washington, DC	\$ 892,000	\$ 3,481,000	\$ 19,565,000	\$ 892,000	\$ 23,046,000	\$ 23,938,000	\$ 17,042,000	1960	May 1977	100,000		28 years	
515 King Street	Virginia	4,102,000	3,931,000	8,158,000	4,102,000	12,089,000	16,191,000	6,255,000	1966	Jul 1992	75,000		50 years	
1220 19th Street	Washington, DC	7,803,000	11,366,000	16,550,000	7,803,000	27,916,000	35,719,000	16,773,000	1976	Nov 1995	105,000		30 years	
1600 Wilson Boulevard	Virginia	6,661,000	16,742,000	28,677,000	6,661,000	45,419,000	52,080,000	25,295,000	1973	Oct 1997	170,000		30 years	
Silverline Center	Virginia	12,049,000	71,825,000	100,170,000	12,049,000	171,995,000	184,044,000	86,729,000	1972	Nov 1997	549,000		30 years	
Courthouse Square	Virginia	—	17,096,000	9,448,000	—	26,544,000	26,544,000	15,441,000	1979	Oct 2000	118,000		30 years	
1776 G Street	Washington, DC	31,500,000	54,327,000	9,309,000	31,500,000	63,636,000	95,136,000	32,083,000	1979	Aug 2003	264,000		30 years	
Monument II	Virginia	10,244,000	65,205,000	9,778,000	10,244,000	74,983,000	85,227,000	28,830,000	2000	Mar 2007	208,000		30 years	
2000 M Street	Washington, DC	—	61,101,000	22,375,000	—	83,476,000	83,476,000	31,355,000	1971	Dec 2007	233,000		30 years	
2445 M Street	Washington, DC	46,887,000	106,743,000	(49,374,000)	37,333,000	66,923,000	104,256,000	9,099,000	1986	Dec 2008	292,000		30 years	
925 Corporate Drive	Virginia	4,518,000	24,801,000	1,333,000	4,518,000	26,134,000	30,652,000	9,747,000	2007	Jun 2010	135,000		30 years	
1000 Corporate Drive	Virginia	4,897,000	25,376,000	(186,000)	4,898,000	25,189,000	30,087,000	8,978,000	2009	Jun 2010	136,000		30 years	
1140 Connecticut Avenue	Washington, DC	25,226,000	50,495,000	15,987,000	25,226,000	66,482,000	91,708,000	18,774,000	1966	Jan 2011	184,000		30 years	
1227 25th Street	Washington, DC	17,505,000	21,319,000	8,653,000	17,505,000	29,972,000	47,477,000	8,391,000	1988	Mar 2011	137,000		30 years	
Braddock Metro Center	Virginia	18,817,000	71,250,000	(14,808,000)	16,615,000	58,644,000	75,259,000	6,725,000	1985	Sep 2011	356,000		30 years	
John Marshall II	Virginia	13,490,000	53,024,000	6,351,000	13,490,000	59,375,000	72,865,000	13,754,000	1996	Sep 2011	223,000		30 years	
Fairgate at Ballston	Virginia	17,750,000	29,885,000	5,794,000	17,750,000	35,679,000	53,429,000	9,075,000	1988	Jun 2012	146,000		30 years	
Army Navy Building	Washington, DC	30,796,000	39,315,000	10,642,000	30,796,000	49,957,000	80,753,000	7,583,000	1912	Mar 2014	109,000		30 years	
1775 Eye Street, NW	Washington, DC	48,086,000	51,074,000	8,473,000	48,086,000	59,547,000	107,633,000	10,842,000	1964	May 2014	188,000		30 years	
Watergate 600	Washington, DC	45,981,000	78,325,000	10,192,000	45,981,000	88,517,000	134,498,000	3,384,000	1972	Apr 2017	293,000		30 years	
		\$ 347,204,000	\$ 856,681,000	\$ 227,087,000	\$ 335,449,000	\$ 1,095,523,000	\$ 1,430,972,000	\$ 366,155,000			4,021,000			

Properties	Location	Initial Cost (b)			Net Improvements (Retirement) since Acquisition	Gross Amounts at Which Carried at December 31, 2017			Accumulated Depreciation at December 31, 2017	Year of Construction	Date of Acquisition	Net Rentable Square Feet	Units	Depreciation Life (d)
		Land	Buildings and Improvements			Land	Buildings and Improvements	Total (c)						
Retail Centers														
Takoma Park	Maryland	\$ 415,000	\$ 1,084,000	\$ 245,000	\$ 366,000	\$ 1,378,000	\$ 1,744,000	\$ 1,198,000	1962	Jul 1963	51,000			50 years
Westminster	Maryland	519,000	1,775,000	9,899,000	519,000	11,674,000	12,193,000	7,948,000	1969	Sep 1972	150,000			37 years
Concord Centre	Virginia	413,000	850,000	5,936,000	413,000	6,786,000	7,199,000	3,619,000	1960	Dec 1973	75,000			33 years
Wheaton Park	Maryland	796,000	857,000	4,853,000	796,000	5,710,000	6,506,000	4,114,000	1967	Sep 1977	74,000			50 years
Bradlee Shopping Center	Virginia	4,152,000	5,383,000	14,348,000	4,152,000	19,731,000	23,883,000	12,571,000	1955	Dec 1984	172,000			40 years
Chevy Chase Metro Plaza	Washington, DC	1,549,000	4,304,000	8,298,000	1,549,000	12,602,000	14,151,000	7,366,000	1975	Sep 1985	49,000			50 years
Shoppes of Foxchase	Virginia	5,838,000	2,979,000	14,812,000	5,838,000	17,791,000	23,629,000	7,914,000	1960	Jun 1994	134,000			50 years
Frederick County Square	Maryland	6,561,000	6,830,000	5,376,000	6,561,000	12,206,000	18,767,000	8,302,000	1973	Aug 1995	228,000			30 years
800 S. Washington Street	Virginia	2,904,000	5,489,000	5,954,000	2,904,000	11,443,000	14,347,000	5,485,000	1951	Jun 1998	46,000			30 years
Centre at Hagerstown	Maryland	13,029,000	25,415,000	2,144,000	13,029,000	27,559,000	40,588,000	14,358,000	2000	Jun 2002	333,000			30 years
Frederick Crossing	Maryland	12,759,000	35,477,000	2,070,000	12,759,000	37,547,000	50,306,000	16,709,000	1999	Mar 2005	295,000			30 years
Randolph Shopping Center	Maryland	4,928,000	13,025,000	1,188,000	4,928,000	14,213,000	19,141,000	5,809,000	1972	May 2006	83,000			30 years
Montrose Shopping Center	Maryland	11,612,000	22,410,000	2,285,000	11,020,000	25,287,000	36,307,000	10,105,000	1970	May 2006	147,000			30 years
Gateway Overlook	Maryland	28,816,000	52,249,000	763,000	29,110,000	52,718,000	81,828,000	18,937,000	2007	Dec 2010	220,000			30 years
Olney Village Center (a)	Maryland	15,842,000	39,133,000	2,114,000	15,842,000	41,247,000	57,089,000	9,768,000	1979	Aug 2011	198,000			30 years
Spring Valley Village (f)	Washington, DC	10,836,000	32,238,000	4,532,000	10,836,000	36,770,000	47,606,000	4,177,000	1941	Oct 2014	78,000			30 years
		\$ 120,969,000	\$ 249,498,000	\$ 84,817,000	\$ 120,622,000	\$ 334,662,000	\$ 455,284,000	\$ 138,380,000				2,333,000		
Total		\$ 645,303,000	\$ 1,580,095,000	\$ 606,285,000	\$ 604,640,000	\$ 2,227,043,000	\$ 2,831,683,000	\$ 690,417,000				9,948,000	4,268	

a) At December 31, 2017, our properties were encumbered by non-recourse mortgage amounts as follows: \$32.2 million on The Kenmore, \$13.1 million on Olney Village Center and \$46.6 million on Yale West. Mortgage amounts exclude premiums and debt loan costs.

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, 2017, total land, buildings and improvements are carried at \$1,983.3 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) As of December 31, 2017, Washington REIT had under development multifamily properties, the Wellington land parcel (Trove) and Riverside Apartments land parcel. The value not yet placed into service at December 31, 2017 was \$29.7 million and \$19.2 million, respectively.

f) As of December 31, 2017, Washington REIT had investments in various development, redevelopment and renovation projects, including Spring Valley Village and The Ashby at McLean. The total value of these projects, which has not yet been placed in service, is \$5.5 million at December 31, 2017.

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, 2017 (in thousands):

	Year Ended December 31,		
	2017	2016	2015
Real estate assets			
Balance, beginning of period	\$ 2,725,635	\$ 2,673,891	\$ 2,547,188
Additions:			
Property acquisitions ⁽¹⁾	124,306	240,499	162,702
Improvements ⁽¹⁾	84,560	66,840	50,954
Deductions:			
Impairment write-down	(81,982)	—	(5,909)
Write-off of disposed assets	(2,655)	(1,272)	(3,291)
Property sales	(18,181)	(254,323)	(77,753)
Balance, end of period	<u>\$ 2,831,683</u>	<u>\$ 2,725,635</u>	<u>\$ 2,673,891</u>
Accumulated depreciation			
Balance, beginning of period	\$ 657,425	\$ 692,608	\$ 640,434
Additions:			
Depreciation	94,558	88,347	86,536
Deductions:			
Impairment write-down	(48,830)	—	—
Write-off of disposed assets	(1,708)	(486)	(2,408)
Property sales	(11,028)	(123,044)	(31,954)
Balance, end of period	<u>\$ 690,417</u>	<u>\$ 657,425</u>	<u>\$ 692,608</u>

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

Revocation of
Statement of Amendment
of STIP and LTIP

On March 4, 2015, the Board of Trustees (the "Board") and Compensation Committee (the "Committee") of Washington Real Estate Investment Trust (the "Trust") approved a special amendment to the Short-Term Incentive Plan, effective January 1, 2014 (the "STIP"), and the Long Term Incentive Plan, effective January 1, 2014 (the "LTIP"), that set separate award opportunity levels under the STIP and LTIP for Mr. Stephen Riffée, as reflected in that certain Statement of Amendment of STIP and LTIP made as of March 4, 2015 (the "March 2015 Statement of Amendment").

On February 8, 2017, the Board and the Committee adopted resolutions approving the termination of the amendments reflected in the Statement of Amendment so that, effective as of January 1, 2017, Mr. Riffée will be subject to the same award opportunity levels that otherwise apply to officers of the Trust as set forth in the STIP and LTIP.

This Revocation of Statement of Amendment is made as of February 8, 2017 to serve as the written memorialization of the termination of the March 2015 Statement of Revocation as described above.

Washington Real Estate Investment Trust

By: /s/ Kelly N. Shiflett
Corporate Secretary

WASHINGTON★REIT

February 6, 2017

Taryn Fielder
1005 Jarvis Court
McLean VA, 22101

Dear Taryn:

This letter is written on behalf of Washington Real Estate Investment Trust (Washington REIT) and will confirm our verbal offer to you to join us as Senior Vice President, General Counsel and Corporate Secretary on March 29, 2017. In this position, you will report to Paul McDermott, President and Chief Executive Officer. This offer, and the equity compensation award provided herein, is contingent upon Washington REIT's Compensation Committee and Board of Trustee approval.

Below is an outline of the terms and conditions of your employment, compensation and benefits:

Base Salary - You will be paid \$13,541.66 (\$325,000 annualized) on a semi-monthly basis.

Incentive Compensation –

- Short-Term Incentive Plan – You will be eligible to participate in Washington REIT's Short-Term Incentive Plan (STIP) at the SVP level at a pro-rated portion for performance year 2017 in accordance with the terms of the STIP as they may be amended by the Board for all participating employees generally from time-to-time. Currently, the measured performance metrics in the STIP are core funds from operations per share, core funds available for distribution per share and same store net operating income growth (each weighted 25%) and individual performance goals (weighted 25%). The CEO will consult with you each year concerning establishment of individual performance goals. An award under the STIP is expressed as a multiple of Base Salary. Your target level STIP is 130% of Base Salary. An award under the STIP is paid 50% in cash and 50% in restricted shares. The restricted shares will vest one third (1/3) of the shares on each of the first three anniversaries of the last day of the performance period, over a three year period following the end of the one-year performance period while you remain employed.
- Rolling Three-Year Long-Term Incentive Plan – You will be eligible to participate in Washington REIT's Long-Term Incentive Plan (LTIP) at the SVP level at a pro-rated portion for performance year 2017 in accordance with the terms of the LTIP, as they may be amended by the Board for all participating employees generally from time-to-time. The measured performance metric in the LTIP is 100% total shareholder return (CAGR) (50% absolute TSR and 50% relative TSR). It is a rolling three-year plan with the opportunity to reset TSR goals annually. An Award under the LTIP is expressed as a multiple of Base Salary. Your target annualized percentage is 80% of Base Salary. The LTIP is based on performance during a multi-year performance period. If awarded, 75% of shares will be issued on an unrestricted basis by no later than the fifteenth (15th) day of the third month following the end of the performance period. The remaining 25% of the shares will be restricted and vest one year after the end of the performance period.
- As noted above, the Board may amend the plans for participating employees generally from time-to-time. Refer to Plan Summaries for further details.

WASHINGTON★REIT

Non-Standard Compensation – On your first day of employment, you will be awarded restricted stock units (RSUs) equivalent to \$75,000, based on the closing price per common share on your date of hire as a signing bonus. The RSU's will vest on a pro-rata basis over five years from grant date, subject to your continued employment through each anniversary of the grant date.

Clawback Policy – All incentive-based compensation granted to you during your employment will be subject to the Clawback Policy of Washington REIT adopted by the Board, as it may be amended for all employees generally from time-to-time.

Supplemental Executive Retirement Plan (SERP) – You are eligible to participate in the SERP Plan on May 1, 2017. The purpose of the SERP is to provide officers with financial security in exchange for a career commitment. The SERP is designed such that at age 65, you could be expected to have an accumulation (under certain assumptions) that is approximately equal to the present value of a life annuity sufficient to “replace” 40% of your final three-year average salary. If your years of service as an officer at age 65 are less than 20 years, a pro-rata reduction is applied to the 40% target. Further details will be provided upon employment.

Vacation - Your vacation will accrue based on your hours worked up to four weeks per year.

Sick - Your sick leave will accrue based on your hours worked up to 9 days per year.

Benefits – You will be eligible to participate in the company's benefits on the first of the month following your date of hire.

In the event that it becomes necessary to change any of the above benefit plans, compensation packages, or standard operating procedures, such changes will apply to you as they do to other Washington REIT employees.

Washington REIT is required to verify the employment eligibility of every new employee. Therefore, should you accept this position, please bring documents to verify eligibility to work in the United States on your first day of work.

This letter constitutes the entire agreement between you and Washington REIT, and it supersedes all prior agreements and understandings between you and the company as to the matters outlined in this letter.

Please confirm your agreement and acceptance of the above terms and conditions of this offer by signing and dating the enclosed copy of this letter. All positions at Washington REIT are at-will and can be terminated, with or without cause or notice at any time, at the option of Washington REIT or the employee.

We look forward to having you join us as a member of the Washington REIT Team. A member of the Human Resources Staff will conduct your orientation the week of your start date. If you should have any questions, please feel free to contact me at (202) 774 - 3268.

WASHINGTON★REIT

Sincerely,

Brian Guttman
Vice President of Human Resources

I HAVE READ AND ACCEPT THE FOREGOING TERMS AND CONDITIONS OF THIS OFFER OF EMPLOYMENT:

NAME /s/ Taryn D. Fielder

DATE 2-16-17

**SALE OF ARLINGTON TOWER,
ARLINGTON, VIRGINIA**

* * *

PURCHASE AND SALE AGREEMENT

BETWEEN

**1300 N. 17TH STREET, L.P.,
AS SELLER**

AND

**WASHREIT ARLINGTON TOWER LLC,
AS PURCHASER**

* * *

DATED AS OF DECEMBER 29, 2017

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PURCHASE AND SALE AGREEMENT

This PURCHASE AND SALE AGREEMENT (this “**Agreement**”) is made and entered into as of the date set forth on the cover page hereof (the “**Effective Date**”), by and between **1300 N. 17TH STREET, L.P.**, a Delaware limited partnership (“**Seller**”), and **WASHREIT ARLINGTON TOWER LLC**, a Delaware limited liability company (“**Purchaser**”).

ARTICLE 1: PURCHASE AND SALE OF PROPERTY

On the terms and conditions stated in this Agreement, Seller hereby agrees to sell to Purchaser and Purchaser hereby agrees to purchase from Seller all of Seller’s right, title, and interest in the following described property (collectively, the “**Property**”):

1.1 Land. All of that certain tract of land situated in the City of Arlington, Virginia, described on EXHIBIT A attached hereto and incorporated herein by reference (which includes Seller’s fee interest in the Land (as hereinafter defined) and Seller’s leasehold interest under the Ground Lease (as hereinafter defined)), together with all rights and appurtenances pertaining to such land, including, without limitation, all of Seller’s right, title and interest in and to (i) all minerals, oil, gas, and other hydrocarbon substances thereon; (ii) all adjacent strips, streets, roads, alleys and rights-of-way, public or private, open or proposed; (iii) all development rights, covenants, easements, privileges, and hereditaments, whether or not of record, and (iv) all access, air, water, riparian, development, utility, and solar rights (collectively, the “**Land**”);

As used herein, “**Ground Lease**” shall mean, collectively: (i) that certain Lease Agreement dated as of June 15, 1978 by and between Twin Development Corporation (“**First Lessor**”) and 1300 North 17th Street Associates (“**First Lessee**”), and recorded in Deed Book 1978 at Page 1636; (ii) as the lessor’s interest therein was assigned from First Lessor to First American Bank of Virginia as trustee of LaSalle 1300 Trust (“**Second Lessor**”) pursuant to that certain Assignment of Lessor’s Interest in Ground Lease dated as of December 21, 1984 by and between First Lessor and Second Lessor, and recorded in Deed Book 2164 at Page 367; (iii) as the lessee’s interest therein was assigned from First Lessee to LaSalle Fund II (“**Second Lessee**”) pursuant to that certain Assignment of Lessee’s Interest in Ground Lease dated as of December 21, 1984 by and between First Lessee and Second Lessee, and recorded in Deed Book 2164 at Page 379; (iv) as amended by that certain Amendment to Ground Lease dated as of October 16, 1996 by and between Second Lessor and Second Lessee, and recorded in Deed Book 2801 at Page 319; (v) as the lessee’s interest therein was assigned from Second Lessee to Beacon Properties, L.P. (“**BP LP**”) pursuant to that certain Assignment and Assumption of Lessee’s Interest in Ground Lease dated as of October 16, 1996 by and between Second Lessee and BP LP, and recorded in Deed Book 2801 at Page 362; (vi) as the lessor’s interest therein was assigned from Second Lessor to BP LP pursuant to that certain Assignment and Assumption of Lessor’s Interest in Ground Lease dated as of October 16, 1996 by and between Second Lessor and BP LP, and recorded in Deed Book 2801 at Page 367; (vii) as the lessor’s and the lessee’s interests therein were assigned from BP LP to BP-1300 North Seventeenth, L.L.C. (“**BP-1300**”) pursuant to that certain Special Warranty Deed and Assignment and Assumption of Ground Lease dated as of December 15, 1997 by and between BP LP and BP-1300, and recorded in Deed Book 2865 at Page 1031; (viii) as the lessor’s and the lessee’s interests therein were assigned from VA-1300 North Seventeenth, L.L.C. (successor by name change to BP-1300) (“**VA-1300**”) to

1300 North Seventeenth Street Property LLC (“**1300 North LLC**”) pursuant to that certain Special Warranty Deed and Assignment and Assumption of Ground Lease dated as of April 10, 2007 by and between VA-1300 and 1300 North LLC, and recorded in Deed Book 4089 at Page 2452; (ix) as the lessor’s and the lessee’s interests therein were assigned from 1300 North LLC to 1300 N. 17th Street, L.P. (“**1300 N. LP**”) pursuant to that certain Special Warranty Deed and Assignment and Assumption of Ground Lease dated as of May 5, 2011, and recorded in Deed Book 4458 at Page 1146; and (x) as amended by that certain Amendment No. 2 to Ground Lease dated as of May 5, 2011 by and between 1300 N. LP, as lessor, and 1300 N. LP, as lessee, and recorded in Deed Book 4458 at Page 1156; all such recording being among the land records of Arlington County, Virginia.

1.2 Improvements. That certain 19-story office building known as Arlington Tower situated at 1300 North 17th Street in Arlington, Virginia, and all other improvements and structures constructed on the Land (collectively, the “**Improvements**”, and together with the Land, the “**Real Property**”);

1.3 Personal Property. Other than the personal property listed on Schedule 1.3 that will be retained by Seller, and specifically excluding any property owned by the Tenants (as defined below), the following (collectively, the “**Personal Property**”):

1.3.1 mechanical systems, fixtures, machinery and equipment comprising a part of or attached to or located upon the Real Property;

1.3.2 maintenance equipment and tools, if any, owned by Seller and used exclusively in connection with, and located in, on or at, the Real Property;

1.3.3 site plans, surveys, plans and specifications, manuals and instruction materials, marketing materials and floor plans in Seller’s possession which relate to the Real Property;

1.3.4 pylons and other signs situated in, on or at the Real Property; and

1.3.5 other tangible personal property owned by Seller and used exclusively in connection with, and located in, on or at, the Real Property as of the Closing (as defined below);

1.4 Leases. All leases, licenses and other occupancy agreements (and all amendments and modifications of any of the foregoing) with tenants or other persons or entities (individually, a “**Tenant**” and collectively, the “**Tenants**”; for the avoidance of doubt, Seller shall not be deemed a “Tenant” for any purpose hereunder, including in connection with the Ground Lease and TS Lease (as hereinafter defined)) leasing all or any portion of the Real Property, but excluding the Ground Lease, the TS Lease, and any lease to the existing property manager entered into in connection with the existing property management agreement, which such lease will be terminated as of the Closing (as defined below) (the “**Leases**”), all of which Leases are set forth on Schedule 1.4 attached hereto;

1.5 Security Deposits/Letters of Credit. All security deposits and letters of credit held by Seller under each of the Leases as of the Closing Date, a current list of which is set forth on Schedule 1.5 attached hereto;

1.6 Guaranties. All guaranties of the Leases, if any;

1.7 Contracts. All contract rights related to the Land, Improvements, Personal Property and Leases, to the extent assignable, including, without limitation, Seller's interest in, to and under the following: parking, management, maintenance, construction, commission, architectural, supply or service contracts, plans and specifications, surveys, warranties, guarantees and bonds and other agreements related to the Land, Improvements, Personal Property or Leases (collectively, the "**Contracts**"), a current list of which is set forth on Schedule 1.7 attached hereto. The Contracts designated for termination on Schedule 1.7 (including, without limitation, the existing property management agreement and those contracts designated as "Portfolio Contracts" (which shall be terminated only to the extent such Portfolio Contracts relate to the Property)) are hereinafter referred to as the "**Terminated Contracts**", and all other Contracts on Schedule 1.7 are hereinafter referred to as the "**Transferred Contracts**".

1.8 Permits. All permits, licenses, certificates of occupancy, entitlements and governmental approvals which relate to the Land, Improvements, Personal Property, Leases and Contracts, to the extent assignable (collectively, the "**Permits**"); and

1.9 Intangibles. All names, trade names, street numbers, telephone numbers, e-mail addresses, websites, logos, marks, other symbols and general intangibles, that relate solely to the Land or the Improvements, provided, however, solely to the extent that the same do not contain any or all of the words "Tishman" or "Speyer" (individually or together) as a part thereof (collectively, the "**Intangibles**").

ARTICLE 2: PURCHASE PRICE AND DEPOSIT

2.1 Payment. The purchase price for the Property (the "**Purchase Price**") is TWO HUNDRED FIFTY MILLION and 00/100 Dollars (\$250,000,000.00), subject to adjustment solely as set forth in this Agreement. The Purchase Price shall be paid to Seller by wire transfer of immediately available funds at Closing.

2.2 Deposit.

2.2.1 No later than the second (2nd) Business Day after the Effective Date, Purchaser shall deposit with Chicago Title Insurance Company (the "**Escrow Agent**"), by bank wire transfer of immediately available funds the sum of TWO MILLION FIVE HUNDRED THOUSAND and 00/100 Dollars (\$2,500,000.00) (together with all interest thereon, if any, the "**Initial Deposit**"). On the Effective Date, Seller, Purchaser and Escrow Agent have entered into an escrow agreement substantially in the form of EXHIBIT B attached hereto (the "**Deposit Escrow Agreement**"). If Purchaser elects to proceed under this Agreement pursuant to Section 4.1.5, Purchaser shall deposit, no later than the first (1st) Business Day after the expiration of the Due Diligence Period (as hereinafter defined), with the Escrow Agent by bank wire transfer of immediately available funds, an additional deposit in the sum of THREE MILLION SEVEN HUNDRED FIFTY THOUSAND and 00/100 Dollars (\$3,750,000.00) (together with all interest thereon, if any, the "**Additional Deposit**", and together with the Initial Deposit, collectively, as the context may require, the "**Deposit**"). The Deposit shall be refundable to Purchaser or payable to

Seller as expressly provided herein. If Purchaser fails to timely make the Initial Deposit or the Additional Deposit, as provided in this Section 2.2.1, this Agreement shall automatically terminate and be of no further force and effect, and no party shall have any rights or obligations under or by reason of this Agreement, except for those provisions that expressly survive termination of this Agreement.

2.2.2 Escrow Agent shall place the Deposit in an interest-bearing escrow account at a federally insured commercial bank acceptable to both Seller and Purchaser. Escrow Agent shall hold the Deposit in accordance with the terms of this Agreement and the Deposit Escrow Agreement. At Closing, Escrow Agent shall deliver the Deposit to Seller and credit the Deposit against the Purchase Price.

ARTICLE 3: TITLE AND SURVEY

3.1 Permitted Exceptions. The Property is sold and shall be conveyed subject to the following matters (collectively, the “**Permitted Exceptions**”):

3.1.1 all presently existing and future liens for unpaid real estate taxes, assessments and water and sewer charges not due and payable as of the Closing Date (as defined below);

3.1.2 all present and future zoning, building, environmental and other laws, ordinances, codes, restrictions and regulations of all governmental authorities having jurisdiction with respect to the Property, including, without limitation, landmark designations and all zoning variances and special exceptions, if any;

3.1.3 any state of facts shown on the survey dated December 14, 2017 (and last updated December 29, 2017), made by Michael Flynn of Alexandria Surveys International, LLC (the “**Survey**”);

3.1.4 rights of the Tenants under the Leases;

3.1.5 all exceptions to title disclosed on Schedule B, Section II of the Title Commitment (as defined below), together with any new exceptions disclosed on Schedule B, Section II of any update to the Title Commitment actually obtained by Purchaser prior to Purchaser remitting the Additional Deposit in accordance with Section 2.2.1;

3.1.6 any lien or encumbrance (including, without limitation, any mechanic’s lien and materialmen’s lien caused by any Tenant) the removal of which is the obligation of a Tenant pursuant to a Lease;

3.1.7 the Ground Lease and the TS Lease, including each respective term and condition thereof;

3.1.8 matters caused by Purchaser or its activities on the Property;

3.1.9 any *lis pendens* or similar lien recorded against the Property by the Café Tenant (as defined below) (a “**Café Lease Lien**”); and

3.1.10 any other matter which the Title Company may raise as an exception to title, provided that the Title Company shall agree to omit the same as an exception to its title policy for the Real Property.

3.2 Title Commitment and Survey. Purchaser hereby acknowledges receipt of (i) the commitment for an owner's title insurance policy for the Property, issued by Chicago Title Insurance Company (the "**Title Company**"), with an effective date of November 21, 2017 at 8:00 A.M., a copy of which is attached hereto as EXHIBIT K (the "**Title Commitment**"); and (ii) the Survey.

3.3 Condition of Title.

3.3.1 Notwithstanding anything herein to the contrary, Seller agrees to satisfy and discharge at or prior to Closing the following items (the "**Mandatory Cure Items**"): (i) all mortgages and deeds of trust encumbering the Property that (a) that Seller knowingly and intentionally placed (or allowed to be placed) on the Property, and/or (b) were recorded to secure a debt or obligation of Seller, and (ii) up to a cost to Seller not to exceed One Million Dollars (\$1,000,000.00), all other monetary encumbrances (including, without limitation, mechanics' liens and judgment liens) encumbering the Property (but excluding any encumbrance the removal of which is an obligation of any Tenant pursuant to the Leases), provided that such other monetary encumbrances can be removed from title solely by the payment of money along with the preparation and/or filing of appropriate satisfaction instruments in connection therewith (and, for the avoidance of doubt, Seller shall not be required to take or bring any action or proceeding in connection therewith), and provided further that if the cost of satisfying and discharging such other monetary encumbrances exceeds One Million Dollars (\$1,000,000.00), then (A) the same shall not constitute a default of Seller, but (B) Purchaser shall have the right to terminate this Agreement unless Seller agrees in writing to pay such excess costs at Closing to satisfy and discharge such other monetary encumbrances at Closing. Notwithstanding anything herein to the contrary, if the Property shall, at the time of the Closing, be subject to any liens (such as for judgments or transfer, inheritance, estate, franchise, license or other similar taxes), encumbrances or other title exceptions which would be grounds for Purchaser to reject title hereunder, the same shall not be deemed an objection to title, provided that, at the time of the Closing, Seller delivers by wire transfer at the Closing the amount required to satisfy the same and delivers to Purchaser and/or the Title Company at the Closing instruments in recordable form (and otherwise in form reasonably satisfactory to the Title Company in order to omit same as an exception to its title policy) sufficient to satisfy and discharge of record such liens and encumbrances together with all costs of recording or filing such instruments.

3.3.2 Purchaser shall deliver to Seller, promptly upon Purchaser's receipt of the same from the Title Company, any update to the Title Commitment along with any underlying documents in connection therewith received by Purchaser.

3.3.3 The amount of any unpaid taxes, assessments and water and sewer charges which Seller is obligated to pay and discharge may, at the option of Seller, be paid by Seller out of the balance of the Purchase Price at the Closing.

3.3.4 Notwithstanding anything herein to the contrary, the acceptance of the Deed (as hereinafter defined) by Purchaser shall be deemed to be full performance of, and discharge of,

every agreement and obligation on Seller's part to be performed under this Agreement, except for such matters which are expressly stated to survive the Closing hereunder.

ARTICLE 4: PURCHASER'S INSPECTIONS

4.1 Purchaser's Inspections.

4.1.1 Subject to the provisions of this Section 4.1, Purchaser and its agents, employees, consultants, inspectors, appraisers, engineers and contractors (collectively, "**Purchaser's Representatives**") shall have the right, through the Closing Date, from time to time, upon the advance notice required pursuant to this Section 4.1, to enter upon and pass through the Property during normal business hours to examine and inspect the same. Purchaser agrees that, after the expiration of the Due Diligence Period, Purchaser shall not have the right to terminate this Agreement or obtain a reduction of the Purchase Price as a result of any fact, circumstance or other matter discovered by its inspections of the Property (including, without limitation, relating to the physical condition of the Property, the operations of the Property or otherwise), except as expressly provided in this Agreement.

4.1.2 In conducting any inspection of the Property or otherwise accessing the Property, Purchaser shall at all times comply with all laws and regulations of all applicable governmental authorities, and neither Purchaser nor any of Purchaser's Representatives shall (i) contact or have any discussions with any of Seller's employees, agents or representatives at, or contractors providing services to, the Property, unless in each case Purchaser obtains the prior written consent of Seller (not to be unreasonable withheld, conditioned, or delayed), it being agreed that all such contacts or discussions shall, pending any such approval, be directed to Jeffrey Chod via electronic mail (at JChod@TishmanSpeyer.com), (ii) interfere with the business of Seller (or any of its Tenants) conducted at the Property or disturb the use or occupancy of any occupant of the Property, and/or (iii) damage the Property. Purchaser shall have the right to have discussions with any Tenants (including, without limitation, conducting Tenant interviews, and communicating with Tenants by way of telephone or electronic mail messages); provided, however, that all such discussions shall be coordinated through Seller (so long as Seller is diligently coordinating such discussions in a prompt and responsive manner), and Seller shall be entitled to have a representative present during such discussions; provided, further, however, that the inability of Seller to make a representative available for such discussions shall not prevent Purchaser from conducting such discussions after reasonably attempting to reschedule same with Seller; and provided further that if any Tenant shall decline to participate in any such discussion or other interview with Purchaser, Seller's obligations under this Section 4.1.2 with respect to such Tenant communication shall be satisfied.

4.1.3 In conducting any inspection of the Property or otherwise accessing the Property, Purchaser and Purchaser's Representatives shall at all times comply with, and shall be subject to, the rights of the Tenants under the Leases (and any persons claiming by, under or through such Tenants). Purchaser shall schedule and coordinate all inspections, including, without limitation, any environmental tests, and other access with Seller and shall give Seller at least two (2) Business Days' prior notice thereof. Seller shall be entitled to have a representative present at all times during each such inspection or other access; provided, however, that the inability of Seller to make a

representative available for such inspection or other access shall not prevent Purchaser from conducting such inspection or from so accessing the Property after reasonably attempting to reschedule same with Seller. Purchaser agrees to pay to Seller on demand the cost of repairing and restoring any damage or disturbance that Purchaser or Purchaser's Representatives shall cause to the Property. All inspection fees, appraisal fees, engineering fees and other costs and expenses of any kind incurred by Purchaser or Purchaser's Representatives relating to such inspection and its other access shall be at the sole expense of Purchaser. Purchaser shall keep all information obtained during its inspections and access to the Property confidential in accordance with Section 14.19. Purchaser and Purchaser's Representatives shall not be permitted to conduct borings of the Property or drilling or sampling in or on the Property, or any other invasive, intrusive or destructive testing in connection with the preparation of an environmental audit or in connection with any other inspection of the Property without the prior written consent of Seller, which Seller may give or withhold in its sole discretion (and, if such consent is given, Purchaser shall be obligated to pay to Seller on demand the cost of repairing and restoring any damage as aforesaid). Notwithstanding anything herein to the contrary, for the avoidance of doubt, Purchaser acknowledges and agrees that it shall have no right to review or inspect any of the following: (x) internal memoranda, correspondence, analyses, documents or reports prepared by or for Seller, its property manager, and/or any affiliate of Seller in connection with (A) this Agreement and the transactions contemplated hereby, (B) marketing the Property, and/or (C) the acquisition or refinancing of the Property by Seller (other than environmental reports, if any), and (y) appraisals or other valuations of the Property in the possession of Seller or its property manager. Prior to conducting any physical inspection or testing at the Property, other than mere visual examination, Purchaser shall obtain, and during the period of such inspection or testing shall maintain, at its expense, commercial general liability insurance, including a contractual liability endorsement, and personal injury liability coverage, with Seller and its managing agent, Tishman Speyer Properties, L.P., as additional insureds, from any insurer licensed in the Commonwealth of Virginia, which insurance policies must have limits for bodily injury and death of not less than Three Million Dollars (\$3,000,000) for any one occurrence. Prior to making any entry upon the Property for other than visual examination, Purchaser shall furnish to Seller a certificate of insurance evidencing the foregoing coverages. The provisions of this Section 4.1.3 shall survive the Closing or any termination of this Agreement.

4.1.4 Purchaser agrees to indemnify, defend, and hold harmless Seller, its partners, members, affiliates, property manager, and their respective officers, directors, agents, employees, and representatives (collectively, the "**Indemnified Parties**") from and against any and all liens, claims, or damages of any kind or nature, including, without limitation, any demands, actions or causes of action, assessments, losses, costs, expenses, liabilities, interest and penalties, and reasonable attorneys' fees suffered, incurred, or sustained by any of the Indemnified Parties caused by Purchaser's or Purchaser's Representatives' violation of the foregoing provisions of this Section 4.1. The provisions of this Section 4.1.4 shall survive the Closing or any termination of this Agreement.

4.1.5 Notwithstanding anything herein to the contrary, Purchaser shall have from the Effective Date through 5:00 p.m. (Eastern Standard Time) on December 29, 2017 (the "**Due Diligence Period**") within which to determine, in its sole discretion, whether all matters related to

the Property are satisfactory to Purchaser. Purchaser is entitled to terminate this Agreement at any time prior to the expiration of the Due Diligence Period for any reason or no reason by giving written notice to Seller (a “**Due Diligence Termination Notice**”) of such election to terminate prior to the expiration of the Due Diligence Period, whereupon the Initial Deposit shall be promptly returned to Purchaser. If Purchaser, in its sole discretion, determines that Purchaser wishes to proceed with the transactions contemplated under this Agreement, then Purchaser shall deliver the Additional Deposit pursuant to Section 2.2.1 hereof. If Purchaser fails to timely deliver the Additional Deposit as and when required under Section 2.2.1, notwithstanding anything herein to the contrary, including, without limitation, Purchaser’s failure to timely deliver a Due Diligence Termination Notice, Purchaser shall be deemed to have terminated this Agreement, and this Agreement shall automatically terminate and be of no further effect, and no party hereto shall have any rights or obligations under or by reason of this Agreement, except under the provisions of this Agreement that expressly survive termination of this Agreement, and the Initial Deposit shall be promptly returned to Purchaser.

4.2 As Is, Where Is.

4.2.1 Except as provided in the express representations, warranties and covenants (including, without limitation, indemnity obligations) of Seller set forth in this Agreement and in the documents and instruments executed and delivered by Seller in connection with the Closing (collectively, the “**Express Representations**”), Seller does not, by the execution and delivery of this Agreement, and Seller shall not, by the execution and delivery of any document or instrument executed and delivered in connection with the Closing, make any representation or warranty, express or implied, of any kind or nature whatsoever, with respect to the Property, and all such warranties are hereby disclaimed.

4.2.2 Without limiting the generality of the foregoing, other than as set forth in the Express Representations: (a) Seller makes, and shall make, no express or implied warranty as to matters of zoning, acreage, tax consequences, physical or environmental condition (including, without limitation, laws, rules, regulations, orders and requirements pertaining to the use, handling, generation, treatment, storage or disposal of any toxic or hazardous waste or toxic, hazardous or regulated substance), valuation, governmental approvals, governmental regulations or any other matter or thing relating to or affecting the Property or Seller (collectively, the “**Disclaimed Matters**”); (b) the Property, including without limitation the roofs, all structural components, all heating, ventilating, air conditioning, mechanical, plumbing, and electrical systems, fire and life safety and all other parts of the Improvements constituting a portion of the Property, shall be conveyed to Purchaser, and Purchaser shall accept same, in their “AS IS” “WHERE IS” condition on the Closing Date, “WITH ALL FAULTS” and “SUBJECT TO ALL DEFECTS”; and (c) Seller hereby expressly disclaims all warranties of MERCHANTABILITY and FITNESS FOR A PARTICULAR PURPOSE. Purchaser acknowledges that Seller’s willingness to sell the Property to Purchaser at the Purchase Price has been induced, in part, by the agreement of Purchaser to purchase the Improvements and the Personal Property in such “AS IS” condition. Purchaser hereby acknowledges, represents and warrants that it is not in a disparate bargaining position with respect to Seller in connection with the transaction contemplated hereby, that Purchaser freely and fairly agreed to the waivers and conditions of this Section 4.2 as part of the negotiations of this Agreement,

and Purchaser has been represented by adequate legal counsel in connection herewith and has conferred with such legal counsel concerning the waivers and other conditions of this Section 4.2.

4.2.3 Seller makes no warranty with respect to the presence of Hazardous Materials on, above or beneath the Land or Improvements (or any parcel in proximity thereto) or in any water on or under the Property. The Closing hereunder shall be deemed to constitute an express waiver of Purchaser's right to cause Seller to be joined in any action brought against Purchaser under any Environmental Laws (as hereinafter defined) with respect to the Property. As used herein, the term "**Hazardous Materials**" shall mean (a) those substances included within the definitions of any one or more of the terms "hazardous materials", "hazardous wastes", "hazardous substances", "industrial wastes", and "toxic pollutants", as such terms are defined under the Environmental Laws, or any of them, (b) petroleum and petroleum products, including, without limitation, crude oil and any fractions thereof, (c) natural gas, synthetic gas and any mixtures thereof, (d) asbestos and or any material which contains any hydrated mineral silicate, including, without limitation, chrysotile, amosite, crocidolite, tremolite, anthophyllite and/or actinolite, whether friable or non-friable, (e) polychlorinated biphenyl ("**PCBs**") or PCB-containing materials or fluids, (f) radon, (g) any other hazardous or radioactive substance, material, pollutant, contaminant or waste, and (h) any other substance with respect to which any Environmental Law or governmental authority requires environmental investigation, monitoring or remediation. As used herein, the term "**Environmental Laws**" shall mean all federal, state and local laws, statutes, ordinances and regulations, now or hereafter in effect, in each case as amended or supplemented from time to time, including, without limitation, all applicable judicial or administrative orders, applicable consent decrees and binding judgments relating to the regulation and protection of human health, safety, the environment and natural resources (including, without limitation, ambient air, surface, water, groundwater, wetlands, land surface or subsurface strata, wildlife, aquatic species and vegetation), including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (42 U.S.C. §§ 9601 et seq.) ("**CERCLA**"), the Hazardous Material Transportation Act, as amended (49 U.S.C. §§ 1801 et seq.), the Federal Insecticide, Fungicide, and Rodenticide Act, as amended (7 U.S.C. §§ 136 et seq.), the Resource Conservation and Recovery Act, as amended (42 U.S.C. §§ 6901 et seq.), the Toxic Substances Control Act, as amended (15 U.S.C. §§ 2601 et seq.), the Clean Air Act, as amended (42 U.S.C. §§ 7401 et seq.), the Federal Water Pollution Control Act, as amended (33 U.S.C. §§ 1251 et seq.), the Occupational Safety and Health Act, as amended (29 U.S.C. §§ 651 et seq.), the Safe Drinking Water Act, as amended (42 U.S.C. §§ 300f et seq.), any state or local counterpart or equivalent of any of the foregoing, and any federal, state or local transfer of ownership notification or approval statutes.

4.2.4 Without in any way limiting any provision of this Section 4.2, Purchaser specifically acknowledges and agrees that, except with respect to the Express Representations, Purchaser hereby waives, releases and discharges any claim it has, might have had or may have against Seller with respect to (i) the Disclaimed Matters, (ii) the condition of the Property as of the Closing Date, (iii) the past, present or future condition or compliance of the Property with regard to any Environmental Laws or other environmental protection, pollution control or land use laws, rules, regulations, orders or requirements, including, without limitation, CERCLA, or (iv) any other state of facts that exists with respect to the Property. The waiver, release and discharge set forth in Section 4.2.3 and this Section 4.2.4 shall survive the Closing or any termination of this Agreement.

ARTICLE 5: REPRESENTATIONS AND WARRANTIES

5.1 Seller's Representations and Warranties. Seller represents to Purchaser as of the Effective Date as follows:

5.1.1 Organization. Seller is a limited partnership validly existing and in good standing under the laws of the State of Delaware, and is authorized to do business in the Commonwealth of Virginia.

5.1.2 Authority/Consent. Seller possesses all requisite power and authority, has taken all actions required by its organizational documents and applicable law, and has obtained all necessary consents, to execute and deliver this Agreement and to consummate at Closing the transactions contemplated in this Agreement.

5.1.3 Litigation. Except as may be disclosed on Schedule 5.1.3 attached hereto, no action, suit or other proceeding (including, but not limited to, any condemnation action or real estate tax appeal) is pending or, to Seller's knowledge, has been threatened in writing that concerns or involves the Property.

5.1.4 Bankruptcy. No bankruptcy, insolvency, reorganization or similar action or proceeding, whether voluntary or involuntary, is pending, or, to Seller's knowledge, threatened, against Seller.

5.1.5 Other Sales Agreements. Other than this Agreement, Seller has not entered into any contract to sell the Property or any part thereof that is currently in effect.

5.1.6 Options or Rights of First Refusal. Other than pursuant to this Agreement, Seller has not granted any option, right of first refusal or first opportunity to any party to purchase the Property, any interest therein or any portion thereof.

5.1.7 Contracts. Except for the Transferred Contracts, there are no contracts of construction, employment, parking, maintenance, commission, management, service, or supply currently in effect related to the Property that will be binding on Purchaser or affect the Property after Closing. Prior to the Effective Date, Seller has provided Purchaser with true, correct and complete copies of all Contracts, other than the Portfolio Contracts, including all amendments and modifications thereof. To Seller's knowledge, Seller is not in default of its obligations under, nor is any other party in default of its obligations under, any Contract.

5.1.8 Employees. Seller has no, and in the last five (5) years has not had, any employees.

5.1.9 Leases.

5.1.9.1 Except for the Ground Lease, the TS Lease, the Leases reflected on Schedule 1.7, and leases, licenses and other occupancy agreements that may be entered into by Seller pursuant to Sections 6.1, there are no leases, licenses or other occupancy agreements (including, solely to Seller's knowledge, no subleases) that affect the Property. Prior to the Effective

Date, Seller has provided Purchaser with true, correct and complete copies of all Leases, including all amendments, assignments, other modifications, subleases of which Seller has knowledge, and guarantees thereof.

5.1.9.2 Except as set forth on Schedule 5.1.9.2, (a) to Seller's knowledge, Seller is not in default of its obligations under, nor, to Seller's knowledge, is any other party in default of its obligations under, any Lease, (b) no written notice of any default has been given or received by Seller under any of the Leases, (c) no Tenant has given written notice of its intention to vacate its premises upon expiration of its Lease or earlier, and (d) all Tenants are in possession of the premises leased by them pursuant to the Leases. To Seller's knowledge, each Lease is in full force and effect.

5.1.9.3 Intentionally Omitted.

5.1.9.4 Except as set forth on Schedule 5.1.9.4, (a) no Tenant has paid any rent more than one (1) month in advance, (b) no Tenant is entitled to "free" rent, tenant allowances, or other rent concessions, (c) to Seller's knowledge, no Tenant is contesting the payment of any rent required by its respective Lease or its obligation to pay any charge or increase in rent or charges as required by its Lease, and (d) no Tenant has borrowed money from Seller to pay any rent.

5.1.9.5 No guarantor under any guaranty executed in connection with any of the Leases has been discharged of its obligations by Seller.

5.1.9.6 Seller has not received any written notice of a bankruptcy event involving any tenant during Seller's period of ownership of the Property.

5.1.9.7 All improvement work required to be performed by Seller or its affiliates under the Leases has been completed, and full payment for such work has been made.

5.1.9.8 Except as set forth on Schedule 5.1.9.8, there are no leasing brokerage agreements, leasing commission agreements or other agreements (collectively, "**Leasing Brokerage Agreements**") providing for the payments of any amounts for leasing activities or procuring tenants with respect to the Property which will become due and payable by Purchaser after Closing.

5.1.9.9 Prior to the Effective Date, Seller has delivered to the Café Tenant a notice terminating the Café Lease.

5.1.10 Fixtures and Personal Property. All fixtures, machinery, equipment and other articles of Personal Property attached or appurtenant to, or used in connection with, the Property (other than those belonging to Tenants), including, without limitation, plumbing, heating and lighting fixtures, air-conditioning appliances, equipment and units, bathroom appliances, carpeting, mirrors, venetian blinds, shades, screens, awnings, flagpoles, pumps, shrubbery and outdoor statuary, are owned by Seller, free of any liens or encumbrances (or will be free and clear of liens or encumbrances at or prior to Closing) except for the Permitted Exceptions.

5.1.11 No Violations. To Seller's knowledge, except for the Café Violation, Seller has not received any written notice from any governmental or regulatory authority or agency of any violation of any applicable laws by Seller, Tenants or the Property, which has not been fully corrected. Seller has not entered into any agreements with any governmental or regulatory authority or agency in connection with compliance with applicable laws with respect to the Property.

5.1.12 Environmental Matters. During Seller's period of ownership of the Property, Seller has not received any written notice from any governmental regulatory authority or agency asserting that Seller, the Property or any Tenant is in violation of Environmental Laws. Prior to the Effective Date, Seller has provided Purchaser with true, correct and complete copies of all environmental reports received by Seller in connection with the Property during Seller's period of ownership of the Property.

5.1.13 Taxes. Other than the 2017 Assessment Appeal (as defined below), Seller has not filed any real estate tax appeal proceedings with respect to the Property for which there is not a final disposition. To Seller's knowledge, there are no real estate tax abatements or special taxes or assessments in the nature of real estate taxes applicable to the Property.

5.1.14 Condemnation. There are no condemnation or eminent domain proceedings pending, or to Seller's knowledge, threatened in writing to Seller against the Property.

5.1.15 No Conflicts. The execution and delivery of this Agreement by Seller and the consummation by Seller of the transactions contemplated hereby will not: (i) violate any judgment, order, injunction, or decree to which Seller or the Property is subject, or (ii) conflict with, result in a breach of, or constitute a default under the organizational documents of Seller or any lease, mortgage, deed of trust, loan agreement, covenant, or other agreement or instrument to which Seller is a party or by which Seller or the Property may be bound.

5.1.16 Foreign Person. Seller is not a "foreign person," "foreign trust" or "foreign corporation" within the meaning of the United States Foreign Investment in Real Property Tax Act of 1980 and the Internal Revenue Code of 1986, as subsequently amended.

5.1.17 Prohibited Transaction. Neither Seller nor any person, group, entity or nation that Seller is acting, directly or indirectly for, or on behalf of, is named by any Executive Order (including the September 24, 2001, Executive Order Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism) or the United States Treasury Department as a terrorist, "Specially Designated National and Blocked Person," or is otherwise a banned or blocked person, group, entity, or nation pursuant to any law that is enforced or administered by the Office of Foreign Assets Control, and Seller is not engaging in the transactions contemplated by this Agreement, directly or indirectly, on behalf of, any such person, group, entity or nation. Seller is not engaging in the transactions contemplated by this Agreement, directly or indirectly, in violation of any laws relating to drug trafficking, money laundering or predicate crimes to money laundering. Seller has and will continue to implement procedures, and has consistently and will continue to consistently apply those procedures, to ensure the foregoing representations and warranties remain true and correct at all times prior to Closing.

5.1.18 ERISA. The Property is not a “plan asset” as defined in Title IV of the Employee Retirement Income Security Act of 1974, as in effect from time to time (“ERISA”), and the sale of the Property by Seller is not a “prohibited transaction” under ERISA.

5.1.19 Ground Lease. The Ground Lease is in full force and effect. Seller has provided Purchaser with a true, correct and complete copy of the Ground Lease, including all amendments, assignments, other modifications, subleases and guarantees thereof. No party to the Ground Lease is in default of its obligations thereunder.

5.2 Purchaser’s Representations and Warranties. Purchaser represents to Seller, as of the Effective Date as follows:

5.2.1 Organization. Purchaser is a limited liability company, duly formed, validly existing and in good standing under the laws of the State of Delaware, and is authorized to do business in Commonwealth of Virginia.

5.2.2 Authority/Consent. Purchaser possesses all requisite power and authority, has taken all actions required by its organizational documents and applicable law, and has obtained all necessary consents, to execute and deliver this Agreement and to consummate at Closing the transactions contemplated in this Agreement.

5.2.3 Bankruptcy. No bankruptcy, insolvency, reorganization or similar action or proceeding, whether voluntary or involuntary, is pending, or, to Purchaser’s knowledge, threatened, against Purchaser.

5.2.4 No Conflicts. The execution and delivery of this Agreement by Purchaser and the consummation by Purchaser of the transactions contemplated hereby will not: (i) violate any judgment, order, injunction, or decree to which Purchaser is subject, or (ii) conflict with, result in a breach of, or constitute a default under (A) the organizational documents of Purchaser or (B) in any material respect, any lease, mortgage, loan agreement, covenant, or other agreement or instrument to which Purchaser is a party or by which Purchaser may be bound.

5.2.5 Prohibited Transaction. Neither Purchaser nor any person, group, entity or nation that Purchaser is acting, directly or indirectly for, or on behalf of, is named by any Executive Order (including the September 24, 2001, Executive Order Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism) or the United States Treasury Department as a terrorist, “Specially Designated National and Blocked Person,” or is otherwise a banned or blocked person, group, entity, or nation pursuant to any law that is enforced or administered by the Office of Foreign Assets Control, and Purchaser is not engaging in the transactions contemplated by this Agreement, directly or indirectly, on behalf of, or facilitating the transactions contemplated by this Agreement, directly or indirectly, on behalf of, any such person, group, entity or nation. Purchaser is not engaging in the transactions contemplated by this Agreement, directly or indirectly, in violation of any laws relating to drug trafficking, money laundering or predicate crimes to money laundering. Purchaser has and will continue to implement procedures, and has consistently and will continue to consistently apply those procedures, to ensure the foregoing representations and warranties remain true and correct at all times prior to Closing.

5.2.6 ERISA. Purchaser is not an employee pension benefit plan subject to the provisions of ERISA or subject to the minimum funding standards under Part 3, Subtitle B, Title I of ERISA or Section 412 of the Internal Revenue Code or Section 302 of ERISA, and none of its assets constitutes or will constitute assets of any such employee benefit plan subject to Part 4, Subtitle B, Title I of ERISA. Purchaser is not a “governmental plan” within the meaning of Section 3(32) of ERISA and the funds used by Purchaser to acquire the Property are not subject to any state statutes regulating investments of and fiduciary obligations with respect to governmental plans. The transactions contemplated by this Agreement are not specifically excluded by Part I(b) of PTE 84-14.

5.3 Knowledge.

5.3.1 For purposes of this Agreement, the phrase “to Seller’s knowledge”, “to the knowledge of Seller”, or words of like import, means the actual, present, conscious knowledge of Sharon Fitzgerald and Jeffrey Chod (collectively, the “**Seller Knowledge Individuals**”), who Seller hereby represents are the parties in the primary position of responsibility with respect to the Property, after reasonable inquiry by the Seller Knowledge individuals with the chief engineer at the Property and the head of leasing at the Property (together, the “**Inquiry Individuals**”). In no event shall the Seller Knowledge Individuals have any personal liability hereunder. Without limiting the foregoing, Purchaser acknowledges that the Seller Knowledge Individuals have not performed and are not obligated to perform any investigation or review of any files or other information in the possession of Seller, or to make any inquiry of any persons except the Inquiry Individuals. Neither the actual, present, conscious knowledge of any other individual or entity (other than the Inquiry Individuals), nor the constructive knowledge of the Seller Knowledge Individuals or of any other individual or entity, shall be imputed to the Seller Knowledge Individuals. Notwithstanding the foregoing, the Seller Knowledge Individuals shall be deemed to have knowledge of the contents of the Datasite (as defined below) as of the Effective Date, except as to information regarding subleases or rent contests by Tenants.

5.3.2 For purposes of this Agreement, the phrase “to Purchaser’s knowledge”, “to the knowledge of Purchaser”, “of which Purchaser has knowledge”, or words of like import, means the actual, present, conscious knowledge of Andrew Leahy and Dan Chappell (collectively, the “**Purchaser Knowledge Individuals**”). In no event shall the Purchaser Knowledge Individuals have any personal liability hereunder. Without limiting the provisions of Section 5.4, Seller acknowledges that the Purchaser Knowledge Individuals have not performed and are not obligated to perform any investigation or review of any files or other information in the possession of Purchaser, or to make any inquiry of any persons. Neither the actual, present, conscious knowledge of any other individual or entity, nor the constructive knowledge of the Purchaser Knowledge Individuals or of any other individual or entity, shall be imputed to the Purchaser Knowledge Individuals except as set forth in Section 5.4.

5.4 Modifications to Seller Representations and Warranties. Notwithstanding anything to the contrary set forth herein, the representations and warranties of Seller in this Agreement (the “**Seller Representations**”) are subject to the following: immediately prior to and at Closing, the Seller Representations shall be deemed modified (i) by the taking of any action by

Seller to the extent not prohibited pursuant to the terms of this Agreement, or by reason of any changed fact and circumstance not within the reasonable control of Seller, (ii) by the expiration of any particular Lease or Contract by its terms, or the default of any party thereto other than Seller; (iii) with all information that Purchaser has knowledge of (or is deemed to have knowledge of, pursuant to the terms of this Agreement), including, without limitation, (A) any information contained in any Approved Tenant Estoppel Certificate (as hereinafter defined), and (B) any information uploaded to the due diligence website having the web address of <https://tishmanspeyer.box.com/s/k1sfqdr6rw8uh7skhdxwy9mjrj4ria0c> (the “**Datasite**”) at least five (5) Business Days prior to the Closing Date which such uploading Purchaser has been advised in writing by Seller (which may be electronically by standard protocol of such due diligence website and/or by electronic mail to Andrew Leahy at ALEAHY@washreit.com and Dan Chappell at DCHAPPELL@washreit.com) has occurred. For the avoidance of doubt, Purchaser shall not be entitled to bring any action after the Closing Date based on any breach of a Seller Representation of which Purchaser had knowledge (including deemed knowledge) prior to Closing. Notwithstanding anything to the contrary set forth herein, Seller does not represent or warrant that any particular Lease or Contract will not have expired by its terms as of the Closing Date or will not have been terminated by its terms as of the Closing Dates as a result of any default of any party thereto other than Seller.

ARTICLE 6: COVENANTS OF SELLER PRIOR TO CLOSING

6.1 Operation of Property. From the Effective Date until the Closing, Seller shall continue to operate, maintain and repair the Property in the ordinary course of business (including, without limitation, in all material respects and in accordance with its regular practices, performing all of Seller’s obligations under the Leases and enforcing all of Tenants’ obligations under the Leases), but from and after the expiration of the Due Diligence Period shall not take any of the following actions without the prior written consent of Purchaser, which consent shall not be unreasonably withheld, conditioned or delayed (provided, however, that to the extent any of the following actions occur prior to the expiration of the Due Diligence Period, Seller shall notify Purchaser of the same within two (2) Business Days thereafter): (i) make or permit to be made any material alterations to or upon the Property, except as required pursuant to any Leases; (ii) enter into any Contracts that would affect the Property or Purchaser after the Closing and are not terminable without premium or penalty by Purchaser upon thirty (30) days’ prior written notice following the Closing, (iii) amend or modify any Contracts that will be binding on Purchaser after Closing in any manner, unless such Contract as amended may be terminated without premium or penalty by Purchaser upon thirty (30) days’ prior written notice (provided that in the case of emergency or other exigent circumstances, Seller shall have the right to enter into contracts to perform repairs or replacement without Purchaser’s consent, but Seller shall provide copies of such contracts and notice of such repairs or replacements as soon as reasonably practicable, and Purchaser shall have no obligation to assume such contracts at Closing); (iv) enter into any leases or licenses with respect to the Property or any part thereof, or extend, modify, cancel or otherwise alter any one or more of the Leases, collect rent thereunder for more than one (1) month in advance (except with respect to the DOJ Tenant (as defined below)), apply any security deposits (or draw down on any letters of credit) held in accordance with the Leases, or fail to timely perform its obligations under the Leases, in each case whether or not such action is taken in the ordinary course of business; (v) encumber,

sell or transfer or dispose of the Land or Improvements or any interest therein, (vi) alter or amend the zoning classification of the Land or Improvements; (vii) remove or permit the removal from the Property of any fixtures, mechanical equipment, or any other material item included in the Property except when replaced with items of equal or greater quality and value, and except for the use and consumption of inventory, office and other supplies and spare parts, and the replacement of worn out, obsolete and defective tools, equipment and appliances, in each case in the ordinary course of business, or (viii) initiate, settle, compromise, withdraw or terminate any real estate tax appeal or proceeding affecting the Property other than any relating solely to the tax levy year ending December 31, 2017 and all periods prior to such tax levy year (which Seller retains the full and unfettered right to settle or compromise, and any refunds applicable to any such periods shall belong solely to Seller). In addition, and notwithstanding the foregoing, Seller shall have the right, without Purchaser's consent, to continue to perform improvements to the Property, and make alterations thereto, that are required under Leases. Whenever in this Section 6.1 Seller is required to obtain Purchaser's consent with respect to any proposed transaction, Purchaser shall, within five (5) Business Days after receipt of Seller's receipt of request therefor, notify Seller of its approval or disapproval of same and, if Purchaser fails to notify Seller of its disapproval within said five (5)-Business Day period, Purchaser shall be deemed to have approved same.

6.1.1 Purchaser acknowledges and agrees that, notwithstanding anything herein to the contrary, Seller shall have no obligation to (i) make or perform, during the term of this Agreement, any capital repairs or replacements except as required under any Leases or (ii) bring the Property into compliance with any laws or regulations applicable to the Property; provided, however, that prior to Closing, Seller shall cause to be performed the remedial work (the "**Café Remedial Work**") with respect to the premises at the Real Property known as Suite 105 and totaling approximately 6,228 square feet on the ground floor of the Real Property leased (subject to Seller's termination of such Lease pursuant to Section 6.6 hereof) to Jefferson Foods, LLC (the "**Café Tenant**") required to remedy any violation of the Virginia Statewide Fire Prevention Code noted in that certain violation notice issued by the Arlington County Fire Department Fire Prevention Office having activity number ST-FM###-##-#### (the "**Café Violation**"; provided further, however, that, notwithstanding the foregoing, in no event shall Seller be obligated to expend more than \$25,000 in connection with the Café Remedial Work (the "**Café Remedial Work Cap**"), and Seller's failure to complete the Café Remedial Work by Closing shall not constitute a default of Seller hereunder provided that at Closing, if Seller shall have not completed the Café Remedial Work, Purchaser shall receive a credit against the Purchase Price in the amount equal to Purchaser's cost, as reasonably determined by Purchaser and Seller, of completing the remaining Café Remedial Work after Closing, which such credit, if any, shall in no event exceed the Café Remedial Work Cap.

6.2 Termination and Assignment of Contracts. At or prior to Closing, Seller, at its sole cost and expense, shall terminate all of the Terminated Contracts so that there are no surviving obligations as to Purchaser or the Property after Closing. Seller, at its sole cost and expense, shall cause all of the Transferred Contracts to be assigned to Purchaser at Closing, including obtaining any third-party consents necessary therefor; provided, however, that Purchaser, at its sole cost and expense, shall cooperate with Seller in such activities, including providing such information to the

Transferred Contracts counterparties as is reasonably requested. The provisions of this Section 6.2 shall survive the Closing.

6.3 Insurance. From the Effective Date until the Closing or termination of this Agreement, Seller will maintain Seller's existing insurance coverage with respect to the Property or comparable replacement coverage.

6.4 Exclusivity. From the Effective Date until the Closing or termination of this Agreement, Seller shall not sell or offer for sale the Property (or any interest therein) to any party other than Purchaser, offer or grant any option or right of first refusal or offer (or any similar right) with respect to the Property (or any interest therein) to any party other than Purchaser, or refinance the Property (or any interest therein), or negotiate, solicit or entertain any offers to do any of the foregoing.

6.5 Tenant Estoppel Certificates. Promptly after the Effective Date, Seller shall request (and thereafter use its commercially reasonable efforts, as hereinafter defined, to pursue) a tenant estoppel certificate in the form of EXHIBIT L attached hereto (or in the form attached to, or certifying solely to those matters required by, a particular Tenant's Lease) from each Tenant (the "**Estoppel Certificates**"), provided that it shall only be a condition precedent to Purchaser's obligation to consummate Closing that on or before the date which is two (2) business days prior to the Closing Date (the "**Estoppel Delivery Date**"), Seller shall have delivered to Purchaser Tenant-executed Estoppel Certificates from the following Tenants (collectively, the "**Required Estoppels**"): (i) FBR Capital Markets & Co., (ii) Raytheon BBN Technologies Corp., (iii) Graham Holdings Company, (iv) Promontory Interfinancial Network, LLC, and (v) Tenants leasing, in the aggregate, at least seventy five percent (75%) of the currently occupied square footage of the Improvements (which such 75% shall (A) include the space occupied by the Tenants set forth in the foregoing subclauses (i)-(iv) (the "**Major Tenants**") and (B) exclude the space leased to the TS Lease Tenant pursuant to the TS Lease). Any Tenant-executed Estoppel Certificate not substantially in the form of EXHIBIT L, but in a form substantially consistent with that attached to, or certifying solely to those matters required by, a particular Tenant's Lease, shall be deemed to have satisfied the terms of this Section 6.5 as to form; provided, however, that Purchaser shall have the right to disapprove any Estoppel Certificate (whether in the form attached hereto as EXHIBIT L or otherwise in a form consistent with that attached to, or certifying solely to those matters required by, a particular Tenant's Lease) within two (2) business days of Seller's delivery of a Tenant-executed Estoppel Certificate to Purchaser to the extent such Estoppel Certificate discloses a matter which would cause Seller to be in breach of a covenant, representation or warranty under this Agreement; provided that if Purchaser fails to disapprove any Estoppel Certificate within such two (2) Business Day time period, Purchaser shall be deemed to have approved such Estoppel Certificate and same shall be deemed an Approved Tenant Estoppel Certificate (as hereinafter defined). Any Tenant-executed Estoppel Certificate disapproved by Purchaser pursuant to the immediately preceding sentence (any such Estoppel Certificate, a "**Disapproved Tenant Estoppel Certificate**", and any other Estoppel Certificate, an "**Approved Tenant Estoppel Certificate**") shall not be counted toward the satisfaction of the Required Estoppels requirement. Seller's failure to obtain the Required Estoppels by the Estoppel Delivery Date shall not be a default of Seller hereunder so long as Seller has complied with its other obligations pursuant to this Section 6.5. Seller's obligation to use "commercially

reasonable efforts” pursuant to this Section 6.5 to obtain the Estoppel Certificates shall be deemed to require Seller only to make, as necessary, two (2) written requests therefor, and one (1) subsequent telephonic request therefor, and shall not include the payment of any money, issuance of any default notices or any other extraordinary action by Seller.

6.6 Café Lease. For the avoidance of doubt, Seller shall not assign its interest in the Café Lease to Purchaser at Closing, and Purchaser shall have no obligation to assume the Café Lease from Seller at Closing.

ARTICLE 7: CLOSING

7.1 Closing Date. The consummation of the transaction contemplated hereby (the “Closing”) will take place via an escrow closing conducted through the offices of the Escrow Agent on January 31, 2018, or such earlier date as Seller and Purchaser may mutually agree upon in writing, provided that Purchaser shall have the one-time right at any time after the expiration of the Due Diligence Period to accelerate the Closing Date by delivering to Seller a written notice stating the same at least five (5) Business Days’ prior to the accelerated Closing Date set forth in such notice, which accelerated Closing Date shall in no event be earlier than January 15, 2018. As used herein, “**Scheduled Closing Date**” means January 31, 2018 or such earlier date mutually agreed by Seller and Purchaser or elected by Purchaser pursuant to the immediately preceding sentence, and “**Closing Date**” means the date on which Closing actually occurs.

7.2 Conditions Precedent to Seller’s Obligations at Closing. In addition to any conditions set forth elsewhere in this Agreement for the benefit of Seller, it shall be a condition to Seller’s obligation to sell the Property pursuant hereto that each and every one of the following conditions shall have been satisfied as of the Closing Date (or waived in writing by Seller):

7.2.1 Representations and Warranties. Each of Purchaser’s representations and warranties in this Agreement shall be true and complete in all material respects as if made on and as of the Closing Date.

7.2.2 Covenants. Purchaser shall have performed and complied in all material respects with all covenants and conditions required by this Agreement to be performed or complied with by Purchaser at or prior to Closing (including, without limitation, the delivery to Escrow Agent of all the deliverables required by Section 7.5).

Without limiting any rights Seller might have pursuant to Section 9.2, if any condition precedent set forth in this Section 7.2 is not satisfied as of the Closing Date, Seller, at its sole election, may (a) terminate this Agreement (whereupon the Deposit shall be returned to Purchaser), (b) waive the condition and proceed to Closing, or (c) extend the Closing Date for such additional period of time, not to exceed thirty (30) days, as may be reasonably required to allow Purchaser to satisfy such condition. In the event of Seller’s exercise of the rights afforded under (c) above, Seller shall nonetheless have the rights under (a) and (b) if any condition precedent set forth in this Section 7.2 is not satisfied as of such extended Closing Date.

7.3 Conditions Precedent to Purchaser’s Obligations at Closing. In addition to any conditions set forth elsewhere in this Agreement for the benefit of Purchaser, it shall be a condition

to Purchaser's obligation to purchase the Property pursuant hereto that each and every one of the following conditions shall have been satisfied as of the Closing Date (or such earlier date as specified below), or waived in writing by Purchaser:

7.3.1 **Representations and Warranties.** Each of Seller's representations and warranties in this Agreement (as may be modified by Section 5.4) shall be true and complete in all material respects as if made on and as of the Closing Date.

7.3.2 **Covenants.** Seller shall have performed and complied in all material respects with all covenants and conditions required by this Agreement to be performed or complied with by Seller at or prior to Closing (including, without limitation, the delivery to Escrow Agent of all the deliverables required by Section 7.4).

7.3.3 **Title.** Subject only to payment of the Purchase Price by Purchaser, delivery of the Deed by Seller, and payment of the respective amounts set forth in Section 7.7.1, the Title Company shall be unconditionally committed to issue an ALTA owner's policy of title insurance insuring that the fee and leasehold (pursuant to the Ground Lease) interests in the Real Property are vested in Purchaser, subject only to the Permitted Exceptions and otherwise in conformance with the Title Commitment, and in a policy amount not less than the Purchase Price.

7.3.4 **Estoppel Certificates.** Purchaser shall have received all of the Required Estoppels by the Estoppel Delivery Date, in accordance with Section 6.5.

If any of the conditions precedent set forth in Section 7.3.2, 7.3.3 or 7.3.4 are not satisfied as of the Scheduled Closing Date, Seller shall have a one-time right, exercisable upon written notice delivered to Purchaser on or prior to the Scheduled Closing Date, to adjourn the Scheduled Closing Date for up to ten (10) days to enable Seller to satisfy such unsatisfied conditions precedent; provided that if Seller is unable to satisfy such unsatisfied conditions precedent during such initial adjournment period despite its diligent efforts to do so, Seller shall have the one-time right, exercisable upon written notice delivered to Purchaser on or prior to the expiration of such initial adjournment period, to adjourn the Scheduled Closing Date for up to thirty (30) additional days to enable Seller to satisfy such unsatisfied conditions precedent. If any of the conditions precedent set forth in Section 7.3.2, 7.3.3 or 7.3.4 have not been satisfied by the initial Scheduled Closing Date or if any of the conditions precedent set forth in Section 7.3.2, 7.3.3 or 7.3.4 have not been satisfied by any adjourned Scheduled Closing Date in accordance with the immediately preceding sentence, then Purchaser, at its sole election, may (a) terminate this Agreement (and receive a return of the Deposit), or (b) waive the unsatisfied conditions and proceed to Closing (without any reduction to the Purchase Price therefor). The rights and remedies of Purchaser pursuant to this paragraph shall not limit any of the rights or remedies of Purchaser pursuant to Section 9.1.

7.4 Seller's Deliverables at the Closing. At the Closing, Seller will do, or cause to be done, the following:

7.4.1 Closing Documents. Seller shall execute and acknowledge, as applicable, and deliver to Purchaser originals of the following documents:

- (the “**Deed**”);
- 7.4.1.1 Special Warranty Deed and Assignment and Assumption of Ground Lease in the form of EXHIBIT C hereto
- 7.4.1.2 Bill of Sale in the form of EXHIBIT D hereto;
- 7.4.1.3 Assignment and Assumption Agreement in the form of EXHIBIT E hereto (the “**Assignment and Assumption Agreement**”);
- 7.4.1.4 Certificate of Non-Foreign Status in the form of EXHIBIT F hereto;
- 7.4.1.5 Letters to each Tenant under the Leases in the form of EXHIBIT G hereto, notifying Tenants of the conveyance of the Property to Purchaser and advising them that, following the Closing Date, all future payments of rent are to be made in the manner set forth therein;
- 7.4.1.6 Closing Statement;
- 7.4.1.7 A Virginia R-5 Non Resident Real Property Owner Registration Form and such other transfer tax or similar forms or declarations as may be required in connection with the recording of the Deed;
- 7.4.1.8 A rent roll for the Property dated as of the Closing Date;
- 7.4.1.9 A certificate re-making each of Seller’s representations and warranties in all material respects contained in this Agreement as of the Closing Date (as may be modified by Section 5.4);
- 7.4.1.10 An Owner’s Affidavit in the form of EXHIBIT H attached hereto (the “**Owner’s Affidavit**”), or such other form as may be agreed to between Seller and the Title Company;
- 7.4.1.11 Such evidence as may be reasonably required by the Title Company with respect to the authority of the person executing the Deed and the other documents required to be executed by Seller on behalf of Seller;
- 7.4.1.12 Reasonable evidence of the termination of the Terminated Contracts in accordance with Section 6.2, and copies of any third party consents required for the assignment of the Transferred Contracts in accordance with Section 6.2;
- 7.4.1.13 Originals of all letters of credit held by Seller pursuant to the Leases, and all transfer documentation and instruments (executed by all parties thereto other than Purchaser) necessary to allow Purchaser to be designated as the beneficiary thereunder and to draw thereon in connection with the Leases; and
- 7.4.1.14 The TS Lease.

7.4.2 Keys. Seller will deliver to Purchaser all keys in the possession or subject to the control of Seller, including, without limitation, master keys as well as combinations, card keys and cards for the security systems, if any.

7.4.3 Costs. Seller will pay all costs allocated to Seller pursuant to Section 7.7 of this Agreement.

7.5 Purchaser's Deliverables at the Closing. At the Closing, Purchaser will do, or cause to be done, the following:

7.5.1 Closing Documents. At Closing, Purchaser shall execute and acknowledge, as applicable, and deliver to Seller, originals of the following documents:

7.5.1.1 Assignment and Assumption Agreement;

7.5.1.2 Closing Statement;

7.5.1.3 A certificate re-making each of Purchaser's representations and warranties contained in this Agreement as of the Closing Date;

7.5.1.4 Such evidence as may be reasonably required by the Title Company with respect to the authority of the person(s) executing the documents required to be executed by Purchaser on behalf of Purchaser; and

7.5.1.5 The TS Lease.

7.5.2 Payment of Consideration. Purchaser will pay to Escrow Agent by bank wire transfer of immediately available funds at Closing the Purchase Price in accordance with Article 2 of this Agreement (subject to the credits, prorations and adjustments provided for herein). The net closing proceeds due to Seller shall be wire transferred to such account or accounts as Seller may designate, and actually received in such account or accounts, no later than 4:00 p.m. (Eastern Standard Time) on the Closing Date (the "**Wiring Deadline**"), with time being of the essence with respect thereto.

7.5.3 Costs. Purchaser will pay all costs allocated to Purchaser pursuant to Section 7.7 of this Agreement.

7.6 Escrow. The delivery of the documents and the payment of the sums to be delivered and paid at the Closing shall be accomplished through an escrow with Escrow Agent such that Seller and Purchaser shall each deliver, or cause to be delivered, to the Escrow Agent on or before the Scheduled Closing Date the respective funds and documents, as applicable, necessary to effectuate the Closing pursuant to the terms of this Agreement, subject only to the satisfaction of any condition to Closing of the other party.

7.7 Costs and Adjustments at Closing.

7.7.1 Expenses. All state and local recordation, transfer, documentary, stamp and similar taxes, and all recording fees, payable in connection with the recordation of the Deed shall be paid one-half by Purchaser and one-half by Seller. Any closing or escrow fees of Escrow Agent shall be paid one-half by Purchaser and one-half by Seller. Seller shall pay all costs and fees for Seller's representatives and consultants and for title clearance as and to the extent required by this Agreement. Purchaser shall pay all costs and fees for title examination, title insurance, including, without limitation, all endorsements thereto, and related title company charges, any update requested by Purchaser of the Survey and all of Purchaser's due diligence studies and investigations, together with all costs and fees for Purchaser's representatives and consultants. Seller and Purchaser shall each pay its own attorney's fees. Notwithstanding the foregoing, Seller shall pay on behalf of Purchaser at Closing \$275,000.00 in respect of Purchaser's transaction costs in connection herewith.

7.7.2 Real Estate and Personal Property Taxes. Real estate taxes, personal property taxes, ad valorem taxes, special assessments and similar charges for the year in which the Closing occurs, and all rebates and reductions of the same (net of collection costs), will be prorated between Seller and Purchaser as of the Apportionment Time (as defined below) on the basis of actual bills therefor, if available. If such bills are not available, then such taxes and other charges shall be prorated on the basis of the most currently available tax bills and, thereafter, promptly re-prorated upon the availability of actual bills for the period, but in no event later than with the Final Closing Statement (as defined below). As used herein, the term "**Apportionment Time**" shall mean 11:59 p.m. (Eastern Standard Time) on the date immediately prior to the Scheduled Closing Date.

7.7.3 Ground Lease Rents. All fixed rent and additional rent paid or payable to Ground Lessor under the Ground Lease, if any, shall be prorated as of the Apportionment Time.

7.7.4 Lease Security Deposits and Rents.

7.7.4.1 Seller shall pay to Purchaser, as a credit against the Purchase Price, the amount of any cash security deposits actually received by Seller pursuant to the Leases and not yet refunded to Tenants or applied against any Tenant pursuant to the Leases (subject to Section 6.1 hereof). Rents payable by Tenants that are collected on or prior to the Closing in respect of the month (or other applicable collection period) in which the Closing occurs (the "**Current Month**") shall be prorated on a per diem basis based upon the number of days in the Current Month prior to the Closing Date (which shall be allocated to Seller) and the number of days in the Current Month on and after the Closing Date (which shall be allocated to Purchaser). If at the Closing, rent in respect of the Current Month is unpaid by any Tenant or rent in respect of the Current Month is past due by any Tenant for periods prior to the Current Month, Seller and Purchaser agree that the first moneys received after the Closing Date by Seller or Purchaser, as the case may be, from such Tenant shall be received and held by Purchaser or Seller, as applicable, in trust, and shall be disbursed as follows: (i) first, to Seller and Purchaser, in an amount equal to all rent owing by such Tenant to Seller and Purchaser in respect of the Current Month on a per diem basis based upon the number of days in the Current Month prior to the Closing Date (which shall be allocated to Seller) and the number of days in the Current Month on and after the Closing Date (which shall be allocated to Purchaser), (ii) next, to Purchaser, in an amount equal to all rent owing by such Tenant to Purchaser in respect of all periods after the Current Month; (iii) next, to Seller in an amount equal to all rent

owing by such Tenant to Seller in respect of all periods prior to the Current Month, and (iv) last, to Purchaser, the balance, if any. Purchaser and Seller shall reasonably cooperate with each other in performing the monthly reconciliations of the Lease with General Services Administration, GSA - DOJ (11B-01656) (the “**DOJ Tenant**”) with respect to the Current Month and any preceding periods.

7.7.4.2 Purchaser shall perform, in accordance with the provisions of the Leases and standard industry practice, the final reconciliation of calendar year 2017 pass-throughs for operating expenses and real estate taxes, and the establishment of base years, for the period of time from January 1, 2017 through December 31, 2017 (the “**2017 Reconciliation**”), based in part on information provided by Seller to Purchaser for the period of time from January 1, 2017 through the Apportionment Time. Upon completion, Purchaser shall provide a copy of the 2017 Reconciliation to Seller for Seller’s approval (such approval not to be unreasonably withheld, conditioned or delayed), whereupon Purchaser shall prepare and send to Tenants such notices as may be required under the Leases. If any amounts are due to Tenants on account of the 2017 Reconciliation, then Seller shall remit Seller’s proportionate share of such amounts to Purchaser based on the Apportionment Time promptly after written demand, and Purchaser shall be responsible for remitting such amounts (along with Purchaser’s proportionate share of such amounts) to the Tenants in accordance with their Leases; and in the event any Tenants have underpaid such amounts, then Purchaser shall use commercially reasonable efforts to seek to collect such amounts, and upon receipt from Tenants, Purchaser shall remit Seller’s share thereof (based on the Apportionment Time) to Seller. Seller and Purchaser agree to cooperate and use commercially reasonable efforts to complete the 2017 Reconciliation no later than the dates required by the Leases, but in no event later than June 30, 2018, and any payment required in connection therewith shall be made within ten (10) days after such adjustments.

7.7.4.3 Each party agrees to remit reasonably promptly to the other the amount of such rents to which such party is so entitled and to account to the other party monthly in respect of same. Seller shall have the right from time to time until the 2017 Reconciliation is completed, on reasonable prior notice to Purchaser, to review Purchaser’s rental records with respect to the Property to ascertain the accuracy of such accountings, and Purchaser shall provide Seller with copies of such records upon Seller’s request. Purchaser shall have the right from time to time until the 2017 Reconciliation is completed, on reasonable prior notice to Seller, to review Seller’s rental records with respect to the Property to ascertain the accuracy of such accountings, and Seller shall provide Purchaser with copies of such records upon Purchaser’s request..

7.7.4.4 Subsequent to the Closing, Purchaser shall promptly render bills for the collection of any rent due to Seller pursuant to this Agreement, but shall have no other obligation with respect to the collection of such rent, including, without limitation, any obligation to institute any actions or proceedings for the purposes of collecting such rent. Seller shall have no right to commence an action against any Tenant subsequent to the Closing Date of any kind or nature, and Seller agrees that its sole right in respect of rents that pertain to the period prior to the Apportionment Time shall be the right to receive payments pursuant to this Section 7.7.4, provided, however, that notwithstanding the foregoing, nothing herein shall preclude Seller from asserting separate and independent claims against the Café Tenant, including instituting any actions or proceedings, for the purpose of collecting, or otherwise with respect to, any back rent or other amounts owed by the

Café Tenant under the Café Lease with respect to Seller's period of ownership of the Real Property (collectively, "Café Tenant Actions").

7.7.5 Utilities. Water, sewer, electric, fuel (if any) and other utility charges, other than those for which Tenants under Leases are responsible directly to the provider, shall be prorated as of the Apportionment Time. If consumption of any of the foregoing is measured by meter, Seller shall, prior to the Closing Date, endeavor to obtain a reading of each such meter and a final bill as of the Closing Date. If there is no such meter or if the bill for any of the foregoing shall have not been issued as of the Closing Date, the charges therefor shall be adjusted as of the Apportionment Time on the basis of the charges of the prior period for which such bills were issued and shall be further adjusted between the parties when the bills for the correct period are issued, but in no event later than with the Final Closing Statement. Seller and Purchaser shall cooperate to cause the transfer of utility accounts from Seller to Purchaser. Seller shall be entitled to retain any utility security deposits to be refunded. At Closing, Purchaser shall post substitute utility security deposits to replace those previously paid by Seller or, if the utility provider will not refund such deposits to Seller, Seller shall be credited therefor by Purchaser at Closing.

7.7.6 Permits and Contracts. Any charges or fees for transferable Permits and charges under Transferred Contracts that are assigned to Purchaser pursuant to this Agreement shall be adjusted as of the Apportionment Time. Seller shall be solely responsible for all charges and fees for Terminated Contracts.

7.7.7 Other Items. All other items customarily apportioned in connection with sale of property substantially similar to the Property in Arlington, Virginia shall be adjusted as of the Apportionment Time.

7.7.8 Insurance Policies. Premiums on insurance policies will not be adjusted. As of the Closing Date, Seller will terminate its insurance coverage and Purchaser will obtain its own insurance coverage.

7.7.9 Commissions. Seller will pay in full, at or before Closing, all sums now or hereafter due on account of any Lease under any Leasing Brokerage Agreement, except with respect to any amounts owed in connection with any renewal, restructure, extension, or other modification of any Lease or any Lease entered into pursuant to the terms of Section 6.1 (which such amount shall be the sole obligation of Purchaser), and shall endeavor to provide Purchaser at Closing written releases in form satisfactory to Purchaser of all claims and other rights by any lease broker under any Leasing Brokerage Agreement.

7.7.10 Tenant Inducement Costs. Seller shall be responsible for the payment of all Tenant Inducement Costs (as defined below) listed on Schedule 7.7.10. Except as set forth on Schedule 7.7.10, Seller shall have no obligation to pay any Tenant Inducement Costs. Purchaser shall be responsible for the payment of all other Tenant Inducement Costs. For purposes hereof, the term "**Tenant Inducement Costs**" shall mean any out-of-pocket payments required under a Lease to be paid by the landlord thereunder to or for the benefit of the Tenant thereunder that is in the nature of a tenant inducement or concession including, without limitation, tenant improvement costs, design, refurbishment and other work allowances, lease buyout costs, moving allowances,

and any free-rental period provided under the Leases. If as of the Closing Date Seller has not paid any Tenant Inducement Costs for which Seller is responsible pursuant to the foregoing provisions, then (A) Purchaser shall receive a credit against the Purchase Price in an amount equal to such unpaid Tenant Inducement Costs, (B) Purchaser shall assume the obligations of Seller to pay such Tenant Inducement Costs pursuant to the Assignment and Assumption Agreement, and (C) Seller shall no longer be responsible for the payment of such Tenant Inducement Costs.

7.7.11 Closing Statement. Not later than two (2) Business Days prior to the Closing, Seller or its agents or designees shall prepare, and promptly thereafter Seller and Purchaser shall jointly endeavor to agree upon a closing statement (the “**Closing Statement**”) that shows the adjustments and prorrations provided for in this Agreement, the resulting net amount due either to Seller or to Purchaser, and such net due amount shall be added to or subtracted from the cash balance of the Purchase Price to be paid to Seller at the Closing, as applicable. Not earlier than the date that is one hundred twenty (120) days after the Closing Date and not later than the date that is one hundred eighty (180) days after the Closing Date, Seller and Purchaser shall jointly prepare a final closing statement reasonably satisfactory to Seller and Purchaser in form and substance (the “**Final Closing Statement**”) setting forth the final determination of the adjustments and prorrations provided for herein. The net amount due Seller or Purchaser, if any, by reason of adjustments to the Closing Statement as shown in the Final Closing Statement, shall be paid in cash by the party obligated therefor within five (5) Business Days following that party’s receipt of the approved Final Closing Statement. The adjustments, prorrations and determinations agreed to by Seller and Purchaser in the Final Closing Statement shall be conclusive and binding on the parties hereto. Prior to and following the Closing Date, each party shall provide the other with such information as the other shall reasonably request (including, without limitation, access to the books, records, files, ledgers, information and data with respect to the Property during normal business hours upon reasonable advance notice) in order to make the preliminary and final adjustments and prorrations provided for herein.

7.7.12 Net Income after Debt Service. In the event the Closing Date is adjourned pursuant to the final paragraph of Section 7.3, Seller shall credit to Purchaser at Closing an amount equal to all net income from the Property received by Seller with respect to such adjournment period less the actual debt service paid by Seller to its lenders in respect of the Property with respect to such adjournment period (but in no event shall the amount of such credit be less than zero).

7.7.13 Survival. The provisions of this Section 7.7 shall survive Closing.

7.8 Tax Assessment Matters. Seller has initiated an appeal of the proposed tax assessed value of the Property for the tax year levy commencing on January 1, 2017 (the “**2017 Assessment Appeal**”). Seller shall not settle, compromise, withdraw or terminate such appeal or proceeding without Purchaser’s prior written consent (not to be unreasonably withheld, conditioned or delayed) and to the extent the result of such appeal or proceeding results in any refund to Seller, and a portion of such refund would affect the 2017 Reconciliation, then, provided such refund is received prior to the 2017 Reconciliation, any such amounts shall be subject to the 2017 Reconciliation and Seller shall be entitled to receive its proportionate share thereof, based on the Apportionment Time. If any such refund is not received prior to the 2017 Reconciliation, then Purchaser shall remit Seller’s

proportionate share thereof to Seller, based on the Apportionment Time, promptly upon receipt. The provisions of this Section 7.8 shall survive the Closing.

ARTICLE 8: DAMAGE AND CONDEMNATION

8.1 Damage. If, prior to the Closing, all or any portion of the Property is damaged by fire or any other cause whatsoever (a “**Casualty**”), Seller shall promptly give Purchaser written notice of such damage. If prior to the Closing all or a portion of the Property is damaged or destroyed by a Casualty, Purchaser shall receive a credit towards the Purchase Price in the amount of (a) the proceeds of any insurance policies (other than business interruption or rental loss insurance pertaining to the period prior to Closing) to the extent such insurance payments have been received by Seller and (b) any applicable deductible under any such insurance policies, and Seller shall assign to Purchaser at Closing all of Seller’s right, title and interest in any such awards or payments (including business interruption and rental loss insurance pertaining to the period after Closing) not theretofore received by Seller. Notwithstanding the foregoing, in the event of a Casualty resulting in either (i) total damage to the Property costing in excess of Twelve Million Five Hundred Thousand Dollars (\$12,500,000.00) to repair, as determined by Purchaser acting reasonably and in good faith, or (ii) the termination of the Lease with FBR Capital Markets & Co. and/or Raytheon BBN Technologies Corp., Purchaser shall have the right to terminate this Agreement up written notice to Seller, which such notice must be delivered to Seller within ten (10) days of Purchaser’s receipt of the applicable notice of such Casualty, and receive a return of the Deposit.

8.2 Condemnation and Eminent Domain. If any condemnation proceedings are instituted, or notice of intent to condemn is given, with respect to all or any portion of the Property (a “**Condemnation**”), Seller shall promptly notify Purchaser thereof, in which event Purchaser shall consummate the purchase of the Property without reduction of the Purchase Price, but Purchaser shall receive a credit towards the Purchase Price in the amount of any condemnation award or compensation for such Condemnation received by Seller, and Seller shall assign to Purchaser at Closing all of Seller’s right, title and interest in any such award or compensation not theretofore received by Seller. Notwithstanding the foregoing, in the event of a Condemnation resulting in (A) a reduction in the value of the Property in excess of Twelve Million Five Hundred Thousand Dollars (\$12,500,000.00), as determined by Purchaser acting reasonably and in good faith, or (B) the termination of the Lease FBR Capital Markets & Co. and/or Raytheon BBN Technologies Corp., Purchaser shall have the right to terminate this Agreement upon written notice to Seller, which such notice must be delivered to Seller within ten (10) days of Purchaser’s receipt of the applicable notice of such Condemnation, and receive a return of the Deposit.

ARTICLE 9: REMEDIES AND ADDITIONAL COVENANTS

9.1 Seller Default. Prior to Closing, if, in any material respect, Seller fails to perform any of its obligations as and when required hereunder (including, without limitation, failing to consummate the purchase and sale contemplated herein on the Closing Date after all conditions precedent to Seller’s obligation to do so have been satisfied or waived by Seller), or breaches any of its representations or warranties hereunder, then Purchaser may, as its sole remedy, either (a) waive such default in writing and proceed to Closing (without any reduction to the Purchase Price in connection therewith), (b) within thirty (30) days following the Scheduled Closing Date,

commence an action for specific performance without offset to the Purchase Price, or (c) terminate this Agreement whereupon (i) Escrow Agent shall promptly return the Deposit to Purchaser, (ii) if the event giving rise to such default was due to a willful and intentional action or inaction of Seller undertaken with the knowledge that it would result in a default under this Agreement, Seller shall reimburse Purchaser for the actual third-party out-of-pocket costs and expenses incurred by Purchaser relating to this transaction, including, without limitation, diligence costs, financing costs and out-of-pocket attorneys' fees and costs, in an aggregate amount not to exceed Three Hundred Thousand Dollars (\$300,000.00), (iii) this Agreement shall terminate, and (iv) neither party shall have any further rights or obligations under this Agreement except for obligations that expressly survive termination of this Agreement. Notwithstanding the foregoing, if Purchaser timely seeks specific performance under clause (b) above and a court adjudicates that the remedy of specific performance is not legally available to Purchaser, then Purchaser shall be entitled to the remedy under clause (c) above.

9.2 Purchaser Default. Prior to Closing, if, in any material respect, Purchaser fails to perform any of its obligations as and when required hereunder (including, without limitation, failing to consummate the purchase and sale contemplated herein on the Closing Date after all conditions precedent to Purchaser's obligation to do so have been satisfied or waived by Purchaser), or breaches any of its representations or warranties hereunder, then Escrow Agent shall pay the Deposit to Seller as full and complete liquidated damages and as the exclusive and sole right and remedy of Seller, whereupon this Agreement shall terminate, and neither party shall have any further obligations or liabilities to the other party (except for such obligations and liabilities as expressly survive the termination hereof). PURCHASER AND SELLER AGREE IT WOULD BE IMPRACTICAL AND EXTREMELY DIFFICULT TO FIX THE DAMAGES WHICH SELLER MAY SUFFER AS A RESULT OF A DEFAULT OF PURCHASER HEREUNDER. THEREFORE, PURCHASER AND SELLER HEREBY AGREE THE DEPOSIT IS A REASONABLE ESTIMATE OF THE TOTAL NET DETRIMENT SELLER WOULD SUFFER IN THE EVENT OF A DEFAULT OF PURCHASER HEREUNDER. THE FOREGOING SHALL NOT BE DEEMED TO LIMIT OR OTHERWISE AFFECT PURCHASER'S INDEMNIFICATION OBLIGATIONS THAT ARE EXPRESSLY STATED IN THIS AGREEMENT TO SURVIVE A TERMINATION OF THIS AGREEMENT, AND SELLER SHALL, FOR THE AVOIDANCE OF DOUBT, HAVE THE RIGHT TO PURSUE AN ACTION AGAINST PURCHASER IN RESPECT OF SUCH INDEMNIFICATION OBLIGATIONS.

9.3 No Special Damages. Notwithstanding anything herein to the contrary, in no event shall either party hereto be liable to the other party hereto for any punitive or consequential damages arising in connection with this Agreement.

9.4 Return and Destruction of Materials. Notwithstanding anything contained in this Agreement to the contrary, if this Agreement is terminated for any reason whatsoever, then Purchaser shall promptly return to Seller or destroy all documents provided to Purchaser by or on behalf of Seller, including all copies thereof, along with any and all third-party reports and studies of the Property commissioned by Purchaser, excluding any confidential or proprietary information or financial modeling of Purchaser. Notwithstanding the foregoing, Purchaser may retain copies of such documents in accordance with Purchaser's bona fide document retention or compliance policies

or as otherwise determined by Purchaser in good faith as reasonably necessary to comply with applicable laws. The obligations of Purchaser under this Section 9.4 shall survive any termination of this Agreement.

ARTICLE 10: SURVIVAL; INDEMNIFICATION

10.1 Survival. Except as otherwise expressly provided elsewhere in this Agreement, (i) all covenants of Purchaser and Seller in this Agreement (other than as set forth in the following clause (ii)) shall be deemed to have merged into the Deed upon recording thereof, and (ii) Seller's and Purchaser's representations and warranties set forth anywhere in this Agreement and covenants (including indemnification obligations) set forth in this Article 10 shall survive the Closing for a period of nine (9) months (the "**Survival Period**") (except that Seller's indemnification obligations with respect to Café Lease Liens (as defined below) shall survive the Closing for a period of twelve (12) months (the "**Extended Survival Period**")) and shall not be deemed to have merged into any of the documents delivered at Closing. This Section 10.1 shall survive the Closing.

10.2 Indemnification Limitations. Any right of Purchaser to have Seller Indemnify (as defined below) Purchaser for a Claim (as defined below) asserted after Closing hereunder or under any document delivered in connection with Closing (each such Claim, a "**Purchaser's Claim**") shall at all times and in all events be subject to and limited by the following:

10.2.1 Submission of Claim. Purchaser shall have delivered to Seller written notice claiming such breach, and stating in detail the factual basis for such Purchaser's Claim (a "**Claim Notice**"), prior to the expiration of the Survival Period (or, in the case of a Purchaser's Claim with respect to a Café Lease Lien, the Extended Survival Period).

10.2.2 Minimum Damages. Purchaser's damages resulting from Purchaser's Claims in the aggregate must exceed an amount equal to One Hundred Fifty Thousand Dollars (\$150,000.00) (the "**Claim Threshold**"), and, in the event Purchaser's aggregate damages exceed the Claim Threshold, then subject to the limitations set forth in this Article 10, Purchaser shall be entitled to recover from Seller the total amount of such damages back to the first dollar of damage. Notwithstanding anything in this Agreement to the contrary, the Claim Threshold shall not apply to (i) any Broker Indemnification Claims asserted by Purchaser or any Purchaser's Claim with respect to a Café Lease Lien, or (ii) for the avoidance of doubt, payments required by Seller pursuant to the Closing Statement or the Final Closing Statement.

10.2.3 Post-Closing Cap. Notwithstanding anything contained in this Agreement to the contrary, in no event shall (i) Seller have any liability for a Purchaser's Claim if, prior to Closing, Purchaser has knowledge of any fact or circumstance which makes such representation or warranty untrue or of any breach of any other covenant or agreement, (ii) Seller's aggregate liability in respect of all Purchaser's Claims other than with respect to Café Lease Liens exceed an amount equal to Four Million Dollars (\$4,000,000.00) (the "**Post-Closing Cap**"), or (iii) Seller's aggregate liability in respect of all Purchaser's Claims with respect to Café Lease Liens exceed an amount equal to Two Million Dollars (\$2,000,000.00). Notwithstanding anything in this Agreement to the contrary, and for the avoidance of doubt, the Post-Closing Cap shall not apply to (i) any Broker

Indemnification Claims asserted by Purchaser, or (ii) for the avoidance of doubt, payments required by Seller pursuant to the Closing Statement or the Final Closing Statement.

10.2.4 **Sole and Exclusive Remedy.** Each party hereto hereby acknowledges and agrees that if the Closing occurs under this Agreement, then each party's remedies set forth in this Article 10, subject in all events to the limitations and restrictions set forth in this Article 10, shall be each party's sole and exclusive remedies against the other party for any breach or default or alleged breach or default under this Agreement (including, without limitation, any breach of a representation or warranty) or in connection with any matter related to the transactions contemplated under this Agreement or any indemnification therefor, and that in no event shall either party have the right to initiate any other action or remedy against the other party in connection with this Agreement or in connection with any matter related to the transactions contemplated under this Agreement.

10.3 Indemnification.

10.3.1 **Agreement to Indemnify.** Notwithstanding any provisions of this Agreement to the contrary, but in all events subject to the limitations otherwise set forth in this Article 10: (i) Seller shall Indemnify Purchaser against any and all Claims arising out of (A) the inaccuracy of any representation or warranty of Seller herein, (B) the failure of Seller to perform any of its surviving obligations (including indemnification obligations) hereunder, (C) any Café Tenant Actions, and (D) any Café Lease Liens; and (ii) Purchaser shall Indemnify Seller against any and all Claims (collectively, the "**Seller's Claims**") arising out of (A) the inaccuracy of any representation or warranty of Purchaser herein, (B) the failure of Purchaser to perform any of its surviving obligations (including indemnification obligations) hereunder, and (C) Claims asserted by third-parties relating to damage to property or injury to or death of any person occurring on or about the Property or any portion thereof after the Closing.

10.3.2 **Notice and Cooperation on Indemnification.** Whenever either party shall learn through the filing of a Purchaser's Claim or Seller's Claim, as the case may be, that the other party is or may be responsible under this Agreement, the party learning of such liability shall notify the other party promptly and furnish such copies of documents (and make originals thereof available) and such other information as such party may have that may be used or useful in the defense of such Claims and shall afford said other party full opportunity to defend the same in the name of the notifying party and generally shall cooperate with said other party in the defense of any such Claim. Upon receipt of such notice of possible liability, the party obligated to provide indemnity shall have the right to provide a written notice to the party entitled to indemnity that the indemnifying party elects to assume the defense of such matter, including, without limitation, the employment of counsel reasonably satisfactory to the indemnified party; whereupon the indemnifying party shall have the right to prosecute such defense and shall be responsible for the payment of the fees and disbursements of such counsel; provided, however, if in the reasonable judgment of the indemnified party, (i) such Claim or the resolution thereof, would have a material adverse effect on the indemnified party, or (ii) the indemnifying party shall have a conflict of interest in defending such action on the indemnified party's behalf, then at the indemnified party's election, the indemnified party may defend itself, and in either of such instances it shall be at the indemnifying party's expense; provided,

however, that the indemnifying party shall be responsible for the reasonable fees of no more than one counsel in each jurisdiction in each proceeding. The failure of an indemnified party to provide prompt notice of a Purchaser's Claim or a Seller's Claim to the indemnifying party pursuant to the first sentence of this Section 10.3.2 shall not relieve the indemnifying party of its obligation to Indemnify the indemnified party hereunder, except if such failure materially prejudices the indemnifying party's ability to conduct such Indemnification, and except to the extent such failure materially increases the amount of the applicable Purchaser's Claim or Seller's Claim.

10.3.3 As used in this Article 10: (a) the term "**Indemnify**" means to hold harmless and indemnify an indemnified party from and against a Claim and, where applicable, to defend such party by counsel reasonably satisfactory to it, all at the sole expense and liability of the indemnifying party; and (b) the term "**Claim**" means any claim, damage, demand, lawsuit, litigation, penalty, cause of action, liability, loss, cost (including, without limitation, reasonable attorneys' fees) and expense.

10.4 Joinder of Seller Parent Companies. Each of Tishman Speyer Real Estate Venture VII Parallel (PA), L.P. ("**PA**"), Tishman Speyer Real Estate Venture VII Parallel (ERISA), L.P. ("**ERISA Parallel**"), Tishman Speyer Real Estate Venture VII, L.P. ("**VII**"), Tishman Speyer Real Estate Venture VII Parallel (INT), L.P. ("**INT**"), Tishman Speyer Real Estate Venture VII Parallel (SGP), L.P. ("**SGP**"), Tishman Speyer Real Estate Venture VII Parallel (GOV), L.P. ("**GOV**"), and Tishman Speyer Real Estate Venture VII Parallel (GER), L.P. ("**GER**"), and together with PA, ERISA Parallel, VII, INT, SGP, and GER, collectively, the "**Seller Parent Companies**", is executing this Agreement solely for the express purposes specified in this Section 10.4. From and after the Closing Date, Seller Parent Companies, jointly and severally, guaranty to Purchaser the due and punctual payment and performance of Seller's obligations under this Article 10. Seller Parent Companies' guaranty hereunder is an unconditional guaranty of payment and performance and not of collection, and Purchaser may proceed directly against all or some of the Seller Parent Companies without first proceeding against Seller.

ARTICLE 11: BROKERAGE COMMISSION

11.1 Brokers. Seller represents and warrants to Purchaser that Seller has not entered into any agreement with any real estate broker, agent, finder, or any party in connection with this transaction, except for Cushman & Wakefield ("**Seller's Broker**") and that Seller has not taken any action that would result in any real estate broker's or finder's fees or commissions being due and payable to any party other than Seller's Broker with respect to the transaction contemplated hereby. Seller will be solely responsible for the payment of Seller's Broker's commission in accordance with the provisions of a separate agreement. Purchaser hereby represents and warrants to Seller that Purchaser has not entered into any agreement with any real estate broker, agent, finder, or any party in connection with this transaction and that Purchaser has not taken any action that would result in any real estate broker's or finder's fees or commissions being due or payable to any party with respect to the transaction contemplated hereby.

11.2 Indemnity. Each party hereby agrees to indemnify, defend and hold the other party harmless from and against any loss, liability, damage, cost, or expense (including, without limitation, reasonable attorneys' fees) paid or incurred by the other party by reason of a breach of the

representation and warranty made by such party in Section 11.1 (the “**Broker Indemnification Claims**”).

11.3 Survival. This Article 11 shall indefinitely survive the Closing or earlier termination of this Agreement.

ARTICLE 12: NOTICES

12.1 Written Notice. All notices, demands and requests which may be given or which are required to be given by either party to the other party under this Agreement must be in writing.

12.2 Method of Transmittal. All notices, demands, requests or other communications required or permitted to be given hereunder (“notices”) must be sent (i) by hand delivery, (ii) by Federal Express, UPS or a similar nationally recognized overnight courier service, or (iii) by electronic mail so long as a duplicate notice is deposited (on the same date) for delivery by one of the other three (3) methods described above. All notices shall be deemed to have been given for all purposes of this Agreement upon the date of receipt or refusal (except that notices delivered by electronic mail as aforesaid shall be deemed received when sent by electronic mail), except that whenever under this Agreement a notice is either received on a day which is not a Business Day or is required to be delivered on or before a specific day which is not a Business Day, the day of receipt or required delivery shall automatically be extended to the next Business Day.

12.3 Addresses. The addresses for proper notice under this Agreement are as follows:

As to Seller:

c/o Tishman Speyer
45 Rockefeller Plaza, 7th Floor
New York, New York 10111
Attention: Chief Financial Officer

With copies to:

Tishman Speyer
45 Rockefeller Plaza, 7th Floor
New York, New York 10111
Attention: General Counsel

and

Tishman Speyer
1875 Eye Street NW, Suite 300
Washington DC 20006
Attention: Paul C. DeMartini
E-mail: PDemarti@TishmanSpeyer.com

And to: Hunton & Williams LLP (US)
200 Park Avenue
52nd Floor
New York, New York 10166
Attention: Matthew A. Scoville, Esq.
E-mail: MScoville@hunton.com

As to Purchaser: c/o Washington REIT
1775 Eye Street NW, Suite 1000
Washington, DC 20006
Attention: Andrew Leahy, Vice President
E-mail: aleahy@washreit.com

With a copy to: c/o Washington REIT
1775 Eye Street NW, Suite 1000
Washington, DC 20006
Attention: Taryn Fielder, General Counsel
E-mail: tfielder@washreit.com

And to: Morris, Manning & Martin, LLP
1401 Eye Street NW, Suite 600
Washington, DC 20005
Attention: Carol Weld King, Esq.
E-mail: cwking@mmmlaw.com

As to Escrow Agent: Chicago Title Insurance Company
2000 M Street, N.W., Suite 610
Washington, DC 20036
Attention: Debra Bond
E-mail: Debra.Bond@CTT.com

Either party may from time to time by written notice to the other party designate a different address for notices. Notices sent to or from an address outside of the continental United States shall be sent only by the method specified in clause (iii) of this Section 12.3.

ARTICLE 13: ASSIGNMENT

Neither party shall have the right to assign, delegate or otherwise transfer its interest in this Agreement without the prior written consent of the other party, which consent may be granted or withheld in such other party's sole and absolute discretion, and any purported or attempted assignment, delegation or other transfer in violation of the foregoing shall be void and of no effect. Any change in control (as hereinafter defined) of Seller or Purchaser, whether in one transaction or a series of transactions, shall constitute an assignment for purposes of this Article 13. For purposes of this Article 13, "**control**" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of the entity in question, whether through the ownership of membership or partnership interests, voting stock, by contract or otherwise. Purchaser hereby represents that as of the date hereof, Purchaser is wholly owned (whether directly or indirectly) by, and under the ultimate control of, Washington Real Estate Investment Trust. Anything

to the contrary herein notwithstanding, Purchaser shall be permitted to assign this Agreement without the prior consent of Seller to any entity controlled by, controlling or under common control with the named Purchaser, so long as notice thereof is given to Seller at least five (5) days prior to the date of such assignment and such assignee assumes in writing all of Purchaser's obligations hereunder; provided, however, that the named Purchaser herein shall remain liable for all of Purchaser's obligations under this Agreement until the Closing Date and shall not be deemed to be released as a result of such assignment and assumption until the Closing has occurred.

ARTICLE 14: MISCELLANEOUS

14.1 Entire Agreement. This Agreement embodies the entire agreement between the parties and supersedes all prior agreements and undertakings between the parties with respect to the subject matter hereof.

14.2 Modifications. This Agreement may not be modified except by the written agreement of the parties.

14.3 Gender and Number. Words of any gender used in this Agreement will be construed to include any other gender and words in the singular number will be construed to include the plural, and vice versa, unless the context requires otherwise.

14.4 Captions. The captions used in connection with the Articles, Sections and Subsections of this Agreement are for convenience only and will not be deemed to expand or limit the meaning of the language of this Agreement.

14.5 Successors and Assigns. This Agreement will be binding upon and inure to the benefit of the parties hereto and their respective legal representatives, successors and permitted assigns.

14.6 Controlling Law. This Agreement will be construed under, governed by and enforced in accordance with the laws of the Commonwealth of Virginia (without reference to conflicts of laws principles).

14.7 Exhibits. All exhibits, attachments, schedules, annexed instruments and addenda referred to herein will be considered a part hereof for all purposes with the same force and effect as if set forth verbatim herein.

14.8 No Rule of Construction. Seller and Purchaser have each been represented by counsel in the negotiations and preparation of this Agreement; therefore, this Agreement will be deemed to be drafted by both Seller and Purchaser, and no rule of construction will be invoked respecting the authorship of this Agreement.

14.9 Severability. If any one or more of the provisions contained in this Agreement (except the provisions relating to Seller's obligations to convey the Property and Purchaser's obligation to pay the Purchase Price, the invalidity of either of which shall cause this Agreement to be null and void) are held to be invalid, illegal, or unenforceable in any respect, such invalidity,

illegality, or unenforceability will not affect any other provisions hereof, and this Agreement shall be construed as if such invalid, illegal, or unenforceable provision had not been contained herein, provided, however, that the parties hereto shall endeavor in good faith to rewrite the affected provision to make it (i) valid and (ii) consistent with the intent of the original provision.

14.10 Waiver. Either party may (a) extend the time for the performance of any of the obligations or other acts of the other party, (b) waive any inaccuracies of such other party in the representations and warranties contained herein or in any document delivered pursuant hereto or (c) waive compliance by such other party with any of the covenants, agreements or conditions contained herein, to the extent permitted by applicable law. Any agreement to any such extension or waiver will be valid only if set forth in a writing signed by the granting party, but no such extension or waiver shall be deemed to constitute an extension or a waiver of any future matter unless specifically set forth therein.

14.11 No Third Party Beneficiary. The provisions of this Agreement and of the documents to be executed and delivered at Closing are and will be for the benefit of Seller and Purchaser only and are not for the benefit of any third party, and accordingly, no third party shall have the right to enforce the provisions of this Agreement or of the documents to be executed and delivered at Closing.

14.12 Time of Essence. Time is important to both Seller and Purchaser in the performance of this Agreement, and both parties have agreed that TIME IS OF THE ESSENCE against each of Seller and Purchaser with respect to any date or time period set forth in this Agreement.

14.13 Business Days. “**Business Day**” means any day on which business is generally transacted by banks in New York City and in the Commonwealth of Virginia. If the last day of any period that is set forth anywhere in this Agreement falls upon a day that is not a Business Day, then, and in such event, the last day of such period shall be the immediately succeeding Business Day.

14.14 No Memorandum; No Lis Pendens. Each party agrees not to record this Agreement or any memorandum hereof in connection herewith. Each party agrees not to file any *lis pendens* or other instrument against all or a portion of the Property in connection herewith.

14.15 Press Releases. Prior to Closing, neither party may issue any press release or other public disclosure with respect to the transactions contemplated by this Agreement, except for such public disclosures (including to the SEC) as may be required by applicable law or permitted by Section 14.19. Notwithstanding the foregoing, in connection with any public disclosure mandated by the SEC, Purchaser shall have the right, without the consent of Seller, to issue an accompanying press release that does not disclose any material information about the transactions that is not contained in the public disclosure mandated by the SEC. After Closing, either party may issue press releases or other public communications announcing the transactions contemplated by this Agreement without the consent of the other party; provided, however, that notwithstanding the foregoing, no such press release or other public disclosure or communication shall include any information (other than the identification of the parties) that is required to be kept confidential pursuant to the provisions of Section 14.19, but only to the extent such information has not already been made public (other than in violation of the provisions of this Agreement).

14.16 Attorneys' Fees and Costs. In the event of any litigation arising as a result of or by reason of this Agreement, the prevailing party in any such litigation, shall be entitled to, in addition to any other damages assessed, its reasonable attorneys' fees, and all other costs and expenses incurred in connection with settling or resolving such dispute. The attorneys' fees that the prevailing party is entitled to recover shall include fees for prosecuting or defending any appeal and shall be awarded for any supplemental proceedings until the final judgment is satisfied in full. In addition to the foregoing award of attorneys' fees to the prevailing party, the prevailing party in any lawsuit on this Agreement shall be entitled to its reasonable attorneys' fees incurred in any post judgment proceedings to collect or enforce the judgment. This attorneys' fees provision is separate and several and shall survive the merger of the Agreement into any judgment. The provisions of this Section 14.16 shall survive the Closing or earlier termination of this Agreement.

14.17 Counterparts and Expiration of Offer. This Agreement may be executed in multiple counterparts, which counterparts may be executed by facsimile or electronic mail, which shall together constitute a single document. However, this Agreement shall not be effective unless and until all such counterpart signatures have been obtained. An unsigned draft of this Agreement shall not be considered an offer by either party to purchase or sell the Property.

14.18 Waiver of Jury Trial. EACH PARTY HEREBY WAIVES TRIAL BY JURY IN ANY ACTION, PROCEEDING, CLAIM OR COUNTERCLAIM BROUGHT BY EITHER PARTY IN CONNECTION WITH ANY MATTER ARISING OUT OF OR IN ANY WAY CONNECTED WITH THIS AGREEMENT, THE RELATIONSHIP OF SELLER AND PURCHASER HEREUNDER, PURCHASER'S OWNERSHIP OR USE OF THE PROPERTY, OR ANY CLAIMS OF INJURY OR DAMAGE RELATED TO THE PROPERTY.

14.19 Confidentiality.

14.19.1.1 Prior to Closing, each party agrees to not, and shall cause its agents and representatives to not, disclose in any manner whatsoever, (a) the information provided to such party by the other party or its representatives, or (b) any analyses, compilations, studies or other documents or records prepared by or on behalf of such party in connection with the transactions contemplated by this Agreement, without first obtaining the written consent of the other party, which may be granted or denied in such party's sole discretion (collectively, the "**Confidential Information**").

14.19.1.2 It is understood that the foregoing shall not preclude Purchaser from disclosing Confidential Information (a) to any person who is actively and directly participating in the purchase and sale of the Property, including, without limitation, Purchaser's shareholders, officers, directors, partners, members, existing or prospective lenders, attorneys, accountants, other consultants and advisors, prospective investors, potential joint-venture partners, potential purchasers, Tenants and their respective attorneys and advisors (subject to Section 4.1.2), and potential lessees of the Property (subject to Section 14.23), in each case on a need-to-know basis, after the recipients have been informed of the confidential nature of the Confidential Information and directed not to disclose such Confidential Information except in accordance with this Section 14.19, or (b) in order to comply with applicable laws, including, without limitation, governmental regulatory, disclosure, tax and reporting requirements.

14.19.1.3 Notwithstanding anything to the contrary set forth in this Section 14.19, Purchaser, Seller and their affiliates may at any time make such filings and/or disclosures (including the filing of this Agreement) with the SEC as are required (in such filing and/or disclosing party's good faith judgment) in connection with the matters contemplated by this Agreement.

14.19.1.4 In addition to any other remedies available to it, each party shall have the right to seek equitable relief, including, without limitation, injunctive relief or specific performance, against the other party in order to enforce the provisions of this Section 14.19, and provided, however, that notwithstanding anything herein to the contrary, in no event shall either party have the right to terminate this Agreement as a result of a breach of the terms of this Section 14.19.

14.19.1.5 Notwithstanding any other provision of this Agreement, the provisions of this Section 14.19 shall survive the termination of this Agreement for one (1) year following the Effective Date, but shall not survive Closing.

14.20 Jurisdiction and Service of Process. The parties hereto agree to submit to personal jurisdiction in Arlington, Virginia, in any action or proceeding arising out of this Agreement and, in furtherance of such agreement, the parties hereby agree and consent that without limiting other methods of obtaining jurisdiction, personal jurisdiction over the parties in any such action or proceeding may be obtained within or without the jurisdiction of either (a) the Circuit Court for Arlington, Virginia, or (b) the United States District Court for the Eastern District of Virginia, and that any process or notice of motion or other application to any such court in connection with any such action or proceeding may be served upon the parties by certified mail to or by personal service at the last known address of the parties, whether such address be within or without the jurisdiction of any such court. Any legal suit, action or other proceeding by one party to this Agreement against the other arising out of or relating to this Agreement shall be instituted only in either (a) the Circuit Court for Arlington, Virginia, or (b) the United States District Court for the Eastern District of Virginia (except to the extent, if any, that such court does not have subject matter jurisdiction), and each party hereby waives any objections that it may now or hereafter have to any such suit, action or proceeding based on venue or forum non conveniens, and submits to the jurisdiction of such courts. The provisions of this Section 14.20 shall survive the Closing or the termination hereof.

14.21 Exculpation.

14.21.1 Purchaser agrees that it does not have and will not have any claims or causes of action against the Seller Knowledge Individuals or (except with respect solely to the Seller Parent Companies solely pursuant to Section 10.4) any direct or indirect officer, director, employee, trustee, shareholder, member, manager, investor, partner, principal, parent, subsidiary or other affiliate of Seller, including, without limitation, Tishman Speyer Properties, L.P., or any officer, director, employee, trustee, shareholder, partner, manager, member, investor or principal of any such parent, subsidiary or other affiliate (collectively, "**Seller's Affiliates**"), arising out of or in connection with this Agreement or the transactions contemplated hereby. Except with respect solely to the Seller Parent Companies solely pursuant to Section 10.4, Purchaser agrees to look solely to Seller and its assets for the satisfaction of any liability or obligation arising under this Agreement or the transactions contemplated hereby, or for the performance of any of the covenants, warranties

or other agreements contained herein, and further agrees not to sue or otherwise seek to enforce any personal obligation against any of Seller's Affiliates with respect to any matters arising out of or in connection with this Agreement or the transactions contemplated hereby. The provisions of this Section 14.21.1 shall survive the termination of this Agreement and the Closing.

14.21.2 Seller agrees that it does not have and will not have any claims or causes of action against the Purchaser Knowledge Individuals or any direct or indirect officer, director, employee, trustee, shareholder, member, manager, investor, partner, principal, parent, subsidiary or other affiliate of Purchaser, including, without limitation, Washington Real Estate Investment Trust, or any officer, director, employee, trustee, shareholder, partner, manager, member, investor or principal of any such parent, subsidiary or other affiliate (collectively, "**Purchaser's Affiliates**"), arising out of or in connection with this Agreement or the transactions contemplated hereby. Seller agrees to look solely to Purchaser and its assets for the satisfaction of any liability or obligation arising under this Agreement or the transactions contemplated hereby, or for the performance of any of the covenants, warranties or other agreements contained herein, and further agrees not to sue or otherwise seek to enforce any personal obligation against any of Purchaser's Affiliates with respect to any matters arising out of or in connection with this Agreement or the transactions contemplated hereby. The provisions of this Section 14.21.2 shall survive the termination of this Agreement and the Closing.

14.22 TS Lease. Seller and Purchaser hereby agree that at Closing, and as a condition precedent to Closing hereunder for the benefit of Purchaser, Seller shall cause Arlington Tower Lease Tenant, L.L.C. ("**TS Lease Tenant**"), an affiliate of Seller, to enter into that certain TS Lease (the "**TS Lease**"), in substantially the form attached hereto as EXHIBIT I, as the tenant thereunder, with Purchaser, as landlord thereunder, with respect to the space in the Improvements described on EXHIBIT J attached hereto (the "**TS Lease Premises**"), which TS Lease shall provide that: (i) the term of the TS Lease (the "**TS Lease Term**") shall be one (1) year, commencing on the Closing Date and automatically terminating on the first anniversary thereof, with no right of either party to early termination or renewal thereof, (ii) annual rent ("**TS Lease Rent**") pursuant to the TS Lease shall be \$2,711,781.00, payable in equal monthly installments commencing on the date hereof and continuing for twelve (12) consecutive months thereafter, and (iii) except for TS Lease Rent, TS Lease Tenant shall have no other obligation or liability under the TS Lease, and the TS Lease shall be, in all respects, non-recourse with respect to TS Lease Tenant (including any affiliate, member, direct or indirect officer, director, employee, trustee, shareholder, manager, investor, partner, principal, parent, or subsidiary thereof), and Purchaser's (as landlord under the TS Lease) sole recourse under the TS Lease shall be, and Purchaser agrees to look solely to, any escrow agreement TS Lease Tenant (or its affiliates) and Purchaser (or its affiliates) enter into with respect to the TS Lease for the satisfaction of any liability or obligation of TS Lease Tenant pursuant to the TS Lease.

14.23 TS Lease Premises Leasing. Notwithstanding anything herein to the contrary, including without limitation Section 6.1 hereof, but subject to the terms of Article 4, Section 14.19, and this Section 14.23, from and after the expiration of the Due Diligence Period (provided that Purchaser has timely delivered the Additional Deposit), Purchaser shall have the right, at Purchaser's election, to use good faith efforts to cause the TS Lease Premises, or any portion thereof, to be leased to third-party tenant(s) (the "**TS Lease Premises Leasing**"), including the right to market the TS Lease Premises and engage a broker on Purchaser's behalf in connection therewith, and, if Purchaser shall elect to undertake the TS Lease Premises Leasing, prior to the Closing Date, Seller shall reasonably cooperate in connection therewith, provided that: (a) all expenses in connection with the TS Lease Premises Leasing, including any Seller undertaking in connection therewith, shall be at Purchaser's sole cost and expense, and (b) in no event shall (i) any lease to any such third party tenant(s) be entered into prior to the Closing Date, (ii) Seller or the Property be bound, or shall Seller have any other liability or obligation, including to any such third party tenant or Purchaser's broker (if any), if the Closing does not occur (regardless of the reason therefor), and (iii) Seller be a party to any such third party lease, or other documentation in connection with the TS Lease Premises Leasing, except that Seller shall execute any reasonably necessary confidentiality and/or property inspection agreement with respect to the TS Lease Premises in connection with the TS Lease Premises Leasing, provided that such agreement shall be subject to Seller's reasonable approval, and provided that in all circumstances Purchaser shall indemnify Seller in connection therewith. If at the Closing, or at any time prior to the expiration of the TS Lease Term, Purchaser shall enter in a third-party lease for the TS Lease Premises, or any portion thereof, the TS Lease Premises, with respect to the TS Lease, shall be deemed to be modified accordingly, provided, however, that notwithstanding such reduction in space or other modification to the TS Lease Premises, the TS Lease Rent shall in no event be reduced or otherwise modified.

[Signature Page Follows]

EXHIBIT A

LEGAL DESCRIPTION

All of those lots or parcels of land located in Arlington County, Virginia, and more particularly described as follows:

TRACT 1:

Parcels 1 and 2, Stevens Addition to Rosslyn, as the same appear duly dedicated, platted and recorded in Deed Book 1030 at page 237 among the Land Records of Arlington County, Virginia; more particularly described as follows:

BEGINNING at a point on the westerly right-of-way line of North Fort Myer Drive, variable width right-of-way, point of beginning being a corner common to Knickerbocker Properties, point of beginning also being within a public street easement for 17th Street North; thence running with the westerly right-of-way line of North Fort Myer Drive the following: South 00 degrees 30' 00" East 166.83 feet to a point and South 15 degrees 47' 00" West 34.54 feet to a point in the northerly line of the property of First American Bank of Virginia, Trustee; thence running with the line of First American Bank of Virginia, Trustee, South 89 degrees 30' 00" West 257.04 feet to a point in the easterly line of Belvedere condominium; thence running with a portion of the line of the Belvedere condominium and continuing with the easterly line of Lot 9, part of Lot 8 and Lot 7A, Wharton's addition to Fort Myer Heights, North 01 degrees 16' 00" West 200.00 feet to a point in the line of Lot 7A at a corner common to Knickerbocker Properties; thence running with the southerly line of Knickerbocker Properties North 89 degrees 30' 00" East 269.40 feet to the point of beginning, containing 53,447 square feet or 1.2270 acres, more or less.

TOGETHER WITH the right of ingress and egress over certain property adjoining the land, as more particularly described in that certain Easement Agreement, which Easement Agreement is dated November 15, 1978, and recorded November 17, 1978, in Deed Book 1978 at page 1566; and TOGETHER WITH all rights of ingress and egress over certain property adjoining the land as more particularly described in that certain Deed of Easement, which Deed of Easement is dated August 7, 1980, and recorded August 19, 1980, in Deed Book 2018 at page 1445; and TOGETHER WITH those rights for storm and sanitary sewer described in that certain Easement Agreement recorded in Deed Book 1978 at page 1586; and FURTHER TOGETHER WITH the easement rights set forth in that certain Agreement dated September 25, 1978 and recorded in Deed Book 1975 at Page 1073.

FURTHER TOGETHER WITH (1) a non-exclusive Expansion Joint Easement and (2) non-exclusive access rights to Access Area, each as set forth in that certain Easement Agreement by and between 1300 N. 17th Street, L.P., a Delaware limited partnership, and 1616 North Fort Myer Drive Property LLC, a Delaware limited liability company, dated as of May 5, 2011 and recorded May 5, 2011 in Deed Book 4458 at page 1206 among the Land Records of Arlington County, Virginia.

Note For Informational Purposes Only:
Tax Map No. 17-003-031 and 17-003-032

TRACT 2:

All that certain tract of land containing 27,647.07 square feet, more or less, situated in Arlington County, Virginia, at the intersection of Fort Myer Drive and N. Lynn Street, and known as the "Hessick Tract" as shown on plat approved by the Arlington County Department of Transportation attached to Deed recorded in Deed Book 1958 at page 1636, among the Land Records of Arlington County, Virginia; and more particularly described as follows:

BEGINNING at a point at the intersection of the westerly line of North Lynn Street, variable width right-of-way, with the northerly line of North Fairfax Drive, variable width right-of-way; thence running with the northerly line of North Fairfax Drive along the arc of a curve to the left, having a radius of 250.18 feet, a chord length of 31.94 feet and a chord bearing of South 73 degrees 09' 38" West, a distance of 31.96 feet to a point of tangency; thence continuing with the northerly right-of-way line of North Fairfax Drive the following: South 69 degrees 30' 02" West 44.18 feet and North

EXHIBIT A-1

74 degrees 22' 35" West 55.85 feet to a point in the easterly line of North Fort Myer Drive, variable width right-of-way; thence running with the easterly line of North Fort Myer Drive the following: along the arc of a curve to the right having a radius of 700.62 feet, a chord length of 47.69 feet and a chord bearing of North 14 degrees 05' 23" West a distance of 47.70 feet to a point, and North 00 degrees 43' 35" West 103.28 feet to a point being a corner common to the property of Gateway Virginia Properties; thence running with the southerly line of Gateway Virginia Properties North 89 degrees 16' 25" East 223.37 feet to a point in the westerly line of North Lynn Street; thence running with the westerly right-of-way of North Lynn Street the following: South 27 degrees 39' 08" West 144.33 feet and South 50 degrees 03' 14" West 23.10 feet to the point of beginning, containing 27,644 square feet or 0.6346 acre, more or less.

Note For Informational Purposes Only:
Tax Map No. 17-002-002

EXHIBIT A-2

WASHINGTON REAL ESTATE INVESTMENT TRUST
Computation of Ratios
(In thousands)

Earnings to fixed charges ratio:

	Three Months Ended December 31,	Year Ended December 31,				
	2017	2017	2016	2015	2014	2013
Income (loss) from continuing operations	\$ 2,337	\$ 19,612	\$ 119,288	\$ 89,187	\$ 5,070	\$ (193)
Additions:						
Fixed charges:						
Interest expense	11,900	47,534	53,126	59,546	59,785	63,573
Capitalized interest	288	964	668	658	2,142	1,236
	<u>12,188</u>	<u>48,498</u>	<u>53,794</u>	<u>60,204</u>	<u>61,927</u>	<u>64,809</u>
Deductions:						
Capitalized interest	(288)	(964)	(668)	(658)	(2,142)	(1,236)
Net loss (income) attributable to noncontrolling interests	—	56	51	553	38	—
Adjusted earnings	<u>\$ 14,237</u>	<u>\$ 67,202</u>	<u>\$ 172,465</u>	<u>\$ 149,286</u>	<u>\$ 64,893</u>	<u>\$ 63,380</u>
Fixed charges (from above)	<u>\$ 12,188</u>	<u>\$ 48,498</u>	<u>\$ 53,794</u>	<u>\$ 60,204</u>	<u>\$ 61,927</u>	<u>\$ 64,809</u>
Ratio of earnings to fixed charges	(1)	1.17 (1)	1.39 (1)	3.21 (1)	2.48 (1)	1.05 (2)
						0.98

⁽¹⁾ The earnings to fixed charges ratios for the three months ended December 31, 2017 and the years ended December 31, 2017, 2016, 2015 and 2014 include gains on sale of real estate of \$24.9 million, \$24.9 million, \$101.7 million, \$91.1 million and \$0.6 million, respectively, classified as continuing operations. Prior to our adoption of Accounting Standards Update 2014-08 effective January 1, 2014, gains from the sale of real estate were classified as discontinued operations.

⁽²⁾ Due to the loss from continuing operations, the ratio was less than 1:1. Washington REIT must generate additional earnings of \$1.4 million to achieve a ratio of 1:1.

Entity Name	State of Organization
650 N. Glebe, LLC	Delaware
Cascade/Maryland Properties LLC	Washington
Frederick Crossing Associates, L.C.	Virginia
Frederick Crossing Retail Associates, L.C.	Virginia
Munson Hill Towers, L.L.C.	Virginia
Real Estate Management, Inc.	Maryland
SME Rock, LLC	Delaware
SME Rock Manager, Inc.	Delaware
SYN-Rock, LLC	Maryland
SYN-Rock Manager, Inc.	Delaware
Trade Rock, LLC	Delaware
Trade Rock Manager, Inc.	Delaware
Washington Metro, Inc.	Maryland
Washington Parking, Inc.	Maryland
WashREIT 515 King St LLC	Delaware
WashREIT 1220 19th St Grantor Trust Ownership LLC	Delaware
WashREIT 1220 19th St Trustee LLC	Delaware
WashREIT 1776 G St Grantor Trust Ownership LLC	Delaware
WashREIT 1776 G St Trustee LLC	Delaware
WashREIT 1901 Pennsylvania Ave Grantor Trust Ownership LLC	Delaware
WashREIT 1901 Pennsylvania Ave Trustee LLC	Delaware
WashREIT 2000 M St Grantor Trust Ownership LLC	Delaware
WashREIT 2000 M St Trustee LLC	Delaware
WashREIT 3801 Connecticut Ave Trust Ownership LLC	Delaware
WashREIT 3801 Connecticut Ave Trust Trustee LLC	Delaware
WashREIT Arlington Tower LLC	Delaware
WashREIT Bradlee Shopping Center LLC	Delaware
WashREIT Centre at Hagerstown LLC	Delaware
WashREIT Chevy Chase Metro Center Grantor Trust Ownership LLC	Delaware
WashREIT Chevy Chase Metro Center Trustee LLC	Delaware
WashREIT Courthouse Square LLC	Delaware
WashREIT Frederick County Square LLC	Delaware
WashREIT Monument II LLC	Delaware
WashREIT OP LLC	Delaware
WashREIT OP Sub DC LLC	Delaware
WashREIT Park Adams Apartments LLC	Delaware
WashREIT Randolph Shopping Center LLC	Delaware
WashREIT Riverside Apartments LLC	Delaware
WashREIT Riverside LLC	Delaware
WashREIT Roosevelt Towers LLC	Delaware
WashREIT Shoppes at Foxchase LLC	Delaware
WashREIT Takoma Park Shopping Center LLC	Delaware
WashREIT Virginia Lender LLC	Delaware
WashREIT Watergate 600 OP LP (f/k/a WashREIT HW LP)	Delaware
WashREIT Wellington Apartments LLC	Delaware
WashREIT Wellington LLC	Delaware
WashREIT Westminster Shopping Center LLC	Delaware
WashREIT Wheaton Park Shopping Center LLC	Delaware
WRIT-2445 M, LLC	Delaware

Entity Name	State of Organization
WRIT-Kenmore, LLC	Delaware
WRIT 1140 CT LLC	Delaware
WRIT 1227 25th Street LLC	Delaware
WRIT 1775 EYE STREET LLC	Delaware
WRIT 8283 Greensboro Drive LLC	Delaware
WRIT ANC LLC	Delaware
WRIT Braddock Gateway LLC	Delaware
WRIT Braddock Office LLC	Delaware
WRIT Crimson On Glebe Member LLC	Delaware
WRIT Dulles Station, LLC	Delaware
WRIT Fairgate LLC	Delaware
WRIT Frederick Crossing Associates, Inc.	Maryland
WRIT Frederick Crossing Land, LLC	Delaware
WRIT Frederick Crossing Lease, LLC	Delaware
WRIT GATEWAY OVERLOOK LLC	Delaware
WRIT Limited Partnership	Delaware
WRIT Olney Village Center LLC	Delaware
WRIT PARAMOUNT LLC	Delaware
WRIT SPRING VALLEY LLC	Delaware
WRIT Yale West LLC	Delaware

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

- (1) Form S-3 No. 333-204623 of Washington Real Estate Investment Trust,
- (2) Form S-3 No. 333-204624 of Washington Real Estate Investment Trust,
- (3) Form S-8 No. 333-145327 pertaining to the 2007 Omnibus Long-Term Incentive Plan of Washington Real Estate Investment Trust,
and
- (4) Form S-8 No. 333-211418 pertaining to the 2016 Omnibus Incentive Plan of Washington Real Estate Investment Trust;

of our reports dated February 20, 2018, with respect to the consolidated financial statements and schedules of Washington Real Estate Investment Trust and Subsidiaries and the effectiveness of internal control over financial reporting of Washington Real Estate Investment Trust and Subsidiaries, included in this Annual Report (Form 10-K) of Washington Real Estate Investment Trust for the year ended December 31, 2017.

/s/ Ernst & Young LLP

McLean, Virginia
February 20, 2018

**POWER OF
ATTORNEY**

KNOW ALL MEN BY THESE PRESENTS THAT the undersigned trustees of Washington Real Estate Investment Trust, a Maryland real estate investment trust, do hereby constitute and appoint each of W. DREW HAMMOND and STEPHEN E. RIFFEE, signing singly, the undersigned's true and lawful attorney in fact to sign his or her name to the Annual Report on Form 10-K for the year ended December 31, 2017, under the Securities Exchange Act of 1934, as amended, and to any and all amendments, of said Company, and to cause the same to be filed with the SEC, granting unto said attorneys in fact and each of them full power and authority to do and perform any act and thing necessary and proper to be done in the premises, as fully and to all intents, and purposes as the undersigned could do if personally present, and the undersigned hereby ratify and confirm all that said attorneys in fact or either one of them shall lawfully do or cause to be done by virtue hereof.

Dated: February 7, 2018

/s/ CHARLES T. NASON

CHARLES T. NASON

/s/ ELLEN M. GOITIA

ELLEN M. GOITIA

/s/ BENJAMIN S. BUTCHER

BENJAMIN S. BUTCHER

/s/ PAUL T. MCDERMOTT

PAUL T. MCDERMOTT

/s/ WILLIAM G. BYRNES

WILLIAM G. BYRNES

/s/ THOMAS H. NOLAN

THOMAS H. NOLAN

/s/ EDWARD S. CIVERA

EDWARD S. CIVERA

/s/ ANTHONY L. WINNS

ANTHONY L. WINNS

CERTIFICATION

I, Paul T. McDermott, certify that:

1. I have reviewed this annual report on Form 10-K of Washington Real Estate Investment Trust;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

DATE: February 20, 2018

/s/ Paul T. McDermott

Paul T. McDermott
Chief Executive Officer

CERTIFICATION

I, Stephen E. Riffie, certify that:

1. I have reviewed this annual report on Form 10-K of Washington Real Estate Investment Trust;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

DATE: February 20, 2018

/s/ Stephen E. Riffie

Stephen E. Riffie
Chief Financial Officer
(Principal Financial Officer)

CERTIFICATION

I, W. Drew Hammond, certify that:

1. I have reviewed this annual report on Form 10-K of Washington Real Estate Investment Trust;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

DATE: February 20, 2018

/s/ W. Drew Hammond

W. Drew Hammond
Chief Accounting Officer
(Principal Accounting Officer)

WRITTEN STATEMENT OF
CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned, the President and Chief Executive Officer, Chief Financial Officer, and the Vice President - Chief Accounting Officer and Controller of Washington Real Estate Investment Trust ("Washington REIT"), each hereby certifies on the date hereof, that:

- (a) the Annual Report on Form 10-K for the year ended December 31, 2017 filed on the date hereof with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13 (a) or 15(d) of the Securities Exchange Act of 1934; and
- (b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Washington REIT.

Dated: February 20, 2018

/s/ Paul T. McDermott

Paul T. McDermott
Chief Executive Officer

Dated: February 20, 2018

/s/ Stephen E. Riffe

Stephen E. Riffe
Chief Financial Officer
(Principal Financial Officer)

Dated: February 20, 2018

/s/ W. Drew Hammond

W. Drew Hammond
Chief Accounting Officer
(Principal Accounting Officer)