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**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

OR

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

FOR QUARTER ENDED JUNE 30, 2004

COMMISSION FILE NO. 1-6622

**WASHINGTON REAL ESTATE INVESTMENT TRUST**

(Exact name of registrant as specified in its charter)

**MARYLAND**

(State or other jurisdiction of incorporation or organization)

**53-0261100**

(IRS Employer Identification Number)

**6110 EXECUTIVE BOULEVARD, SUITE 800, ROCKVILLE, MARYLAND**

(Address of principal executive office)

**20852**

(Zip code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve (12) months (or such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past ninety (90) days.

YES  NO

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).

YES  NO

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date, July 31, 2004.

**SHARES OF BENEFICIAL INTEREST 41,768,838**

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## Part I

FINANCIAL INFORMATION

The information furnished in the accompanying Consolidated Balance Sheets, Statements of Income, Statements of Cash Flows and Statement of Changes in Shareholders' Equity reflects all adjustments, consisting of normal recurring items, which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods. The accompanying financial statements and notes thereto should be read in conjunction with the financial statements and notes for the three years ended December 31, 2003 included in the Trust's 2003 Annual Report on Form 10-K filed with the Securities and Exchange Commission.

ITEM I. FINANCIAL STATEMENTS  
WASHINGTON REAL ESTATE INVESTMENT TRUST

CONSOLIDATED BALANCE SHEETS  
(In thousands, except per share amounts)

	<u>(Unaudited)</u> <u>June 30,</u> <u>2004</u>	<u>December 31,</u> <u>2003</u>
<b>Assets</b>		
Land	\$ 212,993	\$ 210,366
Building and improvements	864,101	842,501
	<u>1,077,094</u>	<u>1,052,867</u>
Total real estate, at cost		
Accumulated depreciation	(195,749)	(177,640)
	<u>881,345</u>	<u>875,227</u>
Total investment in real estate, net		
Cash and cash equivalents	8,336	5,486
Rents and other receivables, net of allowance for doubtful accounts of \$2,772 and \$2,674, respectively	20,983	18,397
Prepaid expenses and other assets	26,802	28,979
	<u>937,466</u>	<u>928,089</u>
Total assets	\$ 937,466	\$ 928,089
<b>Liabilities and Shareholders' Equity</b>		
Accounts payable and other liabilities	\$ 22,912	\$ 19,068
Advance rents	5,363	5,322
Tenant security deposits	6,229	6,168
Mortgage notes payable	141,271	142,182
Line of credit	13,250	—
Notes payable	375,000	375,000
	<u>564,025</u>	<u>547,740</u>
Total liabilities	564,025	547,740
Minority interest	1,615	1,601
	<u>371,826</u>	<u>378,748</u>
<b>Shareholders' Equity</b>		
Shares of beneficial interest; \$0.01 par value; 100,000 shares authorized: 41,769 and 41,607 shares issued and outstanding	418	416
Additional paid-in capital	400,713	396,462
Distributions in excess of net income	(25,840)	(16,272)
Less: Deferred compensation on restricted shares	(3,465)	(1,858)
	<u>371,826</u>	<u>378,748</u>
Total Shareholders' Equity	371,826	378,748
Total Liabilities and Shareholders' Equity	\$ 937,466	\$ 928,089

See accompanying notes to the financial statements.

WASHINGTON REAL ESTATE INVESTMENT TRUST  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(In thousands, except per share amounts)  
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
<b>Revenue</b>				
Real estate rental revenue	\$ 44,829	\$ 39,481	\$ 89,205	\$ 78,442
Other income	115	132	180	240
	<u>44,944</u>	<u>39,613</u>	<u>89,385</u>	<u>78,682</u>
<b>Expenses</b>				
Real estate expenses	13,400	11,235	26,863	22,838
Interest expense	8,614	7,581	17,189	14,628
Depreciation and amortization	10,121	8,245	19,993	16,318
General and administrative	1,727	1,264	2,956	2,396
	<u>33,862</u>	<u>28,325</u>	<u>67,001</u>	<u>56,180</u>
<b>Net income</b>	<u>\$ 11,082</u>	<u>\$ 11,288</u>	<u>\$ 22,384</u>	<u>\$ 22,502</u>
<b>Net income per share – basic</b>	<u>\$ 0.27</u>	<u>\$ 0.29</u>	<u>\$ 0.54</u>	<u>\$ 0.57</u>
<b>Net income per share – diluted</b>	<u>\$ 0.26</u>	<u>\$ 0.29</u>	<u>\$ 0.54</u>	<u>\$ 0.57</u>
<b>Weighted average shares outstanding – basic</b>	41,638	39,241	41,605	39,207
<b>Weighted average shares outstanding – diluted</b>	41,838	39,452	41,831	39,387
<b>Dividends paid per share</b>	<u>\$ 0.3925</u>	<u>\$ 0.3725</u>	<u>\$ 0.7650</u>	<u>\$ 0.7250</u>

See accompanying notes to the financial statements.

WASHINGTON REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands)  
(UNAUDITED)

	<u>Shares</u>	<u>Par Value</u>	<u>Deferred Compensation</u>	<u>Additional Paid in Capital</u>	<u>Distributions In Excess of Net Income</u>	<u>Shareholders' Equity</u>
Balance, December 31, 2003	41,607	\$ 416	\$ (1,858)	\$ 396,462	\$ (16,272)	\$ 378,748
Net income	—	—	—	—	22,384	22,384
Dividends	—	—	—	—	(31,952)	(31,952)
Share options exercised	60	1	—	2,389	—	2,390
Share grants, net of share grant amortization	102	1	(1,607)	1,862	—	256
Balance, June 30, 2004	<u>41,769</u>	<u>\$ 418</u>	<u>\$ (3,465)</u>	<u>\$ 400,713</u>	<u>\$ (25,840)</u>	<u>\$ 371,826</u>

See accompanying notes to the financial statements.

## WASHINGTON REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands)

	(Unaudited) Six Months Ended June 30,	
	2004	2003
<b>Cash Flow From Operating Activities</b>		
Net income	\$ 22,384	\$ 22,502
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	19,993	16,318
Provision for losses on accounts receivable	519	972
Amortization and accrual of share grants	291	108
Changes in other assets	(1,029)	(939)
Changes in other liabilities	3,924	2,184
<b>Net cash provided by operating activities</b>	<b>46,082</b>	<b>41,145</b>
<b>Cash Flow From Investing Activities</b>		
Real estate acquisitions, net*	(11,682)	(5,164)
Capital improvements to real estate	(14,281)	(9,938)
Non-real estate capital improvements	(46)	(61)
<b>Cash used in investing activities</b>	<b>(26,009)</b>	<b>(15,163)</b>
<b>Cash Flow From Financing Activities</b>		
Line of credit (repayments)/borrowings, net	13,250	(50,750)
Dividends paid	(31,952)	(28,446)
Principal payments – mortgage notes payable	(911)	(575)
Net proceeds from debt offering	—	59,369
Net proceeds from the exercise of share options	2,390	2,013
<b>Net cash used in financing activities</b>	<b>(17,223)</b>	<b>(18,389)</b>
Net increase in cash and cash equivalents	2,850	7,593
Cash and cash equivalents, beginning of period	5,486	13,076
<b>Cash and cash equivalents, end of period</b>	<b>\$ 8,336</b>	<b>\$ 20,669</b>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$ 14,034	\$ 13,342

## Non-cash Transactions:

\* On January 24, 2003, WRIT purchased Fullerton Industrial Center for an acquisition cost of \$10.6 million. WRIT assumed a mortgage in the amount of \$6.6 million, fair valued at \$6.8 million, and paid the balance in cash. The \$6.6 million of assumed mortgage is not included in the \$5.2 million amount shown as 2003 acquisitions or in the amount shown as the net proceeds from debt offering.

See accompanying notes to the financial statements.

WASHINGTON REAL ESTATE INVESTMENT TRUST  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2004  
(UNAUDITED)

**NOTE 1: NATURE OF BUSINESS**

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

**Federal Income Taxes**

We qualify as a Real Estate Investment Trust (REIT) under Sections 856-860 of the Internal Revenue Code and intend to continue to qualify as such. To maintain our status as a REIT, we are required to distribute at least 90% of our ordinary taxable income to our shareholders. When selling properties, we have the option of (i) reinvesting the sale price of properties sold, allowing for a deferral of income taxes on the sale, (ii) paying out capital gains to the shareholders with no tax to the company or (iii) treating the capital gains as having been distributed to the shareholders, paying the tax on the gain deemed distributed and allocating the tax paid as a credit to the shareholders. We distributed 100% of our 2003 ordinary taxable income to our shareholders. There were no capital gains in 2003.

**NOTE 2: ACCOUNTING POLICIES**

**Basis of Presentation**

The accompanying unaudited financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although we believe that the disclosures made are adequate to make the information presented not misleading. In addition, in the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These unaudited financial statements should be read in conjunction with the financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2003.

Within these notes to the financial statements, we refer to the three and six months ended June 30, 2004 as the "2004 Quarter" and "2004 Period," respectively, and the three and six months ended June 30, 2003 as the "2003 Quarter" and "2003 Period," respectively.

**Revenue Recognition**

Residential properties are leased under operating leases with terms of generally one year or less, and commercial properties are leased under operating leases with average terms of three to five years. We recognize rental income and rental abatements from our residential and commercial leases when earned on a straight-line basis in accordance with Statement of Financial Accounting Standards ("SFAS") No. 13 "Accounting for Leases." We record a provision for losses on accounts receivable equal to the estimated uncollectible amounts. This estimate is based on our historical experience and a review of the current status of the company's receivables. Percentage rents, which represent additional rents based on gross tenant sales, are recognized when tenants' sales exceed specified thresholds.

In accordance with SFAS No. 66, "Accounting for Sales of Real Estate," sales are recognized at closing only when sufficient down payments have been obtained, possession and other attributes of ownership have been transferred to the buyer and we have no significant continuing involvement. The gain or loss resulting from the sale of properties is included in net income at the time of sale.

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.

WASHINGTON REAL ESTATE INVESTMENT TRUST  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2004  
(UNAUDITED)

**Minority Interest**

We entered into an operating agreement with a member of the entity that previously owned Northern Virginia Industrial Park in conjunction with the acquisition of this property in May 1998. This resulted in a minority ownership interest in this property based upon defined company ownership units at the date of purchase. The operating agreement was amended and restated in 2002 resulting in a reduced minority ownership percentage interest. We account for this activity by allocating the minority owner's percentage ownership interest of the net income of the property to minority interest included in our general and administrative expenses, thereby reducing net income. Minority interest expense was \$38,000 and \$46,000 for the 2004 Quarter and the 2003 Quarter, respectively, and \$77,000 and \$86,000 for the 2004 Period and the 2003 Period, respectively. Quarterly distributions are made to the minority owner equal to the quarterly dividend per share for each ownership unit.

**Deferred Financing Costs**

Costs associated with the issuance of mortgage and other notes and fees associated with the lines of credit are capitalized and amortized using the straight-line method which approximates the effective interest rate method over the term of the related debt and are included in interest expense on the accompanying consolidated statements of income.

**Deferred Leasing Costs**

Costs associated with the successful negotiation of leases are capitalized and amortized on a straight-line basis over the terms of the respective leases.

**Real Estate and Depreciation**

Buildings are depreciated on a straight-line basis over estimated useful lives ranging from 28 to 50 years. All capital improvement expenditures associated with replacements, improvements, or major repairs to real property that extend its useful life are capitalized and depreciated using the straight-line method over their estimated useful lives ranging from 3 to 30 years. All tenant improvements are amortized over the shorter of the useful life of the improvements or the term of the related tenant lease. Real estate depreciation expense for the 2004 Quarter and 2003 Quarter was \$9.2 million and \$7.4 million, respectively, and \$18.4 million and \$14.7 million for the 2004 Period and 2003 Period, respectively. Maintenance and repair costs are charged to expense as incurred.

We capitalize interest costs recognized on borrowing obligations while qualifying assets are being readied for their intended use in accordance with SFAS No. 34, "Capitalization of Interest Cost." Total interest expense capitalized to real estate assets related to development and major renovation activities was \$254,000 and \$50,000 for the 2004 Quarter and 2003 Quarter, respectively, and \$332,000 and \$86,000 for the 2004 Period and 2003 Period, respectively. Interest capitalized is amortized over the useful life of the related underlying assets upon those assets being placed into service.

We recognize impairment losses on long-lived assets used in operations when 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. If such carrying amount is in excess of the estimated cash flows from the operation and disposal of the property, we would recognize an impairment loss equivalent to an amount required to adjust the carrying amount to the estimated fair market value. There were no property impairments recognized during the 2004 Period and 2003 Period.

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

The fair value of in-place leases consists of the following components – (1) the estimated cost to us to replace the leases, including foregone rents during the period of finding a new tenant, foregone recovery of tenant pass-throughs, tenant improvements, and other direct costs associated with obtaining a new tenant (referred to as "Tenant Origination Cost"); (2) estimated leasing commissions associated with obtaining a new tenant (referred to as "Leasing Commissions"); (3) the



WASHINGTON REAL ESTATE INVESTMENT TRUST  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2004  
(UNAUDITED)

above/at/below market cash flow of the leases, determined by comparing the projected cash flows of the leases in place to projected cash flows of comparable market-rate leases (referred to as "Net Lease Intangible"); and (4) 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"). The amounts used to calculate Tenant Origination Cost, Leasing Commissions, and Net Lease Intangible are discounted using an interest rate which reflects the risks associated with the leases acquired. Tenant Origination Costs are included in Real Estate Assets on our balance sheet and are amortized as depreciation expense on a straight-line basis over the remaining life of the underlying leases. Leasing Commissions are classified as Other Assets and are amortized as amortization expense on a straight line basis over the remaining life of the underlying leases. Net Lease Intangible assets are classified as Other Assets and are amortized on a straight-line basis as a decrease to Real Estate Rental Revenue over the remaining term of the underlying leases. Net Lease Intangible liabilities are classified as Other Liabilities and are amortized on a straight-line basis as an increase to Real Estate Rental Revenue over the remaining term of the underlying leases. Should a tenant terminate its lease, the unamortized portions of the Tenant Origination Cost, Leasing Commissions, and Net Lease Intangible associated with that lease are written off to depreciation expense, amortization expense, and rental revenue, respectively. As of June 30, 2004 and December 31, 2003, Tenant Origination Costs net of accumulated depreciation totaled \$4.5 million and \$5.0 million, respectively, Leasing Commissions net of accumulated amortization totaled \$3.3 million and \$3.6 million, respectively, Net Lease Intangible assets net of accumulated amortization totaled \$2.8 million and \$2.6 million, respectively, Net Lease Intangible liabilities net of accumulated amortization totaled \$2.8 million and \$3.2 million, respectively, and \$0 had been assigned to Customer Relationship Value.

**Cash and Cash Equivalents**

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

**Stock Based Compensation**

We maintain Share Grant Plans and Incentive Stock Option Plans (the "Plans"), which include qualified and non-qualified options and deferred shares for eligible employees.

Shares are granted to officers and trustees under the Share Grant Plans. Officer share grants vest over 5 years in annual installments commencing one year after the date of grant. Trustee share grants are fully vested immediately upon date of share grant. We recognize compensation expense for share grants over the vesting period equal to the fair market value of the shares on the date of issuance. The unvested portion of officer share grants is recognized as deferred compensation.

Stock options are issued annually to trustees and non-officer key employees under the Stock Option Plans, and historically to officers. The options vest over a 2-year period in annual installments commencing one year after the date of grant. Stock options are accounted for in accordance with APB 25, whereby if options are priced at fair market value or above at the date of grant and if other requirements are met then the plans are considered fixed and no compensation expense is recognized. Accordingly, we have recognized no compensation cost.

In December 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure," which amends SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 148 allows for three methods of transition for those companies that adopt SFAS No. 123's provisions for fair value recognition. In accordance with SFAS No. 148, we will continue to disclose the required pro forma information in the notes to the consolidated financial statements.

WASHINGTON REAL ESTATE INVESTMENT TRUST  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2004  
(UNAUDITED)

In accordance with SFAS No. 148, the following table presents the effect on net income and net income per share had we determined compensation cost for the Plans consistent with SFAS No. 123, "Accounting for Stock-Based Compensation":

Pro-forma Information	For the Quarter ended June 30,		For the Period ended June 30,	
	2004	2003	2004	2003
<b>(In thousands, except per share data)</b>				
Net income, as reported	\$ 11,082	\$ 11,288	\$ 22,384	\$ 22,502
Add: Stock-based employee compensation expense included in reported net income	167	54	291	108
Deduct: Total stock-based employee compensation expense determined under fair value method	(259)	(243)	(476)	(486)
Pro-forma net income	\$ 10,990	\$ 11,099	\$ 22,199	\$ 22,124
<b>Earnings per share:</b>				
Basic – as reported	\$ 0.27	\$ 0.29	\$ 0.54	\$ 0.57
Basic – pro-forma	\$ 0.26	\$ 0.28	\$ 0.53	\$ 0.56
Diluted – as reported	\$ 0.26	\$ 0.29	\$ 0.54	\$ 0.57
Diluted – pro-forma	\$ 0.26	\$ 0.28	\$ 0.53	\$ 0.56

**Earnings Per Common Share**

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

**Use of Estimates in the Financial Statements**

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

**Reclassifications**

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

WASHINGTON REAL ESTATE INVESTMENT TRUST  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2004  
(UNAUDITED)

**NOTE 3: REAL ESTATE INVESTMENTS**

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

	June 30, 2004	December 31, 2003
Office	\$ 648,850	\$ 642,102
Retail	144,420	142,215
Multifamily	122,015	118,403
Industrial/Flex	161,809	150,147
	\$ 1,077,094	\$ 1,052,867

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

WRIT acquired the following property during 2004:

Acquisition Date	Property Name	Property Type	Rentable Square Feet	Contract Purchase Price (in thousands)
March 2004	8880 Gorman Road	Industrial	140,700	\$11,500

We accounted for this acquisition using the purchase method of accounting. As discussed in Note 2, we allocate the purchase price to the related physical assets (land, building and tenant improvements) and in-place leases (tenant origination costs, leasing commissions, and net lease intangible assets/liabilities) based on their fair values, in accordance with SFAS No. 141, "Business Combinations." Our acquisition of Gorman Road resulted in the recognition of \$0.2 million in tenant origination costs, \$0.2 million in leasing commissions, and a \$0.5 million net intangible lease asset. Gorman Road's results of operations are included in the income statement as of the March 10, 2004 acquisition date.

WASHINGTON REAL ESTATE INVESTMENT TRUST  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2004  
(UNAUDITED)

**NOTE 4: MORTGAGE NOTES PAYABLE**

	<u>June 30, 2004</u>	<u>December 31, 2003</u>
On November 30, 1998, we assumed a \$9.2 million mortgage note payable and a \$12.4 million mortgage note payable as partial consideration for our acquisition of Woodburn Medical Park I and II. Both mortgages bear interest at 7.69% per annum. Principal and interest are payable monthly until September 15, 2005, at which time all unpaid principal and interest are payable in full.	\$ 18,957	\$ 19,245
On September 20, 1999, we assumed an \$8.7 million mortgage note payable as partial consideration for our acquisition of the Avondale Apartments. The mortgage bears interest at 7.88% per annum. Principal and interest are payable monthly until November 1, 2005, at which time all unpaid principal and interest are payable in full.	7,796	7,910
On September 27, 1999, we executed a \$50.0 million mortgage note payable secured by Munson Hill Towers, Country Club Towers, Roosevelt Towers, Park Adams Apartments and the Ashby of McLean. The mortgage bears interest at 7.14% per annum and interest only is payable monthly until October 1, 2009, at which time all unpaid principal and interest are payable in full.	50,000	50,000
On November 1, 2001, we assumed an \$8.5 million mortgage note payable, with an estimated fair value of \$9.3 million, as partial consideration for our acquisition of Sullyfield Commerce Center. The mortgage bears interest at 9.00% per annum. Principal and interest are payable monthly until February 1, 2007, at which time all unpaid principal and interest are payable in full.	8,634	8,776
On January 24, 2003, we assumed a \$6.6 million mortgage note payable, with an estimated fair value of \$6.8 million, as partial consideration for our acquisition of Fullerton Industrial Center. The mortgage bears interest at 6.77% per annum. Principal and interest are payable monthly until September 1, 2006, at which time all unpaid principal and interest are payable in full.	6,582	6,670
On October 9, 2003, we assumed a \$36.1 million mortgage note payable and a \$13.7 million mortgage note payable as partial consideration for our acquisition of the Prosperity Medical Centers. The mortgages bear interest at 5.36% per annum and 5.34% per annum respectively. Principal and interest are payable monthly until May 1, 2013, at which time all unpaid principal and interest are payable in full.	49,302	49,581
	<u>\$ 141,271</u>	<u>\$ 142,182</u>

Total carrying amount of the above mortgaged properties was \$221.0 million and \$218.3 million at June 30, 2004 and December 31, 2003, respectively.

WASHINGTON REAL ESTATE INVESTMENT TRUST  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2004  
(UNAUDITED)

Scheduled principal payments for the remaining six months in 2004 and the remaining years subsequent to December 31, 2004 are as follows:

	(in thousands)
2004	\$ 1,047
2005	27,549
2006	7,388
2007	8,642
2008	834
Thereafter	95,811
<b>Total</b>	<b>\$ 141,271</b>

**NOTE 5: UNSECURED LINES OF CREDIT PAYABLE**

As of June 30, 2004, WRIT had two unsecured lines of credit: a \$25.0 million line of credit ("Credit Facility No. 1") and a \$50.0 million line of credit ("Credit Facility No. 2").

**Credit Facility No. 1**

We had \$13.3 million outstanding during the quarter ended and as of June 30, 2004 related to Credit Facility No. 1. At June 30, 2004, \$11.7 million of this commitment was unused and available for subsequent acquisitions or capital improvements. Of the \$13.3 million outstanding, \$11.0 million was borrowed in March 2004 to fund the acquisition of 8880 Gorman Road and \$2.3 million was borrowed to fund certain capital improvements to real estate. Advances under this agreement bore interest at LIBOR plus a spread based on the credit rating on our publicly issued debt. All outstanding advances were due and payable upon maturity in July 2004. Interest only payments were due and payable generally on a monthly basis. We recognized \$59,900 in interest expense for the 2004 Quarter and \$72,200 for the 2004 Period, representing an average interest rate of 1.8% per annum on the outstanding balance. We recognized \$0 and \$94,100 in interest expense for the 2003 Quarter and 2003 Period, respectively, representing an average interest rate of 2.0% per annum on the outstanding balance.

Credit Facility No. 1 required us to pay the lender unused line of credit fees ranging from 0.225% to 0.400% per annum according to a sliding scale based on usage and the credit rating on our publicly issued debt. These fees were payable quarterly. During the 2004 Quarter and 2004 Period, we recognized unused commitment fees of \$6,600 and \$27,700, respectively. During the 2003 Quarter and 2003 Period, we recognized unused commitment fees of \$23,200 and \$26,800, respectively.

On July 21, 2004, we closed a new \$50.0 million line of credit with Bank One, NA and Wells Fargo Bank, National Association. This facility, referred to as the "New Credit Facility No. 1," replaces Credit Facility No. 1.

The New Credit Facility No. 1 requires us to pay the lender an annual facility fee on the total commitment ranging from 0.15% to 0.25% per annum according to a sliding scale based on the credit rating on our publicly issued debt. These fees are payable quarterly. Advances under this agreement bear interest at LIBOR plus a spread based on the credit rating on our publicly issued debt. All outstanding advances are due and payable upon maturity in July 2007. Interest only payments are due and payable on a monthly basis.

**Credit Facility No. 2**

During the 2004 Period and at June 30, 2004, the entire \$50.0 million of this commitment was unused and available for subsequent acquisitions or capital improvements. Advances under this agreement bear interest at LIBOR plus a spread or an advance can be converted into a term loan based upon a Treasury rate plus a spread. All outstanding advances are due and payable upon maturity in July 2005. Interest only payments are due and payable generally on a monthly basis. During the 2004 Quarter and 2004 Period, no interest expense on the outstanding balance was recognized. During the 2003 Quarter and 2003 Period, we recognized interest expense of \$0 and \$138,000, respectively, representing an average interest rate of 2.2% per annum on the outstanding balance.

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Credit Facility No. 2 requires us to pay the lender unused line of credit fees ranging from 0.15% to 0.25% per annum according to a sliding scale based on the credit rating on our publicly issued debt. The fee is paid quarterly in arrears. During the 2004 Quarter and 2004 Period, we recognized \$25,300 and \$50,800, respectively in unused commitment fees on this facility. During the 2003 Quarter and 2003 Period, we recognized \$25,300 and \$37,000, respectively, in unused commitment fees.

Credit Facility No. 1 and No. 2 contain certain financial and non-financial covenants, all of which we have met as of June 30, 2004.

The covenants under our line of credit agreements require us to insure our properties against loss or damage in the amount of the replacement cost of the improvements at the properties. The covenants for the notes discussed in Note 6, which follows, 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 a separate insurance policy which provides terrorism coverage; however, 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 90% of covered terrorism losses exceeding the statutorily established deductible paid by the insurance provider. If the aggregate amount of insured losses under the Act exceeds \$100.0 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 \$100.0 billion. This legislation expires in November 2005.

**NOTE 6: NOTES PAYABLE**

On August 13, 1996 we sold \$50.0 million of 7.125% 7-year unsecured notes due August 13, 2003, and \$50.0 million of 7.25% unsecured 10-year notes due August 13, 2006. The 7-year notes were sold at 99.107% of par and the 10-year notes were sold at 98.166% of par. Net proceeds to the Trust after deducting underwriting expenses were \$97.6 million. The 7-year notes, which we paid off at maturity in August 2003 with an advance under Credit Facility No. 2, bore an effective interest rate of 7.46%. The 10-year notes due in August 2006 bear an effective interest rate of 7.49%.

On February 20, 1998 we sold \$50.0 million of 7.25% unsecured notes due February 25, 2028 at 98.653% to yield approximately 7.36%. We also sold \$60.0 million in unsecured Mandatory Par Put Remarketed Securities ("MOPPRS") at an effective borrowing rate through the remarketing date (February 2008) of approximately 6.74%. Our costs of the borrowings and related closed hedge settlements of approximately \$7.2 million are amortized over the lives of the notes using the effective interest method. These notes do not require any principal payment and are due in full at maturity.

On November 6, 2000 we sold \$55.0 million of 7.78% unsecured notes due November 2004. The notes bear an effective interest rate of 7.89%. Our total proceeds, net of underwriting fees, were \$54.8 million. We used the proceeds of these notes to repay advances on our lines of credit.

On March 17, 2003, we sold \$60.0 million of 5.125% unsecured notes due March 2013. The notes bear an effective interest rate of 5.23%. Our total proceeds, net of underwriting fees, were \$59.1 million. We used portions of the proceeds of these notes to repay advances on our lines of credit and to fund general corporate purposes.

On December 11, 2003, we sold \$100.0 million of 5.25% unsecured notes due January 2014. The notes bear an effective interest rate of 5.34%. Our total proceeds, net of underwriting fees, were \$99.3 million. We used the proceeds of these notes to repay advances on our lines of credit.

These notes contain certain financial and non-financial covenants, all of which we have met as of June 30, 2004.

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Scheduled maturity dates of the securities for the remaining six months in 2004 and the remaining years subsequent to December 31, 2004 are as follows (in thousands):

2004	\$ 55,000
2005	—
2006	50,000
2007	—
2008	60,000
Thereafter	210,000
	<u>\$375,000</u>

**NOTE 7: BENEFIT PLANS**

During 1996, we adopted an Incentive Compensation Plan that provides for our senior personnel share options under the Incentive Stock Option Plan and share grants under the Share Grant Plan based on our financial performance. Under the Incentive Stock Option Plan, stock options are issued annually to trustees and non-officer key employees. These options, which are issued at market price on the date of grant, vest 50% after year one and 50% after year two and expire ten years following the date of grant. The Share Grant Plan is maintained for officers and trustees. Officer share grants vest over 5 years in annual installments commencing one year after the date of grant. The unvested portion is recognized as deferred compensation in the accompanying Statement of Shareholders' Equity. Trustee share grants are fully vested upon issuance and compensation expense for these grants is fully recognized upon issuance based upon the fair market value of the shares on the date of the grant.

We have a Retirement Savings Plan (the "401(k) Plan"), which permits all eligible employees to defer a portion of their compensation in accordance with the Internal Revenue Code. Under the 401(k) Plan, we may make discretionary contributions on behalf of eligible employees. During the 2004 Quarter and 2004 Period, we made contributions of \$69,000 and \$136,000, respectively, to the 401(k) Plan. For the 2003 Quarter and 2003 Period, we made contributions to the 401(k) Plan of \$61,000 and \$135,000, respectively.

We adopted a split dollar life insurance plan for officers, excluding the Chief Executive Officer ("CEO"), in 2000. It is intended that we will recover our costs from the life insurance policies at death prior to retirement, termination prior to retirement or retirement at age 65. We have an interest in the cash value and death benefit of each policy to the extent of the sum of premium payments we have made.

We have adopted a non-qualified deferred compensation plan for the officers and members of the Board of Trustees. The plan allows for a deferral of a percentage of annual cash compensation and trustee fees. The deferred compensation liability was \$1.0 million and \$0.9 million at June 30, 2004 and December 31, 2003, respectively.

We established a Supplemental Executive Retirement Plan ("SERP") effective July 1, 2002 for the benefit of the CEO. In accordance with the requirements of SFAS 87, we recognized \$0.1 million in both the 2004 Quarter and 2003 Quarter and \$0.2 million in both the 2004 Period and 2003 Period, as the current service cost.

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**NOTE 8: EARNINGS PER SHARE**

The following table sets forth the computation of net income per average share and diluted average shares (in thousands, except per share data):

	For the Quarter ended June 30,		For the Period ended June 30,	
	2004	2003	2004	2003
<b>Numerator for basic and diluted per share calculations:</b>				
Net income	\$ 11,082	\$ 11,288	\$ 22,384	\$ 22,502
<b>Denominator for basic and diluted per share calculations:</b>				
Denominator for basic per share amounts – weighted average shares	41,638	39,241	41,605	39,207
<b>Effect of dilutive securities:</b>				
Employee stock option and share grant awards	200	211	226	180
<b>Denominator for diluted per share amounts</b>	<b>41,838</b>	<b>39,452</b>	<b>41,831</b>	<b>39,387</b>
<b>Net income per share</b>				
Basic	\$ 0.27	\$ 0.29	\$ 0.54	\$ 0.57
Diluted	\$ 0.26	\$ 0.29	\$ 0.54	\$ 0.57

**NOTE 9: SEGMENT INFORMATION**

We have four reportable segments: Office Buildings, Retail Centers, Multifamily Properties and Industrial/Flex Centers. Office Buildings, which include medical office buildings, provide office space for various types of businesses and professions. Retail Centers are typically neighborhood grocery store or drug store anchored retail centers. Multifamily Properties provide housing for families throughout the Washington Metropolitan area. Industrial/Flex Centers are used for flex-office, warehousing and distribution type facilities.

The real estate revenue as a percentage of total for each of the four reportable segments are as follows:

	Quarter Ended June 30,		Period Ended June 30,	
	2004	2003	2004	2003
Office Buildings	56%	52%	56%	51%
Retail Centers	15%	16%	15%	17%
Multifamily Properties	16%	18%	16%	18%
Industrial/Flex Centers	13%	14%	13%	14%

The real estate assets as a percentage of total for each of the four reportable segments are as follows:

	June 30, 2004	December 31, 2003
Office Buildings	60%	61%
Retail Centers	14%	14%
Multifamily Properties	11%	11%
Industrial/Flex Centers	15%	14%

The accounting policies of each of the segments are the same as those described in Note 2. We evaluate performance based upon operating income from the combined properties in each segment. Our reportable segments are consolidations of similar properties. They are managed separately because each segment requires different operating, pricing and leasing strategies. All of these properties have been acquired separately and are incorporated into the applicable segment.



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**Segment Information:**

	(in thousands) Quarter Ended June 30, 2004					
	Office Buildings	Retail Centers	Multifamily	Industrial/Flex Center	Corporate And Other	Consolidated
<b>Revenue</b>						
Real estate rental revenue	\$ 25,005	\$ 6,803	\$ 7,176	\$ 5,845	\$ —	\$ 44,829
Other income	—	—	—	—	115	115
	<u>\$ 25,005</u>	<u>\$ 6,803</u>	<u>\$ 7,176</u>	<u>\$ 5,845</u>	<u>\$ 115</u>	<u>\$ 44,944</u>
<b>Expenses</b>						
Real estate expenses	7,700	1,576	2,817	\$ 1,307	—	13,400
Interest expense	1,106	—	1,066	252	6,190	8,614
Depreciation and amortization	6,415	909	1,197	1,361	239	10,121
General and administration	—	—	—	—	1,727	1,727
	<u>15,221</u>	<u>2,485</u>	<u>5,080</u>	<u>2,920</u>	<u>8,156</u>	<u>33,862</u>
Net Income	<u>\$ 9,784</u>	<u>\$ 4,318</u>	<u>\$ 2,096</u>	<u>\$ 2,925</u>	<u>\$ (8,041)</u>	<u>\$ 11,082</u>
Capital expenditures	<u>\$ 3,844</u>	<u>\$ 1,191</u>	<u>\$ 2,146</u>	<u>\$ 323</u>	<u>\$ 21</u>	<u>\$ 7,525</u>
Total assets	<u>\$ 568,439</u>	<u>\$ 127,495</u>	<u>\$ 84,504</u>	<u>\$ 138,221</u>	<u>\$ 18,807</u>	<u>\$ 937,466</u>

	(in thousands) Quarter Ended June 30, 2003					
	Office Buildings	Retail Centers	Multifamily	Industrial/Flex Centers	Corporate And Other	Consolidated
<b>Revenue</b>						
Real estate rental revenue	\$ 20,529	\$ 6,481	\$ 7,069	\$ 5,402	\$ —	\$ 39,481
Other income	—	—	—	—	132	132
	<u>20,529</u>	<u>6,481</u>	<u>7,069</u>	<u>\$ 5,402</u>	<u>132</u>	<u>39,613</u>
<b>Expenses</b>						
Real estate expenses	5,863	1,440	2,738	1,194	—	11,235
Interest expense	381	—	1,071	258	5,871	7,581
Depreciation and amortization	4,520	888	1,091	1,321	425	8,245
General and administration	—	—	—	—	1,264	1,264
	<u>10,764</u>	<u>2,328</u>	<u>4,900</u>	<u>2,773</u>	<u>7,560</u>	<u>28,325</u>
Net Income	<u>\$ 9,765</u>	<u>\$ 4,153</u>	<u>\$ 2,169</u>	<u>\$ 2,629</u>	<u>\$ (7,428)</u>	<u>\$ 11,288</u>
Capital expenditures	<u>\$ 3,359</u>	<u>\$ 540</u>	<u>\$ 1,536</u>	<u>\$ 301</u>	<u>\$ 35</u>	<u>\$ 5,771</u>
Total assets	<u>\$ 397,984</u>	<u>\$ 127,486</u>	<u>\$ 81,384</u>	<u>\$ 130,536</u>	<u>\$ 32,770</u>	<u>\$ 770,160</u>

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	(in thousands) Period Ended June 30, 2004					Consolidated
	Office Buildings	Retail Centers	Multifamily	Industrial/Flex Centers	Corporate And Other	
<b>Revenue</b>						
Real estate rental revenue	\$ 49,857	\$ 13,569	\$ 14,234	\$ 11,545	\$ —	\$ 89,205
Other income	—	—	—	—	180	180
	<u>\$ 49,857</u>	<u>\$ 13,569</u>	<u>\$ 14,234</u>	<u>11,545</u>	<u>180</u>	<u>\$ 89,385</u>
<b>Expenses</b>						
Real estate expenses	15,443	3,052	5,706	2,662	—	26,863
Interest expense	2,095	—	2,135	505	12,454	17,189
Depreciation and amortization	12,582	1,836	2,393	2,666	516	19,993
General and administration	—	—	—	—	2,956	2,956
	<u>30,120</u>	<u>4,888</u>	<u>10,234</u>	<u>5,833</u>	<u>15,926</u>	<u>67,001</u>
Net Income	<u>\$ 19,737</u>	<u>\$ 8,681</u>	<u>\$ 4,000</u>	<u>5,712</u>	<u>(15,746)</u>	<u>\$ 22,384</u>
Capital expenditures (excluding real estate acquisitions)	<u>\$ 7,731</u>	<u>\$ 2,277</u>	<u>\$ 3,612</u>	<u>\$ 661</u>	<u>\$ 46</u>	<u>\$ 14,327</u>

	(in thousands) Period Ended June 30, 2003					Consolidated
	Office Buildings	Retail Centers	Multifamily	Industrial/Flex Centers	Corporate And Other	
<b>Revenue</b>						
Real estate rental revenue	\$ 40,268	\$ 13,187	\$ 14,172	\$ 10,815	\$ —	\$ 78,442
Other income	—	—	—	—	240	240
	<u>40,268</u>	<u>13,187</u>	<u>14,172</u>	<u>10,815</u>	<u>240</u>	<u>78,682</u>
<b>Expenses</b>						
Real estate expenses	11,965	2,941	5,419	2,513	—	22,838
Interest expense	704	—	2,144	495	11,285	14,628
Depreciation and amortization	8,917	1,758	2,151	2,652	840	16,318
General and administration	—	—	—	—	2,396	2,396
	<u>21,586</u>	<u>4,699</u>	<u>9,714</u>	<u>5,660</u>	<u>14,521</u>	<u>56,180</u>
Net Income	<u>\$ 18,682</u>	<u>\$ 8,488</u>	<u>\$ 4,458</u>	<u>\$ 5,155</u>	<u>\$ (14,281)</u>	<u>\$ 22,502</u>
Capital expenditures (excluding real estate acquisitions)	<u>\$ 5,514</u>	<u>\$ 893</u>	<u>\$ 3,205</u>	<u>\$ 326</u>	<u>\$ 61</u>	<u>\$ 9,999</u>

**NOTE 10: SUBSEQUENT EVENT**

On July 21, 2004, we closed a new \$50.0 million line of credit with Bank One, NA and Wells Fargo Bank, National Association. This facility, referred to as the "New Credit Facility No. 1" replaces Credit Facility No. 1. Refer to Note 5: Unsecured Lines of Credit Payable, for additional information.

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

*The following discussion should be read in conjunction with the Consolidated Financial Statements of the Company and the notes thereto included elsewhere herein.*

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an on-going basis, we evaluate these estimates, including those related to useful lives of real estate assets, cost reimbursement income, bad debts, impairment, contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed 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. There can be no assurance that actual results will not differ from those estimates.

The discussion that follows is based on our consolidated results of operations for the three months (hereinafter referred to as the "Quarter") and six months (hereinafter referred to as the "Period") ended June 30, 2004 and 2003, respectively.

### **Forward Looking Statements**

We claim the protection of the safe harbor for forward looking statements contained in the Private Securities Litigation Reform Act of 1995 for the forward looking statements contained herein. Forward looking statements include statements in this report preceded by, followed by or that include the words "believe," "expect," "intend," "anticipate," "potential," "project," "will" and other similar expressions. The following important factors, in addition to those discussed in our 2003 Annual Report on Form 10-K under the caption "Risk Factors", could affect our future results and could cause those results to differ materially from those expressed in the forward looking statements: (a) the economic health of our tenants; (b) the economic health of the Greater Washington-Baltimore region, or other markets we may enter, including the effects of changes in Federal government spending; (c) the supply of competing properties; (d) inflation; (e) consumer confidence; (f) unemployment rates; (g) consumer tastes and preferences; (h) stock price and interest rate fluctuations; (i) our future capital requirements; (j) compliance with applicable laws, including those concerning the environment and access by persons with disabilities; (k) changes in general economic and business conditions; (l) terrorist attacks or actions; (m) acts of war; (n) weather conditions; and (o) the effects of changes in capital availability to the technology and biotechnology sectors of the economy. We undertake no obligation to update our forward looking statements or risk factors to reflect new information, future events, or otherwise.

### **Overview**

Our revenues are derived primarily from the ownership and operation of income-producing real properties in the greater Washington/Baltimore region. As of June 30, 2004, we owned a diversified portfolio of 67 properties, consisting of 11 retail centers, 29 office buildings, 18 industrial complexes and 9 multifamily buildings, totaling 9.8 million net rentable square feet. We have a fundamental strategy of regional focus, diversification by property type and conservative capital management.

When evaluating our financial condition and operating performance, management focuses on the following financial and non-financial indicators, discussed in further detail herein:

- Net Operating Income ("NOI") by segment. NOI is calculated as real estate rental revenue less real estate operating expenses.
- Economic occupancy and rental rates.
- Leasing activity – new leases, renewals and expirations.
- Funds From Operations ("FFO"), a supplemental measure to Net Income.

Our results in the 2004 Quarter benefitted from the \$188.3 million in acquisitions we completed in 2003 and year-to-date in 2004, while the performance of our core portfolio (consisting of properties owned for the entirety of the second quarter of 2004 and the same time period in 2003) generally reflected market conditions in our region. The regional office market, particularly Northern Virginia, showed improvement during the quarter due to increased spending by the Federal government on Homeland Security and defense, as evidenced by the execution of large leases by General Services Administration and large government contractors. However, there remains significant vacancy in the Northern Virginia market to be absorbed before the market approaches equilibrium and the return of rental rate growth. This trend is reflected in our Northern Virginia office portfolio, which was 87% leased (calculated as the percentage of physical net rentable area leased) at quarter end, compared to 96% in our Washington, DC portfolio. The Washington DC office market was the strongest in our region, as increased absorption primarily by the Federal government and large law firms offset substantial increases to supply. While overall leasing activity in the suburban Maryland market improved, it was less than robust as the pace of economic recovery

has been slower than anticipated and there has been no significant demand from National Institutes of Health and its subcontractors. Our Maryland office portfolio was 85% leased at quarter end due to large vacancies at our Maryland Trade Center properties, which, with 123,000 square feet vacant plus an additional 79,300 expiring by year-end, remain our greatest leasing challenge — the leased percentage in our Maryland portfolio excluding these properties was 90%. The retail market continues to be strong in the region with nominal vacancies - our retail portfolio was 97% leased at quarter end. The region's multifamily market continued to be affected by excess supply in suburban Maryland, while conditions generally improved in Washington, DC and Virginia, where the majority of our portfolio is located. Six of our nine multifamily properties realized higher occupancy during the quarter as compared to the same quarter last year. The industrial market continued to improve during the quarter. Our industrial portfolio achieved its second sequential quarter of positive occupancy and NOI growth. Our redevelopment pipeline includes Westminster Shopping Center, where we have a 37,000 square foot space for a national grocery store chain under construction, and Rosslyn Towers, our planned mixed-use residential and retail community (formerly known as WRIT Rosslyn Center) in Virginia.

#### **GENERAL**

During the 2004 Period, we completed the following significant transactions:

- The acquisition of one Industrial property, for an aggregate investment of \$11.7 million, adding approximately 141,700 square feet of rentable space.
- The execution of new leases for 623,000 square feet of office, retail and industrial space, combined.

During the 2003 Period, we completed the following significant transactions:

- The acquisition of one Industrial property, for an aggregate investment of \$10.6 million, adding 137,000 square feet of rentable space, and one Retail property, for an aggregate investment of \$1.1 million, to complete our ownership of the entire block of 800 South Washington Street, which is now under development.
- The issuance of \$60.0 million of 5.125% senior unsecured notes in March 2003.
- The lease of 116,000 square feet to Sunrise Senior Living, Inc. at 7900 Westpark Drive.
- The execution of new leases (including Sunrise Senior Living, Inc.) for 799,000 square feet of office, retail and industrial space, combined.

#### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

We believe the following critical accounting policies affect the more significant judgments and estimates used in the preparation of our consolidated financial statements. Our significant accounting policies are described in Note 2 in the Notes to the Consolidated Financial Statements.

##### *Revenue Recognition*

Residential properties are leased under operating leases with terms of generally one year or less, and commercial properties are leased under operating leases with average terms of three to five years. We recognize rental income and rental abatements from our residential and commercial leases when earned on a straight-line basis in accordance with SFAS No. 13 "Accounting for Leases." We record a provision for losses on accounts receivable equal to the estimated uncollectible amounts. This estimate is based on our historical experience and a review of the current status of the company's receivables. Percentage rents, which represent additional rents based on gross tenant sales, are recognized when tenants' sales exceed specified thresholds.

In accordance with SFAS No. 66, "Accounting for Sales of Real Estate," sales are recognized at closing only when sufficient down payments have been obtained, possession and other attributes of ownership have been transferred to the buyer and we have no significant continuing involvement. The gain or loss resulting from the sale of properties is included in net income at the time of sale.

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.

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### *Capital Expenditures*

We capitalize those expenditures related to acquiring new assets, significantly increasing the value of an existing asset, or substantially extending the useful life of an existing asset. Expenditures necessary to maintain an existing property in ordinary operating condition are expensed as incurred.

### *Real Estate Assets*

Real estate assets are depreciated on a straight-line basis over estimated useful lives ranging from 28 to 50 years. All capital improvement expenditures associated with replacements, improvements, or major repairs to real property are depreciated using the straight-line method over their estimated useful lives ranging from 3 to 30 years. All tenant improvements are amortized over the shorter of the useful life or the term of the lease.

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

The fair value of in-place leases consists of the following components – (1) the estimated cost to us to replace the leases, including foregone rents during the period of finding a new tenant, foregone recovery of tenant pass-throughs, tenant improvements, and other direct costs associated with obtaining a new tenant (referred to as "Tenant Origination Cost"); (2) the estimated leasing commissions associated with obtaining a new tenant (referred to as "Leasing Commissions"); (3) the above/at/below market cash flow of the leases, determined by comparing the projected cash flows of the leases in place to projected cash flows of comparable market-rate leases (referred to as "Net Lease Intangible"); and (4) 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"). The amounts used to calculate Tenant Origination Cost, Leasing Commissions and Net Lease Intangible are discounted using an interest rate which reflects the risks associated with the leases acquired. Tenant Origination Costs are included in Real Estate Assets on our balance sheet and are amortized as depreciation expense on a straight-line basis over the remaining life of the underlying leases.

### *Impairment Losses on Long-Lived Assets*

We recognize impairment losses on long-lived assets used in operations when 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. If such carrying amount is in excess of the estimated projected operating cash flows of the property, we would recognize an impairment loss equivalent to an amount required to adjust the carrying amount to the estimated fair market value. There were no property impairments recognized during the 2004 Period and 2003 Period.

### *Federal Income Taxes*

We have qualified as a Real Estate Investment Trust (REIT) under Sections 856-860 of the Internal Revenue Code and intend to continue to qualify as such. To maintain our status as a REIT, we are required to distribute at least 90% of our ordinary taxable income to our shareholders. When selling properties, we have the option of (i) reinvesting the sale price of properties sold, allowing for a deferral of income taxes on the sale, (ii) paying out capital gains to the shareholders with no tax to the company or (iii) treating the capital gains as having been distributed to the shareholders, paying the tax on the gain deemed distributed and allocating the tax paid as a credit to the shareholders. We distributed 100% of our 2003 ordinary taxable income to our shareholders.

## RESULTS OF OPERATIONS

The discussion that follows is based on our consolidated results of operations for the Quarter and Period ended June 30, 2004 and 2003, respectively. The ability to compare one period to another may be significantly affected by acquisitions completed and dispositions made during those periods.

For purposes of evaluating comparative operating performance, we categorize our properties as either "core" or "non-core". A "core" property is one that was owned for the entirety of the periods being evaluated. A "non-core" property is one that was not owned for the entirety of the periods being evaluated. One property was acquired during the 2004 Period and two properties were acquired during the 2003 Period. No properties were sold during either period.

To provide more insight into our operating results, our discussion is divided into two main sections: (1) Consolidated Results of Operations where we provide an overview analysis of results on a consolidated basis and (2) Net Operating Income where we provide a detailed analysis of core versus non-core property-level NOI results by segment.

### CONSOLIDATED RESULTS OF OPERATIONS

#### REAL ESTATE RENTAL REVENUE

Real Estate Rental Revenue is summarized as follows (all data in thousands, except percentage amounts):

	Quarter Ended June 30,				Period Ended June 30,			
	2004	2003	\$Change	% Change	2004	2003	\$Change	% Change
Minimum base rent	\$ 40,591	\$ 36,240	\$ 4,351	12.0%	\$ 80,792	\$ 71,621	\$ 9,171	12.8%
Recoveries from tenants	3,160	2,280	880	38.6%	6,074	4,811	1,263	26.3%
Parking and other tenant charges	1,078	961	117	12.2%	2,339	2,010	329	16.4%
	<u>\$ 44,829</u>	<u>\$ 39,481</u>	<u>\$ 5,348</u>	<u>13.5%</u>	<u>\$ 89,205</u>	<u>\$ 78,442</u>	<u>\$ 10,763</u>	<u>13.7%</u>

Real estate rental revenue is comprised of (1) minimum base rent, which includes gross potential rental revenues recognized on a straight-line basis less a vacancy adjustment for space that is not leased, (2) revenue from the recovery of operating expenses from our tenants and (3) other revenue such as parking and termination fees.

Minimum base rent increased \$4.4 million (12.0%) in the 2004 Quarter and \$9.2 million (12.8%) in the 2004 Period compared to the 2003 Quarter and Period, respectively, primarily due to the four Office and two Industrial properties acquired in 2003 and year-to-date in 2004. These acquisitions accounted for \$0.3 million and \$0.6 million of the increase in recoveries from tenants and all of the increase in parking and other tenant charges in the 2004 Quarter and Period over the 2003 Quarter and Period, respectively. Total real estate revenue from core properties in the 2004 Quarter was flat to the prior year due to a \$0.5 million decline in minimum base rent driven by increased vacancies in the Office sector, offset by a \$0.5 million increase in recoveries from tenants. For the 2004 Period, real estate revenue from core properties was slightly higher (\$0.2 million) than in the 2003 Period due to a \$0.7 million increase in recoveries from tenants, offset by a \$0.5 million decline in minimum base rent, again due to the increase in Office vacancies.

Economic occupancy represents actual rental revenues recognized for the period indicated as a percentage of gross potential rental revenues for that period. Percentage rents and expense reimbursements are not considered in computing either actual rental revenues or gross potential rental revenues. In the 2004 Quarter, our overall economic occupancy decreased 0.2% as a result primarily of increased vacancies in the Office sector, which offset occupancy gains in the Industrial sector. In the 2004 Period, overall occupancy increased 0.3% as a result of property acquisitions and increased Industrial leasing activity positively impacting the Industrial and Office sectors, partially offset by occupancy declines in the Multifamily and Retail sectors. During both the 2004 Quarter and Period, occupancy in the core Office sector was negatively impacted by the expiration of large tenant leases at Maryland Trade Center, 7700 Leesburg and 6110 Executive Blvd during the latter half of 2003 and early in 2004, while the 2004 Period was positively impacted by the Sunrise expansion at 7900 Westpark. Retail occupancy was slightly down due primarily to on-going redevelopment at Westminster for a national grocery store chain, which is expected to take possession by year end. Occupancy in the Multifamily sector was impacted by the renovation of 21 former HUD units and 4 additional units

off market at The Ashby at McLean and lower occupancy at Bethesda Hill. Industrial occupancy was higher in the 2004 Quarter and Period due to increased leasing activity in the latter half of 2003 and the first quarter of 2004 at several of the core properties and the acquisitions of Fullerton Industrial and 8880 Gorman Road.

A summary of consolidated economic occupancy by sector follows:

Sector	Quarter Ended June 30,			Period Ended June 30,		
	2004	2003	Change	2004	2003	Change
Office	88.9%	89.6%	(0.7%)	89.0%	88.3%	0.7%
Retail	94.6%	95.8%	(1.2%)	94.5%	95.9%	(1.4%)
Multifamily	90.4%	91.1%	(0.7%)	89.5%	91.0%	(1.5%)
Industrial	92.6%	87.2%	5.4%	92.1%	87.7%	4.4%
<b>Total</b>	<b>90.3%</b>	<b>90.5%</b>	<b>(0.2%)</b>	<b>90.2%</b>	<b>89.9%</b>	<b>0.3%</b>

#### REAL ESTATE OPERATING EXPENSES

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

	Quarter Ended June 30,				Period Ended June 30,			
	2004	2003	\$ Change	% Change	2004	2003	\$ Change	% Change
Property operating expenses	\$ 9,763	\$ 8,409	\$ 1,354	16.1%	\$ 19,616	\$ 16,957	\$ 2,659	15.7%
Real estate taxes	3,637	2,826	811	28.7%	7,247	5,881	1,366	23.2%
	<b>\$ 13,400</b>	<b>\$ 11,235</b>	<b>\$ 2,165</b>	<b>19.3%</b>	<b>\$ 26,863</b>	<b>\$ 22,838</b>	<b>\$ 4,025</b>	<b>17.6%</b>

Property operating expenses include utilities, repairs and maintenance, property administration and management, operating services, common area maintenance and other operating expenses.

Real estate operating expenses were 29.8% and 30.0% of revenue in the 2004 Quarter and Period, respectively, and 28.4% and 29.0% of revenue in the 2003 Quarter and Period, respectively. The properties acquired in 2003 and 2004 accounted for \$0.8 million of the \$1.4 million increase in property operating expenses and almost \$0.6 million of the \$0.8 million increase in real estate taxes over the 2003 Quarter. Core property operating expenses increased \$0.6 million as a result of higher utility costs, property administration expenses and operating services and supplies.

Properties acquired in 2003 and 2004 accounted for \$1.7 million of the \$2.7 million increase in property operating expenses and almost 82% of the \$1.4 million increase in real estate taxes over the 2003 Period. Core property operating expenses increased \$1.0 million as a result of higher utility costs, property administration expenses and repairs and maintenance.

#### OTHER OPERATING EXPENSES

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

	Quarter Ended June 30,				Period Ended June 30,			
	2004	2003	\$ Change	% Change	2004	2003	\$ Change	% Change
Depreciation & amortization	\$ 10,121	\$ 8,245	\$ 1,876	22.8%	\$ 19,993	\$ 16,318	\$ 3,675	22.5%
Interest expense	8,614	7,581	1,033	13.6%	17,189	14,628	2,561	17.5%
General & administrative	1,727	1,264	463	36.6%	2,956	2,396	560	23.4%
	<b>\$ 20,462</b>	<b>\$ 17,090</b>	<b>\$ 3,372</b>	<b>19.7%</b>	<b>\$ 40,138</b>	<b>\$ 33,342</b>	<b>\$ 6,796</b>	<b>20.4%</b>

Depreciation and amortization expense increased \$1.9 million (22.8%) to \$10.1 million in the 2004 Quarter from \$8.2 million in the 2003 Quarter and increased \$3.7 million (22.5%) to \$20.0 million in the 2004 Period from \$16.3 million in the 2003 Period, due to total acquisitions of \$188.3 million and capital and tenant improvement expenditures of \$41.7 million in 2003

and in the 2004 Period, combined. In the 2004 Quarter and Period, \$1.7 million and \$3.2 million, respectively, of the increase in depreciation and amortization expense was from properties acquired in 2003 and 2004. Core properties contributed \$0.2 million in the 2004 Quarter and \$0.5 million in the 2004 Period to the increase in depreciation and amortization.

Interest expense increased \$1.0 million to \$8.6 million in the 2004 Quarter and \$2.6 million to \$17.2 million in the 2004 Period. The increase in interest expense for both the Quarter and Period over the comparable prior year periods was primarily due to (1) the issuance of \$100.0 million in 5.25% senior notes in December 2003 to refinance short-term borrowings in connection with the 2003 acquisitions of 1776 G Street and Prosperity Medical Center, (2) the issuance of \$60.0 million in 5.125% senior unsecured notes in March 2003 and (3) the assumptions of a \$6.8 million mortgage in January 2003 for the acquisition of Fullerton Industrial Center and \$49.8 million in mortgages in October 2003 for the acquisition of the Prosperity Medical Centers. The increase to interest expense as a result of these borrowings (\$1.8 million in total for the Quarter and \$4.4 million for the Period) was partially offset by lower interest expense of \$0.9 million for the Quarter and \$1.8 million for the Period due to the payoff of \$50.0 million of 7.125% senior notes in August 2003. A summary of interest expense for the Quarter and Period ended June 30, 2004 and 2003, respectively, appears below (in \$millions):

Debt Type	Quarter Ended June 30,			Period Ended June 30,		
	2004	2003	\$ Change	2004	2003	\$ Change
Notes payable	\$ 6.4	\$ 5.8	\$ 0.6	\$ 12.6	\$ 11.0	\$ 1.6
Mortgages	2.3	1.7	0.6	4.7	3.3	1.4
Lines of credit	0.1	0.1	—	0.2	0.4	(0.2)
Capitalized interest	(0.2)	—	(0.2)	(0.3)	(0.1)	(0.2)
<b>Total</b>	<b>\$ 8.6</b>	<b>\$ 7.6</b>	<b>\$ 1.0</b>	<b>\$ 17.2</b>	<b>\$ 14.6</b>	<b>\$ 2.6</b>

General and administrative expenses increased to \$1.7 million for the 2004 Quarter compared to \$1.3 million for the 2003 Quarter, and \$3.0 million for the 2004 Period compared to \$2.4 million for the 2003 Period primarily due to increased compensation expense. The increase in compensation expense is attributable primarily to the increase in accrued incentive compensation based on year-to-date 2004 performance, an increase in long-term equity incentive compensation based on share grants issued in 2003 under our long-term incentive plan, and staffing increases.

#### **NET OPERATING INCOME**

Real estate NOI is one of the key performance measures we use to assess the results of our operations at the property level. We provide NOI as a supplement to net income calculated in accordance with accounting principles generally accepted in the United States of America ("GAAP"). NOI 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. NOI is calculated as net income, less non-real estate ("other") revenue, plus interest expense, depreciation and amortization and general and administrative expenses. A reconciliation of NOI to net income is provided on the following page.



## 2004 Quarter Compared to the 2003 Quarter

The following tables of selected consolidated operating data provide the basis for our discussion of NOI in the 2004 Quarter compared to the 2003 Quarter. All amounts are in thousands except percentage amounts.

	Quarter Ended June 30,			
	2004	2003	\$ Change	% Change
<b>Real Estate Rental Revenue</b>				
Core	\$ 39,540	\$ 39,478	\$ 62	0.2%
Non-core <sup>(1)</sup>	5,289	3	5,286	N/A
Total Real Estate Rental Revenue	44,829	39,481	5,348	13.5%
<b>Real Estate Expenses</b>				
Core	11,994	11,234	760	6.8%
Non-core <sup>(1)</sup>	1,406	1	1,405	N/A
Total Real Estate Expenses	13,400	11,235	2,165	19.3%
<b>Net Operating Income</b>				
Core	27,546	28,244	(698)	(2.5%)
Non-core <sup>(1)</sup>	3,883	2	3,881	N/A
Total Net Operating Income	\$ 31,429	\$ 28,246	\$ 3,183	11.3%
<b>Reconciliation to Net Income</b>				
NOI	\$ 31,429	\$ 28,246		
Other revenue	115	132		
Interest expense	(8,614)	(7,581)		
Depreciation and amortization	(10,121)	(8,245)		
General and administrative expenses	(1,727)	(1,264)		
Net Income	\$ 11,082	\$ 11,288		

	Quarter Ended June 30,	
	2004	2003
<b>Economic Occupancy</b>		
Core	89.2%	90.4%
Non-core <sup>(1)</sup>	99.6%	100.0%
Total	90.3%	90.5%

<sup>(1)</sup> Non-core properties include:  
2004 acquisitions – 8880 Gorman Road  
2003 acquisitions - 1776 G Street, Prosperity Medical Centers I, II, & III, and 718 Jefferson Street.

We recognized NOI of \$31.4 million in the 2004 Quarter, which was \$3.2 million or 11.3% greater than in the 2003 Quarter due largely to our 2003 and 2004 acquisitions, which added 800,000 square feet of net rentable space. These acquired properties contributed \$3.9 million in NOI in the 2004 Quarter (12.4% of total NOI).

Core properties experienced a \$0.7 million (2.5%) decline in NOI due primarily to a \$0.8 million increase in real estate expenses, which offset the slight increase in real estate revenue. Real estate revenue was impacted by a \$0.6 million increase in recoveries from tenants in the three commercial sectors, offset by a \$0.5 million decline in minimum base rent, as increased Office, Retail and Multifamily vacancies exceeded gains in occupancy in the Industrial sector and rental rate increases in the Retail and Multifamily sectors. The increase in core expenses was driven by the Office and Retail sectors, which contributed \$0.5 million and \$0.1 million, respectively, to the increase as a result of higher real estate taxes, utilities, common area maintenance and repairs and maintenance expenses.

Overall economic occupancy decreased slightly from 90.5% in the 2003 Quarter to 90.3% in the 2004 Quarter as core economic occupancy was down from 90.4% to 89.2%, due largely to the decline in Office sector occupancy, offset somewhat by a 5.4% increase in Industrial occupancy. As of June 30, 2004, 11.7% of the total commercial square footage leased is scheduled to expire in 2004. During the quarter, 57.1% of the square footage that expired was renewed, compared to our historical retention rate of approximately 65%. An analysis of NOI by sector follows.

**Office Sector**

	Quarter Ended June 30,			
	2004	2003	\$ Change	% Change
<b>Real Estate Rental Revenue</b>				
Core	\$ 19,996	\$ 20,529	\$ (533)	(2.6%)
Non-core <sup>(1)</sup>	5,009	—	5,009	100.0%
<b>Total Real Estate Rental Revenue</b>	<b>25,005</b>	<b>20,529</b>	<b>4,476</b>	<b>21.8%</b>
<b>Real Estate Expenses</b>				
Core	6,338	5,863	475	8.1%
Non-core <sup>(1)</sup>	1,362	—	1,362	100.0%
<b>Total Real Estate Expenses</b>	<b>7,700</b>	<b>5,863</b>	<b>1,837</b>	<b>31.3%</b>
<b>Net Operating Income</b>				
Core	13,658	14,666	(1,008)	(6.9%)
Non-core <sup>(1)</sup>	3,647	—	3,647	100.0%
<b>Total Net Operating Income</b>	<b>\$ 17,305</b>	<b>\$ 14,666</b>	<b>\$ 2,639</b>	<b>18.0%</b>
<b>Reconciliation to Net Income</b>				
NOI	\$ 17,305	\$ 14,666		
Interest expense	(1,106)	(381)		
Depreciation and amortization	(6,415)	(4,520)		
<b>Net Income</b>	<b>\$ 9,784</b>	<b>\$ 9,765</b>		

	Quarter Ended June 30,	
	2004	2003
<b>Economic Occupancy</b>		
Core	86.5%	89.6%
Non-core <sup>(1)</sup>	99.6%	0.0%
<b>Total</b>	<b>88.9%</b>	<b>89.6%</b>

<sup>(1)</sup> Non-core properties include:  
2003 acquisitions - 1776 G Street and Prosperity Medical Centers I, II, & III

The Office sector recognized NOI of \$17.3 million in the 2004 Quarter, which was \$2.6 million, or 18.0%, higher than in the 2003 Quarter primarily due to our acquisitions of 1776 G Street in August 2003 and the Prosperity Medical Centers in October 2003. These properties contributed \$3.6 million to NOI (21.1% of the total).

Core Office properties experienced a \$1.0 million, or a 6.9%, decline in NOI due to a \$0.5 million decrease in revenue combined with a \$0.5 million increase in real estate expenses. The revenue decline was driven by rental rates that were 0.9% lower than in the 2003 Quarter due primarily to lower market rates and 3.1% lower occupancy. Recoveries from tenants were up \$0.2 million dollars. Core real estate expenses were higher due primarily to increased real estate taxes at a majority of the properties, and increased electricity costs, largely as a result of the implementation of the Montgomery County (MD) energy tax and increased occupancy at 7900 Westpark due to the expansion of Sunrise Senior Living, Inc. Other increases included higher repairs and maintenance due to increased engineering staffing and higher contract security costs at Maryland Trade Center.

Core economic occupancy for the Office sector was 86.5% during the 2004 Quarter compared to 89.6% in the 2003 Quarter, as the favorable impact of the Sunrise Senior Living, Inc. expansion at 7900 Westpark, the lease-up of 12,100 square feet at 1220 19th Street and the expansion of Northrop Grumman at 1700 Research Blvd. was offset by the expiration of several leases that were not renewed, including Lockheed/OAO at Maryland Trade Centers I and II and the FBI at 7700 Leesburg, and vacancies at Tycon II and 6110 Executive Blvd. Overall economic occupancy was bolstered by the acquisitions of 1776 G Street and the Prosperity Medical Centers and was slightly lower at 88.9% during the 2004 Quarter compared to 89.6% during the 2003 Quarter. As of June 30, 2004, 14.3% of the total office square footage leased is scheduled to expire in 2004. During the 2004 Quarter, 59.5% of the square footage that expired was renewed.

During the 2004 Quarter, we executed new leases for 152,000 square feet of Office space at an average rent increase of 1.2%.

**Retail Sector**

	Quarter Ended June 30,			
	2004	2003	\$ Change	% Change
<b>Real Estate Rental Revenue</b>				
Core	\$ 6,800	\$ 6,478	\$ 322	5.0%
Non-core <sup>(1)</sup>	3	3	—	0.0%
<b>Total Real Estate Rental Revenue</b>	<b>6,803</b>	<b>6,481</b>	<b>322</b>	<b>5.0%</b>
<b>Real Estate Expenses</b>				
Core	1,574	1,439	135	9.4%
Non-core <sup>(1)</sup>	2	1	1	100.0%
<b>Total Real Estate Expenses</b>	<b>1,576</b>	<b>1,440</b>	<b>136</b>	<b>9.4%</b>
<b>Net Operating Income</b>				
Core	5,226	5,039	187	3.7%
Non-core <sup>(1)</sup>	1	2	(1)	(50.0%)
<b>Total Net Operating Income</b>	<b>\$ 5,227</b>	<b>\$ 5,041</b>	<b>\$ 186</b>	<b>3.7%</b>
<b>Reconciliation to Net Income</b>				
NOI	\$ 5,227	\$ 5,041		
Depreciation and amortization	(909)	(888)		
<b>Net Income</b>	<b>\$ 4,318</b>	<b>\$ 4,153</b>		

	Quarter Ended June 30,	
	2004	2003
<b>Economic Occupancy</b>		
Core	94.6%	95.8%
Non-core <sup>(1)</sup>	100.0%	100.0%
<b>Total</b>	<b>94.6%</b>	<b>95.8%</b>

<sup>(1)</sup> Non-core properties include:  
2003 acquisitions -718 Jefferson Street

The Retail sector recognized NOI of \$5.2 million in the 2004 Quarter, which was \$0.2 million (3.7%) greater than in the 2003 Quarter due primarily to a \$0.2 million (3.7%) increase in core NOI.

The increase in core NOI was due to a \$0.3 million increase in revenues partially offset by a \$0.1 million increase in expenses. The revenue increase was driven by a 1.7% increase in rental rates, combined with increases in expense recoveries as a result of higher common area maintenance and real estate tax expenses. Core real estate taxes increased due primarily to increased value assessments at 800 S. Washington St. and Hagerstown, while common area maintenance costs increased primarily due to painting the exterior at Wheaton Park and increased spending for parking lot repairs at a majority of the properties.

Both core and overall economic occupancy for the Retail sector declined from 95.8% to 94.6% primarily as a result of the renovation underway at Westminster for a national grocery store chain expected to take occupancy by year end. As of June 30, 2004, 6.1% of the total retail square footage leased is scheduled to expire in 2004. During the 2004 Quarter, 21.0% of the square footage that expired was renewed. This renewal percentage is lower than historical renewal rates due to the intentional termination of a large tenant at Foxchase in preparation for renovation of that center, anticipated to begin in the spring of 2005 after securing local government approvals.

During the 2004 Quarter, we executed new leases for 16,400 square feet of Retail space at an average rent increase of 17.5 %.

### Multifamily Sector

	Quarter Ended June 30,			
	2004	2003	\$ Change	% Change
<b>Real Estate Rental Revenue</b>				
Core/Total	\$ 7,176	\$ 7,069	\$ 107	1.5%
<b>Real Estate Expenses</b>				
Core/Total	2,817	2,738	79	2.9%
<b>Net Operating Income</b>				
Core/Total	\$ 4,359	\$ 4,331	\$ 28	0.6%
<b>Reconciliation to Net Income</b>				
NOI	\$ 4,359	\$ 4,331		
Interest expense	(1,066)	(1,071)		
Depreciation and amortization	(1,197)	(1,091)		
Net Income	\$ 2,096	\$ 2,169		

	Quarter Ended June 30,	
	2004	2003
<b>Economic Occupancy</b>		
Core/Total	90.4%	91.1%

Multifamily NOI increased from \$4.3 million to \$4.4 million (0.6%) due primarily to a \$0.1 million increase in real estate revenues, partially offset by higher real estate expenses as a result of increased marketing and personnel costs, offset slightly by a real estate tax refund at Avondale, based on a reduced property tax assessment. Revenues increased \$0.1 million due to a 2.1% increase in rental rates, including the \$0.1 million combined impact of the 16 new garden apartments at Walker House and the increase in rates for the former HUD units at The Ashby at McLean, now renovated and offered at market rates. Occupancy declined 0.7% due primarily to increased vacancy at Bethesda Hill and units at The Ashby at McLean off market for renovation.

**Industrial Sector**

	Quarter Ended June 30,			
	2004	2003	\$ Change	% Change
<b>Real Estate Rental Revenue</b>				
Core	\$ 5,568	\$ 5,402	\$ 166	3.1%
Non-core <sup>(1)</sup>	277	—	277	100.0%
Total Real Estate Rental Revenue	5,845	5,402	443	8.2%
<b>Real Estate Expenses</b>				
Core	1,265	1,194	71	5.9%
Non-core <sup>(1)</sup>	42	—	42	100.0%
Total Real Estate Expenses	1,307	1,194	113	9.5%
<b>Net Operating Income</b>				
Core	4,303	4,208	95	2.3%
Non-core <sup>(1)</sup>	235	—	235	100.0%
Total Net Operating Income	\$ 4,538	\$ 4,208	\$ 330	7.8%
<b>Reconciliation to Net Income</b>				
NOI	\$ 4,538	\$ 4,208		
Interest expense	(252)	(258)		
Depreciation and amortization	(1,361)	(1,321)		
Net Income	\$ 2,925	\$ 2,629		

	Quarter Ended June 30,	
	2004	2003
<b>Economic Occupancy</b>		
Core	92.3%	87.2%
Non-core <sup>(1)</sup>	100.0%	0.0%
Total	92.6%	87.2%

<sup>(1)</sup> Non-core properties include:  
2004 acquisitions – 8880 Gorman Road

The Industrial sector recognized NOI of \$4.5 million in the 2004 Quarter, which was \$0.3 million (7.8 %) greater than in the 2003 Quarter due to a \$0.1 million increase in core NOI and the acquisition of 8880 Gorman Road in March 2004, which contributed \$0.2 million in NOI.

Core properties experienced a \$0.1 million (2.3%) increase in NOI due to a \$0.2 million improvement in revenues, while real estate expenses increased slightly to \$1.3 million from \$1.2 million. Core revenues increased due primarily to a 5.1% growth in occupancy driven by increased leasing activity in the second half of 2003 and the first quarter of 2004 at the Ammendale properties in Maryland and NVIP I, Tech 100 and Earhart in Virginia. This occupancy growth was partially offset by a 1.5% decline in rental rates. As of June 30, 2004, 11.5% of the total Industrial square footage leased is scheduled to expire in 2004. During the 2004 Quarter, 60.6% of the square footage that expired was renewed.

During the 2004 Quarter, we executed new leases for 132,000 square feet of industrial space at an average rent increase of 14.8%, led by Pickett and NVIP I.

## 2004 Period Compared to the 2003 Period

The following tables of selected consolidated operating data provide the basis for our discussion of NOI in the 2004 Period compared to the 2003 Period. All amounts are in thousands except percentage amounts.

	Period Ended June 30,			
	2004	2003	\$ Change	% Change
<b>Real Estate Rental Revenue</b>				
Core	\$ 78,060	\$ 77,879	\$ 181	0.2%
Non-core <sup>(1)</sup>	11,145	563	10,582	1879.6%
<b>Total Real Estate Rental Revenue</b>	<b>89,205</b>	<b>78,442</b>	<b>10,763</b>	<b>13.7%</b>
<b>Real Estate Expenses</b>				
Core	23,954	22,707	1,247	5.5%
Non-core <sup>(1)</sup>	2,909	131	2,778	2120.6%
<b>Total Real Estate Expenses</b>	<b>26,863</b>	<b>22,838</b>	<b>4,025</b>	<b>17.6%</b>
<b>Net Operating Income</b>				
Core	54,106	55,172	(1,066)	(1.9%)
Non-core <sup>(1)</sup>	8,236	432	7,804	1806.5%
<b>Total Net Operating Income</b>	<b>\$ 62,342</b>	<b>\$ 55,604</b>	<b>\$ 6,738</b>	<b>12.1%</b>
<b>Reconciliation to Net Income</b>				
NOI	\$ 62,342	\$ 55,604		
Other revenue	180	240		
Interest expense	(17,189)	(14,628)		
Depreciation and amortization	(19,993)	(16,318)		
General and administrative expenses	(2,956)	(2,396)		
<b>Net Income</b>	<b>\$ 22,384</b>	<b>\$ 22,502</b>		

	Period Ended June 30,	
	2004	2003
<b>Economic Occupancy</b>		
Core	89.0%	89.8%
Non-core <sup>(1)</sup>	99.6%	98.9%
<b>Total</b>	<b>90.2%</b>	<b>89.9%</b>

<sup>(1)</sup> Non-core properties include:  
2004 acquisitions – 8880 Gorman Road  
2003 acquisitions - 1776 G Street, Prosperity Medical Centers I, II & III, 718 Jefferson Street and Fullerton Industrial.

We recognized NOI of \$62.3 million in the 2004 Period, which was \$6.7 million or 12.1% greater than in the 2003 Period due largely to our 2003 and 2004 acquisitions, which added 800,000 square feet of net rentable space. These acquired properties contributed \$8.2 million in NOI in the 2004 Period (13.2% of total NOI).

Core properties experienced a \$1.1 million (1.9%) decrease in NOI due primarily to a \$1.2 million increase in real estate expenses, which offset the \$0.2 million increase in revenue. Real estate revenue was positively impacted by 0.3% growth in core rental rates due to increases in the Retail and Multifamily sectors, while rental rates in the Industrial sector declined and Office rental rates were slightly lower. Increased vacancies of \$1.1 million in the Office, Multifamily and Retail sectors combined offset a \$0.5 million increase in Industrial occupancy. Higher operating expense recoveries in all three commercial sectors of \$0.6 million were offset by lower lease termination fees of \$0.4 million, primarily in the Office and Retail sectors.

The increase in core expenses was driven by the Office and Multifamily sectors, which contributed \$0.8 million and \$0.3 million, respectively, to the increase as a result of increased utilities, repairs and maintenance, real estate taxes and property administrative costs.

Overall economic occupancy increased from 89.9% in the 2003 Period to 90.2% in the 2004 Period due largely to the properties acquired in 2003 and 2004. Core economic occupancy was lower at 89.0% compared to 89.8% due largely to the decline in Office sector occupancy, diminished somewhat by a 4.6% increase in Industrial occupancy. During the 2004 Period, 55.2% of the square footage that expired was renewed, compared to our historical retention rate of approximately 65%, due primarily to a lower than desirable retention rate in our Office portfolio. An analysis of NOI by sector follows.

### Office Sector

	Period Ended June 30,			
	2004	2003	\$ Change	% Change
<b>Real Estate Rental Revenue</b>				
Core	\$ 39,738	\$ 40,268	\$ (530)	(1.3%)
Non-core <sup>(1)</sup>	10,119	—	10,119	100.0%
<b>Total Real Estate Rental Revenue</b>	<b>49,857</b>	<b>40,268</b>	<b>9,589</b>	<b>23.8%</b>
<b>Real Estate Expenses</b>				
Core	12,735	11,965	770	6.4%
Non-core <sup>(1)</sup>	2,708	—	2,708	100.0%
<b>Total Real Estate Expenses</b>	<b>15,443</b>	<b>11,965</b>	<b>3,478</b>	<b>29.1%</b>
<b>Net Operating Income</b>				
Core	27,003	28,303	(1,300)	(4.6%)
Non-core <sup>(1)</sup>	7,411	—	7,411	100.0%
<b>Total Net Operating Income</b>	<b>\$ 34,414</b>	<b>\$ 28,303</b>	<b>\$ 6,111</b>	<b>21.6%</b>
<b>Reconciliation to Net Income</b>				
NOI	\$ 34,414	\$ 28,303		
Interest expense	(2,095)	(704)		
Depreciation and amortization	(12,582)	(8,917)		
<b>Net Income</b>	<b>\$ 19,737</b>	<b>\$ 18,682</b>		

	Period Ended June 30,	
	2004	2003
<b>Economic Occupancy</b>		
Core	86.6%	88.3%
Non-core <sup>(1)</sup>	99.8%	0.0%
<b>Total</b>	<b>89.0%</b>	<b>88.3%</b>

<sup>(1)</sup> Non-core properties include:  
2003 acquisitions - 1776 G Street and Prosperity Medical Centers I, II & III

The Office sector recognized NOI of \$34.4 million in the 2004 Period, which was \$6.1 million (21.6%) higher than in the 2003 Period due primarily to our acquisitions of 1776 G Street in August 2003 and the Prosperity Medical Centers in October 2003. These properties contributed \$7.4 million to NOI (21.5% of the total).

Core Office properties experienced a \$1.3 million (4.6%) decrease in NOI due to a \$0.8 million increase in real estate expenses and a \$0.5 million decline in revenues. Core office rental rates were slightly lower than the 2003 Period, while occupancy was down 1.7% (a \$0.7 million impact). An increase of \$0.2 million in recoveries from tenants due to higher operating expenses was offset by a \$0.2 million decline in lease termination fee income. Core real estate expenses were higher due primarily to

increased real estate taxes in the second quarter and higher electricity costs, largely as a result of the implementation of the Montgomery County (MD) energy tax and increased occupancy at 7900 Westpark due to the Sunrise expansion. Other increases included higher property administration expense due to the first quarter implementation of a web-based software program to request and track tenant maintenance requests, and higher overall repairs and maintenance.

Core economic occupancy for the office sector was down 1.7%, as the favorable impact of the Sunrise Senior Living, Inc. expansion at 7900 Westpark and the expansion of Northrop Grumman at 1700 Research Blvd. was offset by the expiration of several leases that were not renewed, including Lockheed/OAO at Maryland Trade Centers I and II and the FBI at 7700 Leesburg, and vacancies at Tycon Plaza II and 6110 Executive Blvd. Overall economic occupancy increased from 88.3% to 89.0% as a result of 99.8% occupancy at the non-core properties. During the 2004 Period, 45.1% of the square footage that expired was renewed. This renewal rate was lower than usual due to the aforementioned expiration of Lockheed/OAO at Maryland Trade Center.

During the 2004 Period, we executed new leases for 353,600 square feet of office space at an average rent increase of 0.3%.

**Retail Sector**

	Period Ended June 30,			
	2004	2003	\$ Change	% Change
<b>Real Estate Rental Revenue</b>				
Core	\$ 13,549	\$ 13,184	\$ 365	2.8%
Non-core <sup>(1)</sup>	20	3	17	566.7%
<b>Total Real Estate Rental Revenue</b>	<b>13,569</b>	<b>13,187</b>	<b>382</b>	<b>2.9%</b>
<b>Real Estate Expenses</b>				
Core	3,046	2,940	106	3.6%
Non-core <sup>(1)</sup>	6	1	5	500.0%
<b>Total Real Estate Expenses</b>	<b>3,052</b>	<b>2,941</b>	<b>111</b>	<b>3.8%</b>
<b>Net Operating Income</b>				
Core	10,503	10,244	259	2.5%
Non-core <sup>(1)</sup>	14	2	12	600.0%
<b>Total Net Operating Income</b>	<b>\$ 10,517</b>	<b>\$ 10,246</b>	<b>\$ 271</b>	<b>2.6%</b>
<b>Reconciliation to Net Income</b>				
NOI	\$ 10,517	\$ 10,246		
Depreciation and amortization	(1,836)	(1,758)		
<b>Net Income</b>	<b>\$ 8,681</b>	<b>\$ 8,488</b>		

	Period Ended June 30,	
	2004	2003
<b>Economic Occupancy</b>		
Core	94.5%	95.9%
Non-core <sup>(1)</sup>	100.0%	100.0%
<b>Total</b>	<b>94.5%</b>	<b>95.9%</b>

<sup>(1)</sup> Non-core properties include:  
2003 acquisitions - 718 Jefferson Street



The Retail sector recognized NOI of \$10.5 million in the 2004 Period, which was \$0.3 million (2.6%) greater than in the 2003 Period due primarily to a \$0.3 million (2.5%) increase in core NOI.

The increase in core NOI was due to a \$0.4 million increase in revenues, partially offset by a \$0.1 million increase in expenses. The revenue increase was driven by a 2.1% increase in rental rates due to annual rent increases for leases in place and increased market rates, combined with increases in expense recoveries realized in the second quarter and higher year-to-date percentage rents. Core real estate expenses increased due primarily to higher common area maintenance costs for painting and parking lot repairs at several properties, increased real estate taxes and higher utilities.

Both core and overall economic occupancy for the retail sector declined from 95.9% to 94.5% primarily as a result of the renovation underway at Westminster for a national grocery store chain expected to take occupancy by year end. During the 2004 Period, 50.3% of the square footage that expired was renewed. This renewal rate was lower than average because of the planned Foxchase renovation.

During the 2004 Period, we executed new leases for 47,600 square feet of retail space at an average rent increase of 15.6%.

#### Multifamily Sector

	Period Ended June 30,			
	2004	2003	\$ Change	% Change
<b>Real Estate Rental Revenue</b>				
Core/Total	\$ 14,234	\$ 14,172	\$ 62	0.4%
<b>Real Estate Expenses</b>				
Core/Total	5,706	5,419	287	5.3%
<b>Net Operating Income</b>				
Core/Total	\$ 8,528	\$ 8,753	\$ (225)	(2.6%)
<b>Reconciliation to Net Income</b>				
NOI	\$ 8,528	\$ 8,753		
Interest expense	(2,135)	(2,144)		
Depreciation and amortization	(2,393)	(2,151)		
Net Income	\$ 4,000	\$ 4,458		

	Period Ended June 30,	
	2004	2003
<b>Economic Occupancy</b>		
Core/Total	89.5%	91.0%

Multifamily NOI declined \$0.2 million (2.6%) due primarily to a \$0.3 million increase in real estate expenses as a result of increased property personnel, marketing, and repairs and maintenance costs. Revenues increased slightly due to a 1.7% increase in rental rates offset by a 1.5% decrease in occupancy due primarily to the renovation of 25 units taken off-market at The Ashby at McLean during the 2004 Period and lower first quarter occupancy at three of the remaining eight properties, with the most significant decline experienced at Bethesda Hill. The vacancy impact of the units under renovation during the 2004 Period at The Ashby was \$0.2 million, or 65% of this sector's \$0.3 million decrease in economic occupancy in the 2004 Period versus the 2003 Period.

**Industrial Sector**

	Period Ended June 30,			
	2004	2003	\$ Change	% Change
<b>Real Estate Rental Revenue</b>				
Core	\$ 10,539	\$ 10,255	\$ 284	2.8%
Non-core <sup>(1)</sup>	1,006	560	446	79.6%
Total Real Estate Rental Revenue	11,545	10,815	730	6.7%
<b>Real Estate Expenses</b>				
Core	2,467	2,383	84	3.5%
Non-core <sup>(1)</sup>	195	130	65	50.0%
Total Real Estate Expenses	2,662	2,513	149	5.9%
<b>Net Operating Income</b>				
Core	8,072	7,872	200	2.5%
Non-core <sup>(1)</sup>	811	430	381	88.6%
Total Net Operating Income	\$ 8,883	\$ 8,302	\$ 581	7.0%
<b>Reconciliation to Net Income</b>				
NOI	\$ 8,883	\$ 8,302		
Interest expense	(505)	(495)		
Depreciation and amortization	(2,666)	(2,652)		
Net Income	\$ 5,712	\$ 5,155		

	Period Ended June 30,	
	2004	2003
<b>Economic Occupancy</b>		
Core	91.7%	87.1%
Non-core <sup>(1)</sup>	97.1%	98.8%
Total	92.1%	87.7%

<sup>(1)</sup> Non-core properties include:  
2003 acquisitions – Fullerton Industrial Center  
2004 acquisitions – 8880 Gorman Road

The Industrial sector recognized NOI of \$8.9 million in the 2004 Period, which was \$0.6 million (7.0%) greater than in the 2003 Period due to a \$0.2 million increase in core NOI and the acquisitions of 8880 Gorman Road in March 2004 and Fullerton Industrial in January 2003, which together contributed \$0.4 million to the increase in NOI.

Core properties experienced a \$0.2 million (2.5%) increase in NOI due to a \$0.3 million improvement in revenues, while real estate expenses increased slightly from \$2.4 million to \$2.5 million. Core revenues increased due primarily to a 4.6% growth in occupancy driven by increased leasing activity in the second half of 2003 and the first quarter of 2004, partially offset by a 1.3% decline in rental rates. During the 2004 Period, 69.1% of the square footage that expired was renewed.

During the 2004 Period, we executed new leases for 221,800 square feet of Industrial space at an average rent increase of 5.3%, led by NVIP II, Pickett and Charleston.

## **LIQUIDITY AND CAPITAL RESOURCES**

Our primary sources of liquidity are cash from our real estate operations and our unsecured credit facilities. As of June 30, 2004, we had approximately \$8.3 million in cash and cash equivalents and \$61.7 million available for borrowing under our unsecured credit facilities. However, on July 21, 2004, we closed on a new \$50.0 million line of credit with Bank One, NA and Wells Fargo, National Association. This facility replaces the previous \$25.0 million line of credit with Bank One, NA and increases our available borrowings under our unsecured credit facilities to \$86.7 million. We derive substantially all of our revenue from tenants under leases at our properties. Our operating cash flow therefore depends materially on our ability to lease our properties to tenants, the rents that we are able to charge to our tenants, and the ability of these tenants to make their rental payments.

Our primary uses of cash are to fund distributions to shareholders, to fund capital investments in our existing portfolio of operating assets, to fund operating and administrative expenses, and to fund new acquisitions and development activities. As a REIT, we are required to distribute at least 90% of our taxable income to our stockholders on an annual basis. We also regularly require capital to invest in our existing portfolio of operating assets in connection with large-scale renovations, routine capital improvements, deferred maintenance on properties we have recently acquired, and our leasing activities, including funding tenant improvement allowances and leasing commissions. The amounts of the leasing-related expenditures can vary significantly depending on negotiations with tenants and the current competitive leasing environment.

During 2004, we expect that we will have significant capital requirements, including the following items:

- Funding dividends on our common shares and minority interest distributions to third party unit holders;
- Approximately \$20.0 million to invest in our existing portfolio of operating assets, including approximately \$6.0 million to fund tenant-related capital requirements;
- Approximately \$15.0 million to invest in our development projects;
- Approximately \$100.0 million to fund our expected property acquisitions;
- \$55.0 million to retire our 7.78% unsecured notes maturing November 2004, which we expect to pay at or before the scheduled maturity date from the proceeds of a new financing or borrowings under our credit facilities.

There can be no assurance that our capital requirements will not be materially higher or lower than the expectations listed above. We expect to meet our capital requirements using cash generated by our real estate operations and through borrowings on our unsecured credit facilities. We could also raise additional debt or equity capital in the public market or fund acquisitions of properties through property-specific mortgage debt.

We believe that we will generate sufficient cash flow from operations and have access to the capital resources necessary to expand and develop our business, to fund our operating and administrative expenses, to continue to meet our debt service obligations, to pay dividends in accordance with REIT requirements, to acquire additional properties, and to pay for construction in progress. However, as a result of general economic downturns, if our credit rating is downgraded, or if our properties do not perform as expected, we may not generate sufficient cash flow from operations or otherwise have access to capital on favorable terms, or at all. If we are unable to obtain capital from other sources, we may not be able to pay the dividend required to maintain our status as a REIT, make required principal and interest payments, make strategic acquisitions or make necessary routine capital improvements with respect to our existing portfolio of operating assets. In addition, if a property is mortgaged to secure payment of indebtedness and we are unable to meet mortgage payments, the holder of the mortgage could foreclose on the property, resulting in loss of income and asset value.

If principal amounts due at maturity cannot be refinanced, extended or paid with proceeds of other capital transactions, such as new debt or 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.

## 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 debt financings and possible asset dispositions. Our ability to raise funds through the sale of debt and equity securities is dependent on, among other things, general economic conditions, general market conditions for REITs, our operating performance, our debt rating and the current trading price of our shares. We will always analyze which source of capital is most advantageous to us at any particular point in time, however, the capital markets may not consistently be available on terms that are attractive.

In April 2004, we filed a shelf registration with the Securities and Exchange Commission ("SEC"), which allows us to offer from time to time common shares, warrants to purchase common shares and unsecured senior or subordinated debt securities up to an aggregate amount of approximately \$503.0 million.

## Debt Financing

We generally use unsecured, corporate-level debt, including unsecured notes and our unsecured credit facilities, to meet our borrowing needs. Our total debt at June 30, 2004 is summarized as follows (in thousands):

Fixed rate mortgages	\$141,271
Unsecured credit facilities	13,250
Unsecured notes payable	375,000
	<u>\$529,521</u>

The \$141.3 million in fixed rate mortgages bore an effective weighted average interest rate of 6.6% at June 30, 2004 and had a weighted average maturity of 5.5 years.

Our primary external source of liquidity is our two revolving credit facilities. We can borrow up to \$100.0 million under these lines, which bear interest at an adjustable spread over LIBOR based on the Trust's public debt rating. Credit Facility No. 1, is a three-year, \$50.0 million unsecured credit facility expiring in July 2007. Credit Facility No. 2, is a three-year \$50.0 million unsecured credit facility expiring in July 2005. In March 2004, we borrowed \$13.3 million under Credit Facility No. 1, including \$11.0 million to fund our acquisition of 8880 Gorman Road and \$2.3 million to fund certain capital improvements to real estate.

We anticipate that over the near term, interest rate fluctuations will not have a material adverse effect on earnings. Our unsecured fixed-rate notes payable have maturities ranging from November 2004 through February 2028 (see Note 6), as follows (in thousands):

	<u>Note Principal</u>
7.78% notes due 2004	\$ 55,000
7.25% notes due 2006	50,000
6.74% notes due 2008	60,000
5.125% notes due 2013	60,000
5.25% notes due 2014	100,000
7.25% notes due 2028	50,000
	<u>\$ 375,000</u>

In March 2003, we issued \$60.0 million of 5.125% unsecured notes. No notes were issued in the 2004 Period. As noted above, \$55.0 million of unsecured notes mature in November 2004. We anticipate paying these notes at or before the scheduled maturity date from proceeds of a new financing or credit facility borrowings.

Our unsecured revolving credit facilities and the unsecured notes payable contain certain financial and non-financial covenants, discussed in greater detail in our 2003 10-K, all of which we met as of June 30, 2004.

## Dividends

We pay dividends quarterly. The maintenance of these dividends is subject to various factors, including the discretion of the Board of Trustees, the ability to pay dividends under Maryland law, the availability of cash to make the necessary dividend payments and the effect of REIT distribution requirements, which require at least 90% of our taxable income to be distributed to shareholders. The table below details our dividend and distribution payments for the Quarter and Period ended June 30, 2004 and 2003 (in thousands).

	Quarter Ended June 30,		Period Ended June 30,	
	2004	2003	2004	2003
Common dividends	\$ 16,394	\$ 14,634	\$ 31,952	\$ 28,446
Minority interest distributions	32	30	93	59
	<u>\$ 16,426</u>	<u>\$ 14,664</u>	<u>\$ 32,045</u>	<u>\$ 28,505</u>

Dividends paid for the 2004 Quarter and 2004 Period increased as a direct result of a dividend rate increase from \$.3725 per share in June 2003 to \$.3925 per share in June 2004 and the issuance of 2.2 million shares in December 2003.

## Acquisitions and Development

We acquired one property in the 2004 Period and two properties in the 2003 Period for total acquisition costs of \$11.7 million and \$10.6 million, respectively. The 2004 acquisition was financed through a line of credit advance. The 2003 acquisitions were financed through the assumption of a \$6.6 million mortgage, line of credit advances, and the issuance of unsecured notes.

As of June 30, 2004, we had spent \$9.2 million, including land costs, on two major development projects – Rosslyn Towers, (formerly referred to as WRIT Rosslyn Center), and South Washington Street — and one major redevelopment project at Westminster Shopping Center. Spending during the 2004 Quarter and 2004 Period on these projects totaled \$1.4 million and \$2.5 million, respectively, compared to \$1.8 million and \$2.0 million in the 2003 Quarter and 2003 Period, respectively.

## Historical Cash Flows

Consolidated cash flow information is summarized as follows (in millions):

	Period Ended June 30,		
	2004	2003	Change
Cash provided by operating activities	\$ 46.1	\$ 41.1	\$ 5.0
Cash used in investing activities	\$ (26.0)	\$ (15.2)	\$ (10.8)
Cash used in financing activities	\$ (17.2)	\$ (18.4)	\$ 1.2

Operations generated \$46.1 million of net cash in the 2004 Period compared to \$41.1 million during the 2003 Period. The increase in cash flow was due primarily to the additional revenues from assets acquired in 2003. The level of net cash provided by operating activities is also affected by the timing of receipt of revenues and payment of expenses.

Our investing activities used net cash of \$26.0 million in the 2004 Period compared to \$15.2 million in the 2003 Period. The change in cash flows from investing activities was due primarily to the acquisition of 8880 Gorman Road for \$11.7 million. In the 2003 Period, acquisition costs of \$11.8 million were reduced by the assumption of a \$6.6 million mortgage on Fullerton Industrial Center. Additionally, capital improvements to real estate increased \$4.3 million due in part to the payment of \$1.1 million in tenant improvement costs to one tenant during the 2004 Period, a \$1.4 million increase in Retail sector capital improvements primarily due to the redevelopment project at Westminster, and a \$1.1 million increase in Multifamily sector capital improvements due to renovation projects at The Ashby at McLean and Munson Hill Towers.

Our financing activities used net cash of \$17.2 million in the 2004 Period compared to \$18.4 million in the 2003 Period. The \$1.2 million decrease in net cash used by financing activities was due to a number of factors. In the 2003 Period, the net proceeds from debt offering was \$8.6 million after the repayment of borrowings under our lines of credit. During the same period in 2004, \$13.3 million was borrowed under Credit Facility No. 1. Principal payments on mortgage notes payable increased \$0.3 million in the 2004 Period compared to the 2003 Period, primarily due to the assumption of the mortgages on the Prosperity Medical Centers acquired in October 2003. Additionally, net proceeds from the exercise of share options increased \$0.4 million in the 2004 Period compared to the 2003 Period. These increases were partially reduced by the \$3.5 million increase in dividends paid in 2004.

## **RATIOS OF EARNINGS TO FIXED CHARGES AND DEBT SERVICE COVERAGE**

The following table sets forth the Trust's ratios of earnings to fixed charges and debt service coverage for the periods shown:

	Quarter Ended June 30,		Period Ended June 30,	
	2004	2003	2004	2003
Earnings to fixed charges	2.2x	2.5x	2.3x	2.5x
Debt service coverage	3.3x	3.4x	3.3x	3.5x

We computed the ratio of earnings to fixed charges by dividing earnings by fixed charges. For this purpose, earnings consist of net income plus fixed charges, less capitalized interest. Fixed charges consist of interest expense, including amortized costs of debt issuance, plus interest costs capitalized.

We computed the debt service coverage ratio by dividing earnings before interest income and expense, depreciation, amortization and gain on sale of real estate by interest expense and principal amortization.

## **FUNDS FROM OPERATIONS**

Funds from Operations ("FFO") is a widely used measure of operating performance for real estate companies. We provide FFO as a supplemental measure to net income calculated in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Although FFO is a widely used measure of operating performance for equity real estate investment trusts ("REITs"), 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, 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 WRIT's liquidity. The National Association of Real Estate Investment Trusts, Inc. ("NAREIT") defines FFO (April, 2002 White Paper) as net income (computed in accordance with GAAP) excluding gains (or losses) from sales of property plus real estate depreciation and amortization. We consider 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 diminish predictably over time. Since real estate values have instead historically risen or fallen with market conditions, we believe that FFO more accurately provides investors an indication of our ability to incur and service debt, make capital expenditures and fund other needs. Our 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 FFO and a reconciliation of FFO to net income (in thousands):

	Quarter Ended June 30,		Period Ended June 30,	
	2004	2003	2004	2003
Net income	\$ 11,082	\$ 11,288	\$ 22,384	\$ 22,502
Adjustments				
Depreciation and amortization	10,121	8,245	19,993	16,318
FFO as defined by NAREIT	\$ 21,203	\$ 19,533	\$ 42,377	\$ 38,820

## **ITEM 3: QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT FINANCIAL MARKET RISK**

The principal material financial market risk to which we are exposed is interest-rate risk. Our exposure to market risk for changes in interest rates 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 lines 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. In the past we have used interest rate hedge agreements to hedge against rising interest rates in anticipation of imminent refinancing or new debt issuance.

Our interest rate risk has not changed significantly from what was disclosed in our 2003 Form 10-K.

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**ITEM 4: 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 Senior Vice President of Accounting, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer, Chief Financial Officer and Senior Vice President of Accounting, of the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2004. Based on the foregoing, our Chief Executive Officer, Chief Financial Officer and Senior Vice President of Accounting concluded that the Trust's disclosure controls and procedures were effective.

**PART II**  
**OTHER INFORMATION**

**Item 1. Legal Proceedings**

None

**Item 2. Changes in Securities**

None

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Submission of Matters to a Vote of Security Holders**

At WRIT's annual meeting of Shareholders on May 20, 2004, the following members were elected to the Board of Trustees for a period of three years:

	<u>Affirmative Votes</u>	<u>Negative Votes</u>	<u>Non-Votes</u>
Mr. Edmund B. Cronin, Jr.	36,846,204	669,813	4,248,277
Mr. John P. McDaniel	36,459,062	1,056,955	4,248,277
Mr. David M. Osnos	28,934,602	8,581,415	4,248,277

Mr. Cronin, Mr. McDaniel, and, Mr. Osnos were re-elected as Trustees. Trustees whose term in office continued after the meeting were Mr. Clifford M. Kendall, Ms. Susan J. Williams, Mr. John M. Derrick, Jr., and Mr. Charles T. Nason.

The Shareholders did not approve an amendment to the Declaration of Trust that would have authorized the issuance of preferred shares. This amendment required the approval of 70% of outstanding shares, with non-votes counting as votes against. The proposed amendment received the following votes:

<u>Affirmative Votes</u>	<u>Negative Votes</u>	<u>Abstain Votes</u>	<u>Non-Votes</u>
18,711,948	5,429,995	392,660	17,229,691

**Item 5. Other Information**

None

**Item 6. Exhibits and Reports on Form 8-K**

(a) Exhibits

4. Instruments Defining Rights of Security Holders

(s) Amended and Restated Credit Agreement, Dated as of July 21, 2004, among Washington Real Estate Investment Trust, as borrower and Bank One, NA, and Wells Fargo Bank, National Association, as lenders and Bank One, NA, as agent and Banc One Capital Markets, Inc., as lead arranger and sole book runner



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- 12. Computation of Ratios
  - 31. Rule 13a-14(a)/15(d)-14(a) Certifications
    - (a) Certification – Chief Executive Officer
    - (b) Certification – Senior Vice President
    - (c) Certification – Chief Financial Officer
  - 32. Section 1350 Certifications
    - (a) Written Statement of Chief Executive Officer, Senior Vice President and Chief Financial Officer
- (b) Reports on Form 8-K
- 1. April 20, 2004 – Report pursuant to Item 9 and Item 12 on the release of the Trust’s March 31, 2004 quarterly supplemental and earnings information.
  - 2. May 7, 2004 – Report pursuant to Item 5 on the proposal to amend the Registrant’s Declaration of Trust to authorize the issuance of Preferred Shares.
  - 3. July 21, 2004 – Report pursuant to Item 9 and Item 12 on the release of the Trust’s June 30, 2004 quarterly supplemental and earnings information.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has fully caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WASHINGTON REAL ESTATE INVESTMENT TRUST

/s/ Edmund B. Cronin, Jr.

Edmund B. Cronin, Jr.  
Chairman of the Board, President and  
Chief Executive Officer

/s/ Laura M. Franklin

Laura M. Franklin  
Senior Vice President  
Accounting, Administration and Corporate Secretary

/s/ Sara L. Grootwassink

Sara L. Grootwassink  
Chief Financial Officer

Date: August 6, 2004

**AMENDED AND RESTATED  
CREDIT AGREEMENT  
DATED AS OF JULY 21, 2004  
AMONG  
WASHINGTON REAL ESTATE INVESTMENT TRUST,  
AS BORROWER  
AND  
BANK ONE, NA, AND WELLS FARGO BANK, NATIONAL ASSOCIATION,  
AS LENDERS  
AND  
BANK ONE, NA,  
AS AGENT,  
AND  
BANC ONE CAPITAL MARKETS, INC.,  
AS LEAD ARRANGER AND SOLE BOOK RUNNER**

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Exhibit A-2:	Unused Fees
Exhibit B:	Form of Note
Exhibit C:	Form of Opinion
Exhibit D:	Compliance Certificate
Exhibit E:	Assignment Agreement
Exhibit F:	Loan/Credit Related Money Transfer Instruction
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Exhibit H:	Environmental Investigation Specifications and Procedures
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**AMENDED AND RESTATED  
CREDIT AGREEMENT**

This Amended and Restated Credit Agreement ("Agreement"), dated as of July 21, 2004, is among Washington Real Estate Investment Trust, a real estate investment trust organized under the laws of the State of Maryland (the "Borrower"), Bank One, NA, a national banking association having its principal office in Chicago, Illinois, as "Agent", and the Lenders (as hereinafter defined).

**RECITALS**

A. The Borrower is primarily engaged in the business of purchasing, developing, owning, operating and renovating apartment buildings, shopping centers, office buildings, business centers and warehouses.

B. The Borrower is listed on the New York Stock Exchange and is qualified as a real estate investment trust.

C. The Borrower, the Agent, and certain of the Lenders entered into a Credit Agreement dated as of July 23, 2002, as previously amended (the "Original Credit Agreement") pursuant to which the Lenders that are parties thereto agreed to make loans to the Borrower in the maximum aggregate amount of \$25,000,000 (the "Prior Facility").

D. Borrower has requested that the Lenders that are parties hereto make loans available to Borrower of up to \$50,000,000, subject to future increases to up to \$100,000,000, pursuant to the terms of this Agreement and that the Prior Facility be terminated. The Agent and the Lenders have agreed to do so.

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, the parties hereto agree to amend and restate the terms of the Original Credit Agreement as follows:

**ARTICLE I.**

**DEFINITIONS**

As used in this Agreement:

"ABR Applicable Margin" means, as of any date, the Applicable Margin in effect on such date with respect to Floating Rate Advances and Floating Rate Loans as determined in accordance with Section 2.4 hereof.

"Acquisition" means any transaction, or any series of related transactions, consummated on or after the date of this Agreement, by which the Borrower or any of its Subsidiaries (i) acquires any going business or all or substantially all of the assets of any firm, corporation or division thereof, whether through purchase of assets, merger or otherwise or (ii) directly or indirectly acquires (in one transaction or as the most recent transaction in a series of transactions) at least a majority (in number of votes) of the securities of a corporation which have ordinary voting power for the election of directors (other than securities having such power only by

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reason of the happening of a contingency) or a majority (by percentage or voting power) of the outstanding partnership interests of a partnership.

“Advance” means a borrowing hereunder consisting of the aggregate amount of the several Loans made by the Lenders to the Borrower of the same Type and, in the case of LIBOR Advances, for the same Interest Period.

“Affiliate” of any Person means any other Person directly or indirectly controlling, controlled by or under common control with such Person. A Person shall be deemed to control another Person if the controlling Person owns 10% or more of any class of voting securities (or other ownership interests) of the controlled Person or possesses, directly or indirectly, the power to direct or cause the direction of the management or policies of the controlled Person, whether through ownership of stock, by contract or otherwise.

“Agent” means Bank One, NA in its capacity as agent for the Lenders pursuant to Article X, and not in its individual capacity as a Lender, and any successor Agent appointed pursuant to Article X.

“Aggregate Commitment” means the aggregate of the Commitments of all the Lenders (not to exceed the Maximum Aggregate Commitment), as modified from time to time pursuant to the terms hereof.

“Agreement” means this Credit Agreement, as it may be amended or modified and in effect from time to time.

“Alternate Base Rate” means, for any day, a rate of interest per annum equal to the higher of (i) the Prime Rate for such day and (ii) the sum of Federal Funds Effective Rate for such day plus ½% per annum.

“Applicable Margin” means the ABR Applicable Margin or the LIBOR Applicable Margin as applicable.

“Article” means an article of this Agreement unless another document is specifically referenced.

“Authorized Officer” means any of the Chief Executive Officer, President, Chief Financial Officer or Chief Accounting Officer of the Borrower, acting singly.

“Borrower” means Washington Real Estate Investment Trust, a real estate investment trust organized under the laws of Maryland, and its successors and assigns.

“Borrowing Date” means a date on which an Advance is made hereunder.

“Borrowing Notice” is defined in Section 2.9.

“Business Day” means (i) with respect to any borrowing, payment or rate selection of LIBOR Advances, a day (other than a Saturday or Sunday) on which banks generally are open in Chicago, Illinois and New York, New York for the conduct of substantially all of their



commercial lending activities and on which dealings in United States dollars are carried on in the London interbank market and (ii) for all other purposes, a day (other than a Saturday or Sunday) on which banks generally are open in Chicago, Illinois for the conduct of substantially all of their commercial lending activities.

“Capitalized Lease” of a Person means any lease of Property imposing obligations on such Person, as lessee thereunder, which are required in accordance with GAAP to be capitalized on a balance sheet of such Person.

“Capitalized Lease Obligations” of a Person means the amount of the obligations of such Person under Capitalized Leases which would be shown as a liability on a balance sheet of such Person prepared in accordance with GAAP.

“Capital Stock” means any and all shares, interests, participations or other equivalents (however designated) of capital stock of a corporation, any and all equivalent ownership interests in a Person (other than a corporation) and any and all warrants or options to purchase any of the foregoing.

“Cash Flow to Debt Service Ratio” means, as for any date for any period, the ratio calculated by dividing (x) actual EBITDA for such period, by (y) Consolidated Debt Service for such period.

“Closing Date” means the date that all the conditions precedent to the initial Advance, as specified in Section 4.1, have been satisfied; provided, however, that the obligations of the Lenders to make Loans hereunder shall automatically terminate if such date does not occur on or before July 23, 2004.

“Code” means the Internal Revenue Code of 1986, as amended, reformed or otherwise modified from time to time.

“Commitment” means, for each Lender, the obligation of such Lender to make Loans not exceeding the amount set forth opposite its signature below or as set forth in any Notice of Assignment relating to any assignment that has become effective pursuant to Section 12.3.2, as such amount may be modified from time to time pursuant to the terms hereof.

“Condemnation” is defined in Section 7.9.

“Consolidated Debt Service” for any period means (a) Consolidated Interest Expense for such period plus (b) the aggregate amount of scheduled principal payments of Indebtedness (excluding optional prepayments and scheduled principal payments in respect of any Indebtedness which is payable in a single installment at final maturity) required to be made during such period by the Borrower or any of its consolidated Subsidiaries.

“Consolidated Group” means the Borrower and all Subsidiaries which are consolidated with it for financial reporting purposes under GAAP.

“Consolidated Interest Expense,” for any period, means the amount of interest expense of the Borrower and its Subsidiaries for such period on the aggregate principal amount of their

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Indebtedness, determined on a consolidated basis in accordance with GAAP~~plus~~ any capitalized interest which accrued during such period.

“Consolidated Net Income,” for any period, means consolidated net income (or loss) of the Borrower and its Subsidiaries for such period determined on a consolidated basis in accordance with GAAP; provided that there shall be excluded (a) the income (or deficit) of any other Person accrued prior to the date it becomes a Subsidiary of the Borrower or is merged into or consolidated with the Borrower or any of its Subsidiaries and (b) the undistributed earnings of any Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such Subsidiary is not at the time permitted by the terms of any contractual obligation or requirement of law applicable to such Subsidiary.

“Consolidated Secured Indebtedness,” as of any date of determination, means the sum of (a) the aggregate principal amount of all Indebtedness of the Borrower and its Subsidiaries outstanding at such date which does not constitute Unsecured Indebtedness and (b) the excess, if any, of (i) the aggregate principal amount of all Unsecured Indebtedness of the Subsidiaries of the Borrower over (ii) \$10,000,000, determined on a consolidated basis in accordance with GAAP.

“Consolidated Tangible Net Worth,” at any date of determination, means an amount equal to (a) Total Capitalization Value as of such date minus (b) Consolidated Total Indebtedness as of such date.

“Consolidated Total Indebtedness,” as of any date of determination, means all Indebtedness of the Borrower and its Subsidiaries outstanding at such date, determined on a consolidated basis in accordance with GAAP.

“Consolidated Unsecured Indebtedness,” as of any date of determination, means the sum of (a) the aggregate principal amount of all Indebtedness of the Borrower and its Subsidiaries outstanding at such date which constitutes Unsecured Indebtedness (excluding (i) Indebtedness of the Borrower and its Subsidiaries under the Loan Documents and (ii) Indebtedness incurred pursuant to any commitment referred to in clause (c) below), (b) the aggregate Commitments then in effect under the Facility, and (c) the aggregate commitments then in effect with respect to any other unsecured committed line of credit extended to the Borrower or any of its Subsidiaries, determined on a consolidated basis in accordance with GAAP.

“Controlled Group” means all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Borrower or any of its Subsidiaries, are treated as a single employer under Section 414 of the Code.

“Conversion/Continuation Notice” is defined in Section 2.10.

“Current DSC Ratio” means, as of any date, the ratio calculated by dividing (x) the actual EBITDA for the most recently completed fiscal quarter, by (y) the actual Consolidated Debt Service for such fiscal quarter.

“Default” means an event described in Article VII.

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“EBITDA” means earnings of Borrower and its Subsidiaries on a consolidated basis before interest, taxes (other than real estate taxes), depreciation and amortization, all as calculated in accordance with GAAP.

“Environmental Laws” means any and all foreign, Federal, state, local or municipal laws, rules, orders, regulations, statutes, ordinances, codes, decrees, requirements of any Governmental Authority or other Requirements of Law (including common law) regulating, relating to or imposing liability or standards of conduct concerning protection of human health or the environment, as now or may at any time hereafter be in effect, in each case to the extent the foregoing are applicable to the Borrower or any Subsidiary or any of their respective assets or Property.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended from time to time, and any rule or regulation issued thereunder.

“Facility Fee” is defined in [Section 2.6](#).

“Facility Fee Rate” is the applicable percentage as set forth in Exhibit A for calculating the Facility Fee.

“Facility Termination Date” means July 23, 2007.

“Federal Funds Effective Rate” means, for any day, an interest rate per annum equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published for such day (or, if such day is not a Business Day, for the immediately preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations at approximately 10 a.m. (Chicago time) on such day on such transactions received by the Agent from three Federal funds brokers of recognized standing selected by the Agent in its sole discretion.

“Financial Contract” of a Person means (i) any exchange-traded or over-the-counter futures, forward, swap or option contract or other financial instrument with similar characteristics, or (ii) any Rate Management Transaction.

“Financing Lease” means any lease of property, real or personal, the obligations of the lessee in respect of which are, in accordance with GAAP, capitalized on a balance sheet of the lessee.

“Fixed Charges” shall mean, for any period, the sum of (i) Consolidated Interest Expense, (ii) all scheduled principal payments due on account of Consolidated Total Indebtedness (excluding balloon payments), (iii) all dividends payable on account of preferred stock or preferred operating partnership units of the Borrower or any other Person in the Consolidated Group and (iv) all ground lease payments to the extent not deducted as an expense in calculating EBITDA.

“Floating Rate” means, for any date, a rate per annum equal to (i) the Alternate Base Rate for such day plus (ii) ABR Applicable Margin for such day, in each case changing when and as the Alternate Base Rate changes.

“Floating Rate Advance” means an Advance which bears interest at the Floating Rate.

“Floating Rate Loan” means a Loan which bears interest at the Floating Rate.

“Funded Percentage” means, with respect to any Lender at any time, a percentage equal to a fraction the numerator of which is the amount of the outstanding Advances from such Lender at such time, and the denominator of which is the outstanding Advances from all of the Lenders at such time.

“Funds From Operations,” for any period, means Consolidated Net Income for such period as adjusted by (i) excluding gains and losses from property sales, debt restructurings and property write-downs and adjusted for the non-cash effect of straight-lining of rents, (ii) to the extent not already accomplished under GAAP, straight-lining various ordinary operating expenses which are payable less frequently than monthly (e.g. real estate taxes), and (iii) adding back depreciation, amortization and all non-cash items.

“GAAP” means generally accepted accounting principles in the United States of America as in effect from time to time, applied in a manner consistent with that used in preparing the financial statements referred to in [Section 6.1](#).

“Governmental Authority” means any nation or government, any state or other political subdivision thereof and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

“Guarantee Obligation” means, as to any Person (the “guaranteeing person”), any obligation (determined without duplication) of (a) the guaranteeing person or (b) another Person (including, without limitation, any bank under any letter of credit) to induce the creation of which the guaranteeing person has issued a reimbursement, counterindemnity or similar obligation, in either case guaranteeing or in effect guaranteeing any Indebtedness, leases, dividends or other obligations (the “primary obligations”) of any other third Person (the “primary obligor”) in any manner, whether directly or indirectly, including, without limitation, any obligation of the guaranteeing person, whether or not contingent, (i) to purchase any such primary obligation or any property constituting direct or indirect security therefor, (ii) to advance or supply funds (1) for the purchase or payment of any such primary obligation or (2) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor, (iii) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation or (iv) otherwise to assure or hold harmless the owner of any such primary obligation against loss in respect thereof; provided, however, that the term Guarantee Obligation shall not include endorsements of instruments for deposit or collection in the ordinary course of business. The amount of any Guarantee Obligation of any guaranteeing person shall be deemed to be the maximum stated amount of the primary obligation relating to such Guarantee Obligation (or, if less, the maximum stated liability set forth in the

instrument embodying such Guarantee Obligation), provided, that in the absence of any such stated amount or stated liability, the amount of such Guarantee Obligation shall be such guaranteeing person's maximum reasonably anticipated liability in respect thereof as determined by the Borrower in good faith.

"Indebtedness" of any Person at any date means without duplication, (a) all indebtedness of such Person for borrowed money including without limitation any repurchase obligation or liability of such Person with respect to securities, accounts or notes receivable sold by such Person, (b) all obligations of such Person for the deferred purchase price of property or services (other than current trade liabilities incurred in the ordinary course of business and payable in accordance with customary practices), to the extent such obligations constitute indebtedness for the purposes of GAAP, (c) any other indebtedness of such Person which is evidenced by a note, bond, debenture or similar instrument, (d) all Capitalized Lease Obligations, (e) all obligations of such Person in respect of acceptances issued or created for the account of such Person, (f) all Guarantee Obligations of such Person, (g) all reimbursement obligations of such Person for letters of credit and other contingent liabilities, (h) Net Mark-to-Market Exposure under Rate Management Transactions and other Financial Contracts; and (i) all liabilities secured by any lien (other than liens for taxes not yet due and payable) on any property owned by such Person even though such Person has not assumed or otherwise become liable for the payment thereof.

"Interest Period" means, with respect to a LIBOR Advance, a period of one, two, three, or six months or such period shorter than one month as may be available from time to time from the Lenders at their sole discretion commencing on a Business Day selected by the Borrower pursuant to this Agreement. Such Interest Period shall end on (but exclude) the day which corresponds numerically to such date one, two, three, or six, months thereafter or on such day as decided upon by the Lenders for such period shorter than one month if available, provided, however, that if there is no such numerically corresponding day in such next, second, third, or sixth, succeeding month, such Interest Period shall end on the last Business Day of such next, second, third, or sixth, succeeding month. If an Interest Period would otherwise end on a day which is not a Business Day, such Interest Period shall end on the next succeeding Business Day, provided, however, that if said next succeeding Business Day falls in a new calendar month, such Interest Period shall end on the immediately preceding Business Day.

"Investment" of a Person means any loan, advance (other than commission, travel and similar advances to officers and employees made in the ordinary course of business), extension of credit (other than accounts receivable arising in the ordinary course of business on terms customary in the trade), deposit account or contribution of capital by such Person to any other Person or any investment in, or purchase or other acquisition of, any Property, or the stock, partnership interests, notes, debentures or other securities of any other Person made by such Person.

"Lenders" means the lending institutions listed on the signature pages of this Agreement, their respective successors and assigns and any other lending institutions that subsequently become parties to this Agreement.

"Lending Installation" means, with respect to a Lender, any office, branch, subsidiary or affiliate of such Lender.

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“Letter of Credit” of a Person means a letter of credit or similar instrument which is issued upon the application of such Person or upon which such Person is an account party or for which such Person is in any way liable.

“LIBOR Advance” means an Advance which bears interest at a LIBOR Rate.

“LIBOR Applicable Margin” means, as of any date with respect to any Interest Period, the Applicable Margin in effect for such Interest Period as determined in accordance with Section 2.4 hereof.

“LIBOR Base Rate” means, with respect to a LIBOR Advance for the relevant Interest Period, the applicable British Bankers’ Association Interest Settlement Rate for deposits in U.S. dollars appearing on Reuters Screen FRBD as of 11:00 a.m. (London time) two Business Days prior to the first day of such LIBOR Interest Period, and having a maturity equal to such LIBOR Interest Period, provided that, (i) if Reuters Screen FRBD is not available to the Agent for any reason, the applicable LIBOR Base Rate for the relevant LIBOR Interest Period shall instead be the applicable British Bankers’ Association Interest Settlement Rate for deposits in U.S. dollars as reported by any other generally recognized financial information service as of 11:00 a.m. (London time) two Business Days prior to the first day of such LIBOR Interest Period, and having a maturity equal to such LIBOR Interest Period, and (ii) if no such British Bankers’ Association Interest Settlement Rate is available to the Agent, the applicable LIBOR Base Rate for the relevant LIBOR Interest Period shall instead be the rate determined by the Agent to be the rate at which Bank One or one of its Affiliate banks offers to place deposits in U.S. dollars with first class banks in the London interbank market at approximately 11:00 a.m. (London time) two Business Days prior to the first day of such LIBOR Interest Period, in the approximate amount of Bank One’s relevant LIBOR Loan and having a maturity approximately equal to such LIBOR Interest Period.

“LIBOR Loan” means a Loan which bears interest at a LIBOR Rate.

“LIBOR Rate” means, with respect to a LIBOR Advance for the relevant Interest Period, the sum of (i) the quotient of (a) the LIBOR Base Rate applicable to such Interest Period, divided by (b) one minus the Reserve Requirement (expressed as a decimal) applicable to such Interest Period, plus (ii) the LIBOR Applicable Margin in effect on the day that such LIBOR Base Rate was determined. The LIBOR Rate shall be rounded to the next higher multiple of 1/16 of 1% if the rate is not such a multiple.

“Lien” means any lien (statutory or other), mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance or preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including, without limitation, the interest of a vendor or lessor under any conditional sale, capitalized lease or other title retention agreement).

“Loan” means, with respect to a Lender, such Lender’s portion of any Advance.

“Loan Documents” means this Agreement, the Note(s), the Subsidiary Guaranty, and any other document from time to time evidencing or securing indebtedness incurred by the Borrower under this Agreement, as any of the foregoing may be amended or modified from time to time.

“Loan Year” means the period of 12 months ending on the first anniversary of the date of this Agreement, and thereafter, each succeeding 12 month period ending on an anniversary of the date of this Agreement.

“Material Adverse Effect” means a material adverse effect on (i) the business, Property, condition (financial or otherwise), results of operations, or prospects of the Borrower and its Subsidiaries taken as a whole, (ii) the ability of the Borrower to perform its obligations under the Loan Documents, or (iii) the validity or enforceability of any of the Loan Documents or the rights or remedies of the Agent or the Lenders thereunder.

“Materials of Environmental Concern” means any gasoline or petroleum (including crude oil or any fraction thereof) or petroleum products or any hazardous or toxic substances, materials or wastes, defined or regulated as such in or under any Environmental Law, including, without limitation, asbestos, polychlorinated biphenyls and urea-formaldehyde insulation.

“Maximum Aggregate Commitment” means \$50,000,000, or at any time such other amount to which the Maximum Aggregate Commitment has been increased in accordance with the terms of this Agreement.

“Moody’s” means Moody’s Investors Service, Inc. and its successors.

“Multiemployer Plan” means a Plan maintained pursuant to a collective bargaining agreement or any other arrangement to which the Borrower or any member of the Controlled Group is a party to which more than one employer is obligated to make contributions.

“Net Mark-to-Market Exposure” of a Person means, as of any date of determination, the excess (if any) of all unrealized losses over all unrealized profits of such Person arising from Rate Management Transactions or any other Financial Contract. “Unrealized losses” means the fair market value of the cost to such Person of replacing such Rate Management Transaction or other Financial Contract as of the date of determination (assuming the Rate Management Transaction or other Financial Contract were to be terminated as of that date), and “unrealized profits” means the fair market value of the gain to such Person of replacing such Rate Management Transaction or other Financial Contract as of the date of determination (assuming such Rate Management Transaction or other Financial Contract were to be terminated as of that date).

“Note” means a promissory note, in substantially the form of Exhibit B hereto, duly executed by the Borrower and payable to the order of a Lender in the amount of its Commitment, including any amendment, modification, renewal or replacement of such promissory note.

“Notice of Assignment” is defined in Section 12.3.2.

“Obligations” means all unpaid principal of and accrued and unpaid interest on the Notes, all accrued and unpaid fees and all expenses, reimbursements, indemnities and other obligations of the Borrower to the Lenders or to any Lender, the Agent or any indemnified party hereunder arising under the Loan Documents.

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“Office Building Assets” means all office buildings owned by Borrower from time to time.

“Other Taxes” is defined in [Section 3.5](#).

“Participants” is defined in [Section 12.2.1](#).

“Payment Date” means, with respect to the payment of interest accrued on any Advance, the first day of each calendar month.

“PBGC” means the Pension Benefit Guaranty Corporation, or any successor thereto.

“Percentage” means, with respect to each Lender, the applicable percentage of the then-current Aggregate Commitment represented by such Lender’s then-current Commitment.

“Permitted Acquisitions” are defined in [Section 6.16](#).

“Permitted Liens” are defined in [Section 6.17](#).

“Person” means any natural person, corporation, firm, joint venture, partnership, association, enterprise, trust or other entity or organization, or any government or political subdivision or any agency, department or instrumentality thereof.

“Plan” means an employee pension benefit plan which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Code as to which the Borrower or any member of the Controlled Group may have any liability.

“Prime Rate” means a rate per annum equal to the prime rate of interest announced from time to time by Bank One, NA or its parent (which is not necessarily the lowest rate charged to any customer), changing when and as said prime rate changes.

“Pro Forma EBITDA” means, for any Person for any period, EBITDA calculated as if the Property then owned by such Person had been owned by such Person for the entire period.

“Property” of a Person means any and all property, whether real, personal, tangible, intangible, or mixed, of such Person, or other assets owned, leased or operated by such Person.

“Purchasers” is defined in [Section 12.3.1](#).

“Rate Management Transaction” means any transaction (including an agreement with respect thereto) now existing or hereafter entered into by the Borrower which is a rate swap, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, forward transaction, currency swap transaction, cross-currency rate swap transaction, currency option or any other similar transaction (including any option with respect to any of these transactions) or any combination thereof, whether linked to one or more interest rates, foreign currencies, commodity prices, equity prices or other financial measures.



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“Regulation D” means Regulation D of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor thereto or other regulation or official interpretation of said Board of Governors relating to reserve requirements applicable to member banks of the Federal Reserve System.

“Regulation U” means Regulation U of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor or other regulation or official interpretation of said Board of Governors relating to the extension of credit by banks for the purpose of purchasing or carrying margin stocks applicable to member banks of the Federal Reserve System.

“Reportable Event” means a reportable event as defined in Section 4043 of ERISA and the regulations issued under such section, with respect to a Plan, excluding, however, such events as to which the PBGC by regulation waived the requirement of Section 4043(a) of ERISA that it be notified within 30 days of the occurrence of such event, provided, however, that a failure to meet the minimum funding standard of Section 412 of the Code and of Section 302 of ERISA shall be a Reportable Event regardless of the issuance of any such waiver of the notice requirement in accordance with either Section 4043(a) of ERISA or Section 412(d) of the Code.

“Required Lenders” means Lenders in the aggregate having at least 66-2/3% of the Aggregate Commitment or, if the Aggregate Commitment has been terminated, Lenders in the aggregate holding at least 66-2/3% of the aggregate unpaid principal amount of the outstanding Advances.

“Reserve Requirement” means, with respect to a LIBOR Interest Period, the maximum aggregate reserve requirement (including all basic, supplemental, marginal and other reserves) which is imposed under Regulation D on Eurocurrency liabilities. On the date of this Agreement Bank One NA’s Reserve Requirement is 0.

“Section” means a numbered section of this Agreement, unless another document is specifically referenced.

“Single Employer Plan” means a Plan maintained by the Borrower or any member of the Controlled Group for employees of the Borrower or any member of the Controlled Group.

“Subsidiary,” as to any Person, means a corporation, partnership or other entity of which shares of stock or other ownership interests having ordinary voting power (other than stock or such other ownership interests having such power only by reason of the happening of a contingency) to elect a majority of the board of directors or other managers of such corporation, partnership or other entity are at the time owned, or the management of which is otherwise controlled, directly or indirectly through one or more intermediaries, or both, by such Person. Unless otherwise qualified, all references to a “Subsidiary” or to “Subsidiaries” in this Agreement shall refer to a Subsidiary or Subsidiaries of the Borrower.

“Subsidiary Guaranty” means the guaranty to be executed and delivered by each Subsidiary of Borrower, including without limitation WRIT Limited Partnership, a Delaware limited partnership substantially in the form of Exhibit I as the same may be amended, supplemented, or otherwise modified from time to time.

“Substantial Portion” means, with respect to the Property of the Borrower and its Subsidiaries, Property which (i) represents more than 15% of the consolidated assets of the Borrower and its Subsidiaries as would be shown in the consolidated financial statements of the Borrower as at the beginning of the twelve month period ending with the month in which such determination is made, or (ii) is responsible for more than 10% of the consolidated net sales or of the consolidated net income of the Borrower and its Subsidiaries as reflected in the financial statements referred to in clause (i) above.

“S&P” means Standard & Poor’s Ratings Group and its successors.

“Total Capitalization Value” means for any Person for any quarter, (x) annualized EBITDA for such Person during such quarter (for purposes of calculating such annualized EBITDA for any Property not owned for the entire quarter, EBITDA shall be adjusted to include the Pro Forma EBITDA for such Property for the most recently ended fiscal quarter), divided by (y) nine and one quarter percent (9.25%).

“Total Tangible Assets,” of any Person at any date, means the current book value of the total assets of such Person other than that portion of such Person’s assets that constitute intangible assets as determined in accordance with GAAP plus accumulated depreciation on the depreciable assets (excluding intangible assets) from such Person’s original book value of such assets which is reflected in the current book value of such assets.

“Transferee” is defined in Section 12.4.

“Type” means, with respect to any Advance, its nature as a Floating Rate Advance or a LIBOR Advance.

“Unencumbered Asset,” with respect to any asset, at any date of determination, means the circumstance that such asset on such date (a) is not subject to any Liens of any kind, other than Permitted Liens (excluding however Permitted Liens of the type contemplated by the penultimate paragraph of Section 6.17 hereof), (b) is not subject to any agreement (including (i) any agreement governing Indebtedness incurred in order to finance or refinance the acquisition of such asset), and (ii) if applicable, the organizational documents of any Subsidiary) which prohibits or limits the ability of the Borrower or any of its Subsidiaries to create, incur, assume or suffer to exist any Lien upon any assets or Capital Stock of the Borrower or any of its Subsidiaries (excluding any agreement which limits generally the amount of secured Indebtedness which may be incurred by the Borrower and its Subsidiaries, and (c) is not subject to any agreement (including any agreement governing Indebtedness incurred in order to finance or refinance the acquisition of such asset, which entitles any Person to the benefit of any Lien (other than Permitted Liens) on any assets or Capital Stock of the Borrower or any of its Subsidiaries, or would entitle any Person to the benefit of any Lien (other than Permitted Liens) on such assets or Capital Stock upon the occurrence of any contingency (including, without limitation, pursuant to an “equal and ratable” clause). For the purposes of this Agreement, any Property of a Subsidiary which is not a Wholly-Owned Subsidiary shall not be deemed to be unencumbered unless both (i) such Property and (ii) all Capital Stock of such Subsidiary held by the Borrower is unencumbered.

“Unfunded Liabilities” means the amount (if any) by which the present value of all vested nonforfeitable benefits under all Single Employer Plans exceeds the fair market value of all such Plan assets allocable to such benefits, all determined as of the then most recent valuation date for such Plans.

“Unmatured Default” means an event which but for the lapse of time or the giving of notice, or both, would constitute a Default.

“Unsecured Indebtedness” means all Indebtedness of any Person that is not secured by a Lien on any income, Capital Stock, Property or any other asset of such Person.

“Value of Unencumbered Assets,” as of any date for all Unencumbered Assets owned by Borrower and its Subsidiaries on a consolidated basis shall mean (x) the annualized EBITDA from all such Unencumbered Assets for the most recent calendar quarter for which results have been reported to Lender (which annualized net operating income shall be determined by multiplying the EBITDA from all such Unencumbered Assets for such calendar quarter by four (4)), divided by (y) nine and one quarter percent (9.25%).

“Wholly-Owned Subsidiary” of a Person means (i) any Subsidiary all of the outstanding voting securities of which shall at the time be owned or controlled, directly or indirectly, by such Person or one or more Wholly Owned Subsidiaries of such Person, or by such Person and one or more Wholly Owned Subsidiaries of such Person, or (ii) any partnership, association, joint venture or similar business organization 100% of the ownership interests having ordinary voting power of which shall at the time be so owned or controlled.

The foregoing definitions shall be equally applicable to both the singular and plural forms of the defined terms.

## **ARTICLE II.**

### **THE CREDIT**

2.1. Commitment; Increase in Aggregate Commitment. From and including the date of this Agreement and prior to the Facility Termination Date, each Lender severally agrees, on the terms and conditions set forth in this Agreement, to make Loans to the Borrower from time to time in amounts not to exceed in the aggregate at any one time outstanding the amount of its Commitment. Subject to the terms of this Agreement, the Borrower may borrow, repay and reborrow at any time prior to the Facility Termination Date. The Commitments to lend hereunder shall expire on the Facility Termination Date.

The Borrower shall also have the right during the first twenty-four (24) months of the Agreement to increase the Aggregate Commitment up to a maximum of \$100,000,000 by obtaining the agreement of one or more of the then-current Lenders to increase its or their Commitments, or by finding one or more new Lenders. Such increases shall be evidenced by the execution and delivery of an Amendment Regarding Increase in the form of Exhibit G attached hereto by the Borrower, the Agent and the new bank or existing Lender providing such additional Commitment, a copy of which shall be forwarded to each Lender by the Agent promptly after execution thereof. On the effective date of each such increase in the Aggregate

Commitment, the Borrower and the Agent shall cause the new or existing Lenders providing such increase to hold its or their Percentage of all ratable Advances outstanding at the close of business on such day, by either funding more than its or their Percentage of new ratable Advances made on such date or purchasing shares of outstanding ratable Loans held by the other Lenders or a combination thereof. The Lenders agree to cooperate in any required sale and purchase of outstanding ratable Advances to achieve such result. In no event shall the Aggregate Commitment exceed \$100,000,000 without the approval of all of the Lenders.

2.2. Final Principal Payment. Any outstanding Advances and all other unpaid Obligations shall be paid in full by the Borrower on the Facility Termination Date.

2.3. Ratable Loans. Each Advance hereunder shall consist of Loans made from the several Lenders ratably in proportion to the ratio that their respective Commitments bear to the Aggregate Commitment. The Advances may be Floating Rate Advances or LIBOR Advances, or a combination thereof, selected by the Borrower in accordance with Sections 2.9 and 2.10. If any Lender shall default in its obligation to fund all or a portion of its Percentage of any Advance (a "Defaulting Lender"), then simultaneously with any funding by any of the remaining Lenders (each, a "Funding Lender") of their respective Percentages of such Advance (such an Advance is sometimes referred to herein as a "Partial Advance"), the respective Funded Percentages of each Defaulting Lender and of each Funding Lender shall automatically be adjusted so that following such adjustment each Lender's Funded Percentage shall correspond to the aggregate percentage of all then outstanding Advances (including all Partial Advances) made by such Lender. Following any adjustment of each Lender's Funded Percentage pursuant to the preceding sentence, such Lender's Funded Percentage shall be readjusted only upon the first to occur of (a) a Defaulting Lender subsequently funding its Percentage of any such Partial Advance, or (b) the repayment in full (including all interest thereon) to each Funding Lender of its Percentage of any such Partial Advance. Notwithstanding anything contained herein to the contrary, in no event shall any Defaulting Lender be entitled to receive any repayment of its Percentage of any Advances (or any interest earned thereon) until such time as the Funding Lenders have received repayment in full of the amount of any Partial Advance, together with all interest thereon. Borrower shall have the right to replace a Defaulting Lender in the manner set forth in Section 3.7 below, and upon the replacement of any Defaulting Lender, such Defaulting Lender shall refund to Borrower the pro rata share of all commitment fees paid to such Defaulting Lender which have not been earned by such Defaulting Lender as of the date of such replacement, determined by multiplying the amount of all commitment fees paid by Borrower to or for the benefit of such Defaulting Lender by a fraction, the numerator of which is the number of months (it being understood and agreed that for purposes of this provision a portion of any month shall constitute a complete "month") which have elapsed in the 36-month Facility term, and the denominator of which is 36. Solely by way of example, if Borrower has paid aggregate commitment fees of \$75,000 to a Defaulting Lender, and Borrower replaces such Defaulting Lender on the first anniversary of the Closing Date, then concurrently with such replacement such Defaulting Lender shall return to Borrower \$50,000 of the \$75,000 in commitment fees.

2.4. Applicable Margins and Facility Fee. The ABR Applicable Margin and the LIBOR Applicable Margin to be used in calculating the interest rate applicable to different Types of Advances and the Facility Fee Rate shall vary from time to time as set forth in Exhibit A in accordance with the ratings from Moody's and/or S&P for Borrower's long-term unsecured debt.

If a rating has been issued by only one of S&P or Moody's, that rating shall determine the Applicable Margin and Facility Fee Rate. In the event both rating agencies have issued a rating and the rating agencies are split on the rating for the Borrower's long-term unsecured debt or this Facility, the higher rating shall be deemed to be the applicable rating (e.g., if the Borrower's Moody's long-term unsecured debt rating is Baal and its S&P long-term unsecured debt rating is BBB then the Applicable Margins and Facility Fee Rate shall be computed based on the Moody's rating). The Applicable Margins and Facility Fee Rate shall be adjusted effective on the next Business Day following any change in the Borrower's Moody's long-term unsecured debt rating and/or S&P's long-term unsecured debt rating, as the case may be (provided that if Agent does not receive notice of a change in rating within twenty days after it occurs then any reduction in Applicable Margin and Facility Fee Rate shall be effective only when such notice is received).

In the event that either S&P or Moody's shall discontinue their ratings of the REIT industry or the Borrower's long-term unsecured debt, a mutually agreeable substitute rating agency shall be selected by the Required Lenders and the Borrower. If the Required Lenders and the Borrower cannot agree on a substitute rating agency within forty-five (45) days of such discontinuance, the Applicable Margin and Facility Fee Rate hereunder shall be the highest Applicable Margin and Facility Fee Rate set forth in Exhibit A. Lenders acknowledge that the rating for Borrower's unsecured long term debt may be issued even though Borrower has no outstanding unsecured long term debt.

2.5. Other Fees. The Borrower agrees to pay all other fees payable to the Agent pursuant to the Borrower's prior letter agreement with the Agent dated June 28, 2004.

2.6. Facility Fee. The Borrower agrees to pay to the Agent for the account of each Lender a Facility Fee (the "Facility Fee") equal to an amount computed by multiplying the Facility Fee Rate (reference to ratings for Borrower's long term unsecured debt) by the Aggregate Commitment. The Facility Fee shall be payable quarterly in arrears on the last day of each calendar quarter.

2.7. Minimum Amount of Each Advance. Each LIBOR Advance shall be in the minimum amount of \$1,000,000 (and in multiples of \$250,000 if in excess thereof), and each Floating Rate Advance shall be in the minimum amount of \$1,000,000 (and in multiples of \$250,000 if in excess thereof), provided, however, that any Floating Rate Advance may be in the amount of the unused Aggregate Commitment.

2.8. Optional Principal Payments. The Borrower may from time to time pay, without penalty or premium, all outstanding Advances, or, in a minimum aggregate amount of \$500,000 or any integral multiple of \$250,000 in excess thereof, any portion of the outstanding Advances upon two Business Days' prior notice to the Agent; provided however, that the provisions of Section 3.4 hereof shall be applicable to any prepayment of any LIBOR Advance.

2.9. Method of Selecting Types and Interest Periods for New Advances. The Borrower shall select the Type of Advance and, in the case of each LIBOR Advance, the Interest Period applicable to each Advance from time to time. The Borrower shall give the Agent irrevocable notice (a "Borrowing Notice") not later than 10:00 a.m. (Chicago time) at least one

Business Day before the Borrowing Date of each Floating Rate Advance and three Business Days before the Borrowing Date for each LIBOR Advance, specifying:

- (i) the Borrowing Date, which shall be a Business Day, of such Advance,
- (ii) the aggregate amount of such Advance,
- (iii) the Type of Advance selected, and
- (iv) in the case of each LIBOR Advance, the Interest Period applicable thereto.

Not later than noon (Chicago time) on each Borrowing Date, each Lender shall make available its Loan or Loans, in funds immediately available in Chicago to the Agent at its address specified pursuant to Article VIII. The Agent will make the funds so received from the Lenders available to the Borrower at the Agent's aforesaid address.

No Interest Period may end after the Facility Termination Date and, unless the Lenders otherwise agree in writing, in no event may there be more than five (5) different Interest Periods for LIBOR Advances outstanding at any one time.

2.10. Conversion and Continuation of Outstanding Advances. Floating Rate Advances shall continue as Floating Rate Advances unless and until such Floating Rate Advances are converted into LIBOR Advances. Each LIBOR Advance shall continue as a LIBOR Advance until the end of the then applicable Interest Period therefor, at which time such LIBOR Advance shall be automatically converted into a Floating Rate Advance unless the Borrower shall have given the Agent a Conversion/Continuation Notice requesting that, at the end of such Interest Period, such LIBOR Advance continue as an LIBOR Advance for the same or another Interest Period. Subject to the terms of Section 2.7, the Borrower may elect from time to time to convert all or any part of an Advance of any Type into any other Type or Types of Advances; provided that any conversion of any LIBOR Advance shall be made on, and only on, the last day of the Interest Period applicable thereto. The Borrower shall give the Agent irrevocable notice (a "Conversion/Continuation Notice") of each conversion of an Advance or continuation of a LIBOR Advance not later than 10:00 a.m. (Chicago time) at least one Business Day, in the case of a conversion into a Floating Rate Advance, or three Business Days, in the case of a conversion into or continuation of a LIBOR Advance, prior to the date of the requested conversion or continuation, specifying:

- (i) the requested date, which shall be a Business Day, of such conversion or continuation;
- (ii) the aggregate amount and Type of the Advance which is to be converted or continued; and
- (iii) the amount and Type(s) of Advance(s) into which such Advance is to be converted or continued and, in the case of a conversion into or continuation of a LIBOR Advance, the duration of the Interest Period applicable thereto.

2.11. Changes in Interest Rate, Etc. Each Floating Rate Advance shall bear interest on the outstanding principal amount thereof, for each day from and including the date such Advance is made or is converted from a LIBOR Advance into a Floating Rate Advance pursuant to Section 2.10 to but excluding the date it becomes due or is converted into a LIBOR Advance pursuant to Section 2.10 hereof, at a rate per annum equal to the Floating Rate for such day. Changes in the rate of interest on that portion of any Advance maintained as a Floating Rate Advance will take effect simultaneously with each change in the Alternate Base Rate. Each LIBOR Advance shall bear interest from and including the first day of the Interest Period applicable thereto to (but not including) the last day of such Interest Period at the interest rate determined as applicable to such LIBOR Advance.

2.12. Rates Applicable After Default. Notwithstanding anything to the contrary contained in Section 2.9 or 2.10, during the continuance of a Default or Unmatured Default the Required Lenders may, at their option, by notice to the Borrower (which notice may be revoked at the option of the Required Lenders notwithstanding any provision of Section 8.2 requiring unanimous consent of the Lenders to changes in interest rates), declare that no Advance may be made as, converted into or continued as a LIBOR Advance. During the continuance of a Default the Required Lenders may, at their option, by notice to the Borrower (which notice may be revoked at the option of the Required Lenders notwithstanding any provision of Section 8.2 requiring unanimous consent of the Lenders to changes in interest rates), declare that for the duration of such Default (i) each LIBOR Advance shall bear interest at the rate otherwise applicable to such Interest Period plus 2% per annum and (ii) each Floating Rate Advance shall bear interest at a rate per annum equal to the Floating Rate otherwise applicable to the Floating Rate Advance plus 2% per annum.

2.13. Method of Payment. All payments of the Obligations hereunder shall be made, without setoff, deduction, or counterclaim, in immediately available funds to the Agent at the Agent's address specified pursuant to Article VIII, or at any other Lending Installation of the Agent specified in writing by the Agent to the Borrower, by noon (Chicago time) on the date when due and shall be applied ratably by the Agent among the Lenders. Each payment delivered to the Agent for the account of any Lender shall be delivered promptly by the Agent to such Lender in the same type of funds that the Agent received at its address specified pursuant to Article VIII or at any Lending Installation specified in a notice received by the Agent from such Lender. The Agent is hereby authorized to charge the account of the Borrower maintained with First Chicago for each payment of principal, interest and fees as it becomes due hereunder.

2.14. Notes; Telephonic Notices. Each Lender is hereby authorized to record the principal amount of each of its Loans and each repayment on the schedule attached to its Note, provided, however, that the failure to so record shall not affect the Borrower's obligations under such Note. The Borrower hereby authorizes the Lenders and the Agent to extend, convert or continue Advances, effect selections of Types of Advances and to transfer funds based on telephonic notices made by any person or persons the Agent or any Lender in good faith believes to be acting on behalf of the Borrower. The Borrower agrees to deliver promptly to the Agent a written confirmation, if such confirmation is requested by the Agent or any Lender, of each telephonic notice signed by an Authorized Officer. If the written confirmation differs from the action taken by the Agent and the Lenders, the records of the Agent and the Lenders shall be presumed (rebuttably) accurate.

2.15. Interest Payment Dates; Interest and Fee Basis. Interest accrued on each Floating Rate Advance shall be payable on each Payment Date, commencing with the first such date to occur after the date hereof, and at maturity. Interest accrued on each LIBOR Advance shall be payable on each Payment Date, commencing with the first such date to occur after the date hereof, on any date on which the LIBOR Advance is prepaid, whether by acceleration or otherwise, and at maturity. Interest and commitment fees shall be calculated for actual days elapsed on the basis of a 360 day year. Interest shall be payable for the day an Advance is made but not for the day of any payment on the amount paid if payment is received prior to noon (Chicago time) at the place of payment. If any payment of principal or interest on an Advance shall become due on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day and, in the case of a principal payment, such extension of time shall be included in computing interest in connection with such payment.

2.16. Notification of Advances, Interest Rates and Prepayments. Promptly after receipt thereof, the Agent will notify each Lender of the contents of each Borrowing Notice, Conversion/Continuation Notice, and repayment notice received by it hereunder. The Agent will notify each Lender of the interest rate applicable to each LIBOR Advance promptly upon determination of such interest rate and will give each Lender prompt notice of each change in the Alternate Base Rate.

2.17. Lending Installations. Each Lender may book its Loans at any Lending Installation selected by such Lender and may change its Lending Installation from time to time. All terms of this Agreement shall apply to any such Lending Installation and the Notes shall be deemed held by each Lender for the benefit of such Lending Installation. Each Lender may, by written or telex notice to the Agent and the Borrower, designate a Lending Installation through which Loans will be made by it and for whose account Loan payments are to be made.

2.18. Non Receipt of Funds by the Agent. Unless the Borrower or a Lender, as the case may be, notifies the Agent prior to the date on which it is scheduled to make payment to the Agent of (i) in the case of a Lender, the proceeds of a Loan or (ii) in the case of the Borrower, a payment of principal, interest or fees to the Agent for the account of the Lenders, that it does not intend to make such payment, the Agent may assume that such payment has been made. The Agent may, but shall not be obligated to, make the amount of such payment available to the intended recipient in reliance upon such assumption. If such Lender or the Borrower, as the case may be, has not in fact made such payment to the Agent, the recipient of such payment shall, on demand by the Agent, repay to the Agent the amount so made available together with interest thereon in respect of each day during the period commencing on the date such amount was so made available by the Agent until the date the Agent recovers such amount at a rate per annum equal to (i) in the case of payment by a Lender, the Federal Funds Effective Rate for such day or (ii) in the case of payment by the Borrower, the interest rate applicable to the relevant Loan.

2.19. Reduction in Aggregate Commitment. Borrower may from time to time during the term of this Facility upon prior written notice to Agent, elect to permanently reduce the amount of the Aggregate Commitment to an amount to be determined by Borrower; provided, however, that in no event shall Borrower be entitled to reduce the Aggregate Commitment below \$30,000,000 pursuant to this Section. Each reduction notice from Borrower as described in the preceding sentence shall be accompanied by payment of any amounts (including any amounts



payable by Borrower pursuant to Article III hereof) necessary to reduce the outstanding balance of the Advances to the amount specified in such notice. Each reduction of the Aggregate Commitment shall reduce each Lender's Commitment on a pro rata basis.

### **ARTICLE III.**

#### **CHANGE IN CIRCUMSTANCES**

3.1. Yield Protection . If any law or any governmental or quasi governmental rule, regulation, policy, guideline or directive (whether or not having the force of law), or any interpretation thereof, or the compliance of any Lender therewith,

- (i) subjects any Lender or any applicable Lending Installation to any tax, duty, charge or withholding on or from payments due from the Borrower (excluding (i) federal taxation of the net income of any Lender or applicable Lending Installation, (ii) state and local taxation in the jurisdiction where a Lender's home office is situated, (iii) state and local taxation in a jurisdiction other than described in (ii) above to the extent such Lender receives credit on its tax payments in its home jurisdiction for such taxes, and (iv) federal withholding tax imposed on payments due hereunder or under the Notes), or changes the basis of taxation of payments to any Lender in respect of its Loans or other amounts due it hereunder, or
- (ii) imposes or increases or deems applicable any reserve, assessment, insurance charge, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Lender or any applicable Lending Installation (other than reserves and assessments taken into account in determining the interest rate applicable to LIBOR Advances), or
- (iii) imposes any other condition the result of which is to increase the cost to any Lender or any applicable Lending Installation of making, funding or maintaining loans or reduces any amount receivable by any Lender or any applicable Lending Installation in connection with loans, or requires any Lender or any applicable Lending Installation to make any payment calculated by reference to the amount of loans held or interest received by it, by an amount deemed material by such Lender,

then, within 30 days of demand by such Lender, the Borrower shall pay such Lender that portion of such increased expense incurred or reduction in an amount received which such Lender determines is attributable to making, funding and maintaining its Loans and its Commitment.

3.2. Changes in Capital Adequacy Regulations . If a Lender reasonably determines the amount of capital required or expected to be maintained by such Lender, any Lending Installation of such Lender or any corporation controlling such Lender is increased as a result of a Change (as hereinafter defined), then, within 30 days of demand by such Lender, the Borrower

shall pay such Lender the amount necessary to compensate for any shortfall in the rate of return on the portion of such increased capital which such Lender determines is attributable to this Agreement, its Loans or its obligation to make Loans hereunder (after taking into account such Lender's policies as to capital adequacy). "Change" means (i) any change after the date of this Agreement in the Risk Based Capital Guidelines or (ii) any adoption of or change in any other law, governmental or quasi governmental rule, regulation, policy, guideline, interpretation, or directive (whether or not having the force of law) after the date of this Agreement which affects the amount of capital required or expected to be maintained by any Lender or any Lending Installation or any corporation controlling any Lender. "Risk Based Capital Guidelines" means (i) the risk based capital guidelines in effect in the United States on the date of this Agreement, including transition rules, and (ii) the corresponding capital regulations promulgated by regulatory authorities outside the United States implementing the July 1988 report of the Basle Committee on Banking Regulation and Supervisory Practices Entitled "International Convergence of Capital Measurements and Capital Standards," including transition rules, and any amendments to such regulations adopted prior to the date of this Agreement.

3.3. Availability of LIBOR Advances . If any Lender reasonably determines that maintenance of any of its LIBOR Loans at a suitable Lending Installation would violate any applicable law, rule, regulation or directive, whether or not having the force of law, the Agent shall suspend the availability of LIBOR Advances and require any LIBOR Advances to be converted into Floating Rate Advances; or if the Required Lenders reasonably determine that (i) deposits of a type or maturity appropriate to match fund LIBOR Advances are not available, the Agent shall suspend the availability of LIBOR Advances with respect to any Advances made after the date of any such determination, or (ii) an interest rate applicable to a LIBOR Advance does not accurately reflect the cost of making a LIBOR Advance, then, if for any reason whatsoever the provisions of Section 3.1 are inapplicable, the Agent shall suspend the availability of LIBOR Advances with respect to any Advances made after the date of any such determination.

3.4. Funding Indemnification . If any payment of a LIBOR Advance occurs on a date which is not the last day of the applicable Interest Period, whether because of acceleration, prepayment or otherwise, or a LIBOR Advance is not made on the date specified by the Borrower for any reason other than default by the Lenders, the Borrower will indemnify each Lender for any loss or cost incurred by it resulting therefrom, including, without limitation, any loss or cost in liquidating or employing deposits acquired to fund or maintain the LIBOR Advance.

3.5. Taxes.

- (i) All payments by the Borrower to or for the account of any Lender or the Agent hereunder or under any Note shall be made free and clear of and without deduction for any and all Taxes. If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder to any Lender or the Agent,
  - (a) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 3.5) such Lender or the Agent (as the case may be) receives an

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amount equal to the sum it would have received had no such deductions been made, (b) the Borrower shall make such deductions, (c) the Borrower shall pay the full amount deducted to the relevant authority in accordance with applicable law and (d) the Borrower shall furnish to the Agent the original copy of a receipt evidencing payment thereof within 30 days after such payment is made.

- (ii) In addition, the Borrower hereby agrees to pay any present or future stamp or documentary taxes and any other excise or property taxes, charges or similar levies which arise from any payment made hereunder or under any Note or from the execution or delivery of, or otherwise with respect to, this Agreement or any Note (“Other Taxes”).
- (iii) The Borrower hereby agrees to indemnify and hold harmless the Agent and each Lender for the full amount of Taxes or Other Taxes (including, without limitation, any Taxes or Other Taxes imposed on amounts payable under this Section 3.5) paid by the Agent or such Lender as a result of its Commitment, any Loans made by it hereunder, or otherwise in connection with its participation in this Agreement and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto. Payments due under this indemnification shall be made within 30 days of the date the Agent or such Lender makes demand therefor pursuant to Section 3.6.
- (iv) Each Lender that is not incorporated under the laws of the United States of America or a state thereof (each a “Non-U.S. Lender”) agrees that it will, not more than ten Business Days after the date of this Agreement, (i) deliver to the Agent two duly completed copies of United States Internal Revenue Service Form W-8BEN or W-8ECI, certifying in either case that such Lender is entitled to receive payments under this Agreement without deduction or withholding of any United States federal income taxes, and (ii) deliver to the Agent a United States Internal Revenue Form W-8 or W-9, as the case may be, and certify that it is entitled to an exemption from United States backup withholding tax. Each Non-U.S. Lender further undertakes to deliver to each of the Borrower and the Agent (x) renewals or additional copies of such form (or any successor form) on or before the date that such form expires or becomes obsolete, and (y) after the occurrence of any event requiring a change in the most recent forms so delivered by it, such additional forms or amendments thereto as may be reasonably requested by the Borrower or the Agent. All forms or amendments described in the preceding sentence shall certify that such Lender is entitled to receive payments under this Agreement without deduction or withholding of any United States federal income taxes, *unless* an event (including without limitation any change in treaty, law or regulation) has occurred prior to the date on which any such delivery would otherwise be required which renders all such forms inapplicable or which would prevent such Lender from duly completing and delivering

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any such form or amendment with respect to it and such Lender advises the Borrower and the Agent that it is not capable of receiving payments without any deduction or withholding of United States federal income tax.

- (v) For any period during which a Non-U.S. Lender has failed to provide the Borrower with an appropriate form pursuant to clause (iv), above (unless such failure is due to a change in treaty, law or regulation, or any change in the interpretation or administration thereof by any governmental authority, occurring subsequent to the date on which a form originally was required to be provided), such Non-U.S. Lender shall not be entitled to indemnification under this Section 3.5 with respect to Taxes imposed by the United States; provided that, should a Non-U.S. Lender which is otherwise exempt from or subject to a reduced rate of withholding tax become subject to Taxes because of its failure to deliver a form required under clause (iv), above, the Borrower shall take such steps as such Non-U.S. Lender shall reasonably request to assist such Non-U.S. Lender to recover such Taxes.
- (vi) Any Lender that is entitled to an exemption from or reduction of withholding tax with respect to payments under this Agreement or any Note pursuant to the law of any relevant jurisdiction or any treaty shall deliver to the Borrower (with a copy to the Agent), at the time or times prescribed by applicable law, such properly completed and executed documentation prescribed by applicable law as will permit such payments to be made without withholding or at a reduced rate.
- (vii) If the U.S. Internal Revenue Service or any other governmental authority of the United States or any other country or any political subdivision thereof asserts a claim that the Agent did not properly withhold tax from amounts paid to or for the account of any Lender (because the appropriate form was not delivered or properly completed, because such Lender failed to notify the Agent of a change in circumstances which rendered its exemption from withholding ineffective, or for any other reason), such Lender shall indemnify the Agent fully for all amounts paid, directly or indirectly, by the Agent as tax, withholding therefor, or otherwise, including penalties and interest, and including taxes imposed by any jurisdiction on amounts payable to the Agent under this subsection, together with all costs and expenses related thereto (including attorneys fees and time charges of attorneys for the Agent, which attorneys may be employees of the Agent). The obligations of the Lenders under this Section 3.5(vii) shall survive the payment of the Obligations and termination of this Agreement.

3.6. Lender Statements; Survival of Indemnity. To the extent reasonably possible, each Lender shall designate an alternate Lending Installation with respect to its LIBOR Loans to reduce any liability of the Borrower to such Lender under Sections 3.1, 3.2 and 3.5 or to avoid the unavailability of a LIBOR Advance under Section 3.3, so long as such designation is not

disadvantageous to such Lender. Each Lender shall deliver a written statement of such Lender as to the amount due, if any, under Sections 3.1, 3.2, 3.4 and 3.5. Such written statement shall set forth in reasonable detail the calculations upon which such Lender determined such amount and shall be presumed (rebuttably) correct. Determination of amounts payable under such Sections in connection with a LIBOR Loan shall be calculated as though each Lender funded its LIBOR Loan through the purchase of a deposit of the type and maturity corresponding to the deposit used as a reference in determining the LIBOR Rate applicable to such Loan, whether in fact that is the case or not. Unless otherwise provided herein, the amount specified in the written statement shall be payable on demand after receipt by the Borrower of the written statement. The obligations of the Borrower under Sections 3.1, 3.2, 3.4 and 3.5 shall survive payment of the Obligations and termination of this Agreement.

3.7. Replacement of Lender by Reason of Change in Circumstances In the event that any Lender (a "Recovery Lender") requires Borrower to make any payment to such Recovery Lender in accordance with the provisions of Sections 3.1, and/or 3.2 and/or 3.5 hereof, then upon written notice from Borrower to Agent, Borrower and Agent shall mutually use their respective best efforts to find another lender to replace the Recovery Lender. If a replacement lender is found then Borrower shall pay to the Recovery Lender all amounts owed to such Recovery Lender under the Facility, such Recovery Lender shall no longer be a "Lender" hereunder, and concurrently therewith the remaining parties hereto shall execute such instruments as shall be necessary to have the replacement lender become a "Lender" hereunder having a Commitment equal to that of the Recovery Lender.

Nothing contained in this Section 3.7 shall be deemed to relieve Borrower of its obligations to make all payments to any Recovery Lender in the amounts and at the times required pursuant to the terms of this Agreement during the period of time prior to the replacement of such Recovery Lender.

#### ARTICLE IV.

##### CONDITIONS PRECEDENT

4.1. Initial Advance. The Lenders shall not be required to make the initial Advance hereunder unless the Borrower shall have furnished to the Agent, with sufficient copies for the Lenders, the following:

- (i) The duly executed originals of the Loan Documents, including the Notes, payable to the order of each of the Lenders, the Subsidiary Guaranty, and this Agreement;
- (ii) A certificate of good standing for the Borrower, certified by the appropriate governmental officer of the State of Maryland, and foreign qualification certificates, certified by the appropriate governmental officer, for each jurisdiction where the failure to so qualify or be licensed (if required) would have a Material Adverse Effect;

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- (iii) A certificate of good standing for each Subsidiary from its state of formation;
  - (iv) Copies, certified by an officer of the Borrower, of the formation documents (including by-laws), of Borrower and each Subsidiary, together with all amendments thereto;
  - (v) An incumbency certificate, executed by an officer of the Borrower, which shall identify by name and title and bear the signature of the Persons authorized to sign the Loan Documents and to make borrowings hereunder on behalf of the Borrower, upon which certificate the Agent and the Lenders shall be entitled to rely until informed of any change in writing by the Borrower;
  - (vi) Copies, certified by the Secretary or Assistant Secretary, of the Borrower's Board of Directors' resolutions (and resolutions of other bodies, if any are deemed necessary by counsel for any Lender) authorizing the Advances provided for herein and the execution, delivery and performance of the Loan Documents to be executed and delivered by the Borrower hereunder;
  - (vii) A written opinion of the Borrower's and Subsidiaries' counsel, addressed to the Lenders in substantially the form of Exhibit C hereto;
  - (viii) A certificate, signed by an officer of the Borrower, stating that on the initial Borrowing Date no Default or Unmatured Default has occurred and is continuing and that all representations and warranties of the Borrower are true and correct as of the initial Borrowing Date;
  - (ix) The most recent financial statements of the Borrower and a certificate from an officer of the Borrower that no material adverse change in the Borrower's financial condition has occurred since the date of such statements;
  - (x) UCC financing statement, judgment, and tax lien searches with respect to the Borrower from the State of Maryland;
  - (xi) Written money transfer instructions, in substantially the form of Exhibit F hereto, addressed to the Agent and signed by an Authorized Officer, together with such other related money transfer authorizations as the Agent may have reasonably requested; and
  - (xii) Such other documents as any Lender or its counsel may have reasonably requested, the form and substance of which documents shall be acceptable to the parties and their respective counsel.

4.2. Each Advance. The Lenders shall not be required to make any Advance (other than an Advance that, after giving effect thereto and to the application of the proceeds thereof,

does not increase the aggregate amount of outstanding Advances), unless on the applicable Borrowing Date:

- (i) There exists no Default or Unmatured Default;
- (ii) The representations and warranties contained in Article V are true and correct in all material respects as of such Borrowing Date with respect to Borrower and to any Subsidiary in existence on such Borrowing Date, except to the extent any such representation or warranty is stated to relate solely to an earlier date, in which case such representation or warranty shall be true and correct on and as of such earlier date; and
- (iii) All legal matters incident to the making of such Advance shall be reasonably satisfactory to the Lenders and their counsel and shall impose no burden on the Borrower greater than as set forth in Section 4.1 hereof.

Each Borrowing Notice with respect to each such Advance shall constitute a representation and warranty by the Borrower that the conditions contained in Sections 4.2(i) and (ii) have been satisfied. Any Lender may require a duly completed compliance certificate in substantially the form of Exhibit D hereto as a condition to making an Advance.

#### **ARTICLE V.**

##### **REPRESENTATIONS AND WARRANTIES**

The Borrower represents and warrants to the Lenders that:

5.1. Existence. Borrower is a real estate investment trust duly organized and validly existing under the laws of the State of Maryland, with its principal place of business in Rockville, Maryland, and is duly qualified as a foreign real estate investment trust, properly licensed (if required), in good standing and has all requisite authority to conduct its business in each jurisdiction in which its business is conducted and in which the failure to be qualified would have a Material Adverse Effect. Each of Borrower's Subsidiaries is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization and has all requisite authority to conduct its business in each jurisdiction in which its business is conducted.

5.2. Authorization and Validity. The Borrower and its Subsidiaries have the power and authority and legal right to execute and deliver the Loan Documents and to perform their obligations thereunder. The execution and delivery by the Borrower and its Subsidiaries of the Loan Documents to which they are a party and the performance of their obligations thereunder have been duly authorized by proper proceedings, and the Loan Documents constitute legal, valid and binding obligations of the Borrower and its Subsidiaries enforceable against the Borrower and its Subsidiaries in accordance with their terms, except as enforceability may be limited by bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally.

5.3. No Conflict; Government Consent. Neither the execution and delivery by the Borrower or any Subsidiary of the Loan Documents, nor the consummation of the transactions

therein contemplated, nor compliance with the provisions thereof will violate any law, rule, regulation, order, writ, judgment, injunction, decree or award binding on the Borrower or any such Subsidiary, or the provisions of any indenture, instrument or agreement to which the Borrower or any such Subsidiary is a party or is subject, or by which it, or its Property, is bound, or conflict with or constitute a default thereunder, or result in the creation or imposition of any Lien in, of or on the Property of the Borrower or any such Subsidiary pursuant to the terms of any such indenture, instrument or agreement. No order, consent, approval, license, authorization, or validation of, or filing, recording or registration with, or exemption by, any governmental or public body or authority, or any subdivision thereof, is required to authorize, or is required in connection with the execution, delivery and performance of, or the legality, validity, binding effect or enforceability of, any of the Loan Documents.

5.4. Material Adverse Change. Since December 31, 2003, there has been no change in the business, Property, prospects, condition (financial or otherwise) or results of operations of the Borrower which could have a Material Adverse Effect.

5.5. Taxes. The Borrower and its Subsidiaries have filed all United States federal tax returns and all other tax returns which are required to be filed and have paid all taxes due pursuant to said returns or pursuant to any assessment received by the Borrower except such taxes, if any, as are being contested in good faith and as to which adequate reserves have been provided. No tax liens have been filed and no claims are being asserted with respect to any such taxes. The charges, accruals and reserves on the books of the Borrower in respect of any taxes or other governmental charges are adequate.

5.6. Litigation and Guarantee Obligations. There is no litigation, arbitration, governmental investigation, proceeding or inquiry pending or, to the knowledge of any of their officers, threatened against or affecting the Borrower or any of its Subsidiaries which could have a Material Adverse Effect. The Borrower has no material contingent obligations not provided for or disclosed in the financial statements referred to in Section 6.4.

5.7. No Subsidiaries. Schedule 2 contains a complete list of each presently existing Subsidiary of the Borrower. The information set forth in Schedule 2 regarding each Subsidiary is true and correct.

5.8. ERISA. The Unfunded Liabilities of all Single Employer Plans do not in the aggregate exceed \$100,000. Neither the Borrower nor any other member of the Controlled Group has incurred, or is reasonably expected to incur, any withdrawal liability to Multiemployer Plans in excess of \$100,000 in the aggregate. Each Plan complies in all material respects with all applicable requirements of law and regulations, no Reportable Event has occurred with respect to any Plan, neither the Borrower nor any other members of the Controlled Group has withdrawn from any Plan or initiated steps to do so, and no steps have been taken to reorganize or terminate any Plan.

5.9. Accuracy of Information. No information, exhibit or report furnished by the Borrower to the Agent or to any Lender in connection with the negotiation of, or compliance with, the Loan Documents contained any material misstatement of fact or omitted to state a material fact or any fact necessary to make the statements contained therein not misleading.



5.10. Regulation U. Margin stock (as defined in Regulation U) constitutes less than 25% of those assets of the Borrower which are subject to any limitation on sale, pledge, or other restriction hereunder.

5.11. Material Agreements. The Borrower is not subject to any charter or other corporate restriction which could have a Material Adverse Effect. The Borrower is not in material default in the performance, observance or fulfillment of any of the obligations, covenants or conditions contained in (i) any agreement to which it is a party, which default could have a Material Adverse Effect or (ii) any agreement or instrument evidencing or governing Indebtedness.

5.12. Compliance With Laws. The Borrower has complied in all material respects with all applicable statutes, rules, regulations, orders and restrictions of any domestic or foreign government or any instrumentality or agency thereof, having jurisdiction over the conduct of their respective businesses or the ownership of their respective Property. The Borrower has not received any notice to the effect that its operations are not in material compliance with any of the requirements of applicable federal, state and local environmental, health and safety statutes and regulations or the subject of any federal or state investigation evaluating whether any remedial action is needed to respond to a release of any toxic or hazardous waste or substance into the environment, which non compliance or remedial action could have a Material Adverse Effect.

5.13. Ownership of Properties. Except as set forth on Schedule 3 hereto, on the date of this Agreement, the Borrower has good title, free of all Liens other than those permitted by Section 6.17, to all of the Property and assets reflected in the financial statements as owned by it.

5.14. Investment Company Act. The Borrower is not an "investment company" or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended.

5.15. Public Utility Holding Company Act. The Borrower is not a "holding company" or a "subsidiary company" of a "holding company", or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company", within the meaning of the Public Utility Holding Company Act of 1935, as amended.

5.16. Solvency.

- (i) Immediately after the Closing Date and immediately following the making of each Loan and after giving effect to the application of the proceeds of such Loans, (a) the fair value of the assets of the Borrower and its Subsidiaries (if any) on a consolidated basis, at a fair valuation, will exceed the debts and liabilities, subordinated, contingent or otherwise, of the Borrower and its Subsidiaries, if any, on a consolidated basis; (b) the present fair saleable value of the property of the Borrower and its Subsidiaries on a consolidated basis will be greater than the amount that will be required to pay the probable liability of the Borrower and its Subsidiaries, if any, on a consolidated basis on their debts and other liabilities, subordinated, contingent or otherwise, as such debts and other

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liabilities become absolute and matured; (c) the Borrower and its Subsidiaries, if any, on a consolidated basis will be able to pay their debts and liabilities, subordinated, contingent or otherwise, as such debts and liabilities become absolute and matured; and (d) the Borrower and its Subsidiaries, if any, on a consolidated basis will not have unreasonably small capital with which to conduct the businesses in which they are engaged as such businesses are now conducted and are proposed to be conducted after the date hereof.

- (ii) The Borrower does not intend to incur debts beyond its ability to pay such debts as they mature, taking into account the timing of and amounts of cash to be received by it and the timing of the amounts of cash to be payable on or in respect of its Indebtedness or the Indebtedness.

5.17. Insurance. The Borrower carries insurance on its Property with financially sound and reputable insurance companies, in such amounts, with such deductibles and covering such risks as are consistent with its obligations under Section 6.6.

5.18. REIT Status. The Borrower is in good standing on the New York Stock Exchange, is qualified as a real estate investment trust and currently is in compliance with all applicable provisions of the Code.

5.19. Environmental Matters. Each of the following representations and warranties is true and correct on and as of the Closing Date except to the extent that the facts and circumstances giving rise to any such failure to be so true and correct, in the aggregate, could not reasonably be expected to have a Material Adverse Effect:

- (i) To the knowledge of the Borrower, the Property of the Borrower and its Subsidiaries do not contain any Materials of Environmental Concern in amounts or concentrations which constitute a violation of, or could reasonably give rise to liability of the Borrower or any Subsidiary under, Environmental Laws.
- (ii) To the knowledge of the Borrower, (i) the Property of the Borrower and its Subsidiaries and all operations at the Property are in compliance with all applicable Environmental Laws, and (ii) with respect to all Property owned by the Borrower and/or its Subsidiaries (x) for at least two (2) years, have in the last two years, or (y) for less than two (2) years, have for such period of ownership, been in compliance in all material respects with all applicable Environmental Laws.
- (iii) Neither the Borrower nor any of its Subsidiaries has received any notice of violation, alleged violation, non-compliance, liability or potential liability regarding environmental matters or compliance with Environmental Laws with regard to any of the Property, nor does the Borrower have knowledge or reason to believe that any such notice will be received or is being threatened.

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- (iv) To the knowledge of the Borrower, Materials of Environmental Concern have not been transported or disposed of from the Property of the Borrower and its Subsidiaries in violation of, or in a manner or to a location which could reasonably give rise to liability of the Borrower or any Subsidiary under, Environmental Laws, nor have any Materials of Environmental Concern been generated, treated, stored or disposed of at, on or under any of the Property of the Borrower and its Subsidiaries in violation of, or in a manner that could give rise to liability of the Borrower or any Subsidiary under, any applicable Environmental Laws.
  - (v) No judicial proceedings or governmental or administrative action is pending, or, to the knowledge of the Borrower, threatened, under any Environmental Law to which the Borrower or any of its Subsidiaries is or, to the Borrower's knowledge, will be named as a party with respect to the Property of the Borrower and its Subsidiaries, nor are there any consent decrees or other decrees, consent orders, administrative order or other orders, or other administrative or judicial requirements outstanding under any Environmental Law with respect to the Property of the Borrower and its Subsidiaries.
  - (vi) To the knowledge of the Borrower, there has been no release or threat of release of Materials of Environmental Concern at or from the Property of the Borrower and its Subsidiaries, or arising from or related to the operations of the Borrower and its Subsidiaries in connection with the Property in violation of or in amounts or in a manner that could give rise to liability under Environmental Laws.

5.20. Reportable Transactions. Neither Borrower nor any Subsidiary Guarantor, nor any subsidiary of any of the foregoing intends to treat the Loans or the transactions contemplated by this Agreement and the other Loan Documents as being a "reportable transaction" (within the meaning of Treasury Regulation Section 1.6011-4). If Borrower, or any other party to this Agreement or the Loan Documents determines to take any action inconsistent with such intention, Borrower will promptly notify Lenders thereof. If Borrower so notifies Lenders, Borrower acknowledges that Lenders may treat the Loan as part of a transaction that is subject to Treasury Regulation Section 301.6112-1, and Lenders will maintain the lists and other records, including the identity of the applicable party to the Loan as required by such Treasury Regulation.

## **ARTICLE VI.**

### **COVENANTS**

During the term of this Agreement, unless the Required Lenders shall otherwise consent in writing:

6.1. Financial Reporting. The Borrower will maintain, for itself and each Subsidiary, a system of accounting established and administered in accordance with GAAP, and furnish to the Lenders:

- (i) Within 45 days after the close of each fiscal quarter, for the Borrower and its Subsidiaries, an unaudited balance sheet as of the close of each such period and profit and loss and reconciliation of surplus statements and a statement of cash flows for the period from the beginning of the fiscal year to the end of such quarter, all certified by the Borrower's chief financial officer or chief accounting officer;
- (ii) Together with the financial statements required hereunder, a compliance certificate in substantially the form of Exhibit D hereto signed by the Borrower's chief financial officer or chief accounting officer showing the calculations necessary to determine compliance with this Agreement and stating that no Default or Unmatured Default exists, or if any Default or Unmatured Default exists, stating the nature and status thereof;
- (iii) Within 45 days after the close of each fiscal quarter, for themselves and their Subsidiaries, related reports in form and substance satisfactory to the Lenders, all certified by the entity's chief financial officer or chief accounting officer, including a statement of Funds From Operations, listing of capital expenditures, a report listing and describing all newly acquired Properties, including their net operating income, cost and mortgage debt, if any, and summary Property information and such other information as may be reasonably requested;
- (iv) Within 90 days after the close of each fiscal year, for the Borrower and its Subsidiaries, audited financial statements, including a balance sheet as of the close of each such period and profit and loss and reconciliation of surplus statements and a statement of cash flows for the period, all audited and certified by independent accountants (which accountants shall be reasonably satisfactory to Agent) as fairly presenting the financial position and results of operations and its cash flows as of the end of such fiscal year for such entities in accordance with GAAP;
- (v) As soon as possible and in any event within 10 days after the Borrower knows that any Reportable Event has occurred with respect to any Plan, a statement, signed by the chief financial officer of the Borrower, describing said Reportable Event and the action which the Borrower proposes to take with respect thereto;
- (vi) As soon as possible and in any event within 10 days after receipt by the Borrower, a copy of (a) any notice or claim to the effect that the Borrower or any of its Subsidiaries is or may be liable to any Person as a result of the release by the Borrower, any of its Subsidiaries, or any other Person of any toxic or hazardous waste or substance into the environment, and (b)

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any notice alleging any violation of any federal, state or local environmental, health or safety law or regulation by the Borrower or any of its Subsidiaries, which, in either case, could have a Material Adverse Effect;

- (vii) Promptly upon the furnishing thereof to the shareholders of the Borrower, copies of all financial statements, reports and proxy statements so furnished;
- (viii) Promptly upon the filing thereof, copies of all registration statements and annual, quarterly, monthly or other reports and any other public information which the Borrower or any of its Subsidiaries files with the Securities Exchange Commission; and
- (ix) Such other information (including, without limitation, financial statements for the Borrower and non financial information) as the Agent or any Lender may from time to time reasonably request.

6.2. Use of Proceeds. The Borrower will, and will cause each of its Subsidiaries to, use the proceeds of the Advances for the general business purposes of the Borrower, including working capital needs and interim financing for property acquisitions, and to repay outstanding Advances. The Borrower will not, nor will it permit any Subsidiary to, use any of the proceeds of the Advances to purchase or carry any "margin stock" (as defined in Regulation U) or to make any Acquisition other than a Permitted Acquisition.

6.3. Notice of Default. The Borrower will, and will cause each of its Subsidiaries to, give prompt notice in writing to the Lenders of the occurrence of any Default or Unmatured Default and of any other development, financial or otherwise, which could have a Material Adverse Effect.

6.4. Conduct of Business. The Borrower will, and will cause each of its Subsidiaries to, (i) do all things necessary to remain duly incorporated or duly qualified, validly existing and in good standing as a real estate investment trust, domestic corporation or limited partnership, as the case may be, in its jurisdiction of incorporation/formation and maintain all requisite authority to conduct its business in each jurisdiction in which its business is conducted and in which the failure to be qualified would have a Material Adverse Effect, (ii) to carry on and conduct their businesses in substantially the same manner as they are presently conducted, and (iii) not undertake any business other than the development, ownership, management and operation of apartment buildings, office buildings, shopping centers, business centers, and warehouses, and ancillary businesses specifically related to such properties.

6.5. Taxes. The Borrower will, and will cause each of its Subsidiaries to, pay when due all taxes, assessments and governmental charges and levies upon them of their income, profits or Property, except those which are being contested in good faith by appropriate proceedings and with respect to which adequate reserves have been set aside.

6.6. Insurance. The Borrower will, and will cause each of its Subsidiaries to, maintain with financially sound and reputable insurance companies insurance on all their Property in such

amounts and covering such risks as is consistent with sound business practice, and the Borrower will furnish to any Lender upon request full information as to the insurance carried.

6.7. Compliance with Laws. The Borrower will, and will cause each of its Subsidiaries to, comply with all laws, rules, regulations, orders, writs, judgments, injunctions, decrees or awards to which they may be subject.

6.8. Maintenance of Properties. The Borrower will, and will cause each of its Subsidiaries to, do all things necessary to maintain, preserve, protect and keep its Property in good repair, working order and condition, and make all necessary and proper repairs, renewals and replacements so that their businesses carried on in connection therewith may be properly conducted at all times.

6.9. Inspection. The Borrower will, and will cause each of its Subsidiaries to, permit the Lenders, by their respective representatives and agents, to inspect any of the Property, corporate books and financial records of the Borrower and each of its Subsidiaries, to examine and make copies of the books of accounts and other financial records of the Borrower and each of its Subsidiaries, and to discuss the affairs, finances and accounts of the Borrower and each of its Subsidiaries, and to be advised as to the same by, their respective officers at such reasonable times and intervals as the Lenders may designate.

6.10. Maintenance of Status. The Borrower shall at all times (i) remain a corporation listed and in good standing on the New York Stock Exchange, and (ii) maintain its status as a real estate investment trust in compliance with all applicable provisions of the Code.

6.11. Dividends. The Borrower and its Subsidiaries shall be permitted to declare and pay any dividends on its Capital Stock from time to time, provided that the aggregate amount of such dividends paid with respect to any period of four (4) fiscal quarters shall not exceed 95% of the Borrower's Funds From Operations for the most recent period of four (4) consecutive fiscal quarters for which financial results have been reported, and; provided, further, that the Borrower shall be permitted at all times to distribute whatever amount is necessary to maintain its tax status as a real estate investment trust provided that if a Default exists under Section 7.2 Borrower agrees not to use the proceeds of any borrowings under any credit facility it may have to make such distribution.

6.12. Merger. The Borrower will not, nor will it permit any of its Subsidiaries to, enter into any merger, consolidation, reorganization or liquidation or transfer or otherwise dispose of all or a Substantial Portion of their Properties, except for such transactions that occur between Wholly Owned Subsidiaries or as otherwise approved in advance by the Lenders, provided, however, that mergers shall be permitted as a means for the Borrower to acquire additional Properties or ancillary businesses specifically related to Properties so long as such merger is not accomplished through a hostile takeover and the Borrower is the surviving entity.

6.13. Delivery of Subsidiary Guaranties. Borrower shall cause each of its existing Subsidiaries to execute and deliver to the Agent the Subsidiary Guaranty. Borrower shall promptly notify Agent of any planned formation or acquisition of any Subsidiary. Within 10 days after Borrower forms or acquires any Subsidiary, Borrower shall cause such Subsidiary to

execute and deliver to the Lenders a subsidiary guaranty agreement (together with such other documents as the Lenders shall reasonably request), or a joinder to the existing Subsidiary Guaranty, whereby such Subsidiary agrees that it shall be jointly and severally liable for all Obligations of the Borrower under the Loan Documents. The Subsidiary Guaranty agreement and such other documents each shall be in form and substance satisfactory to the Lenders.

6.14. Sale of Accounts. The Borrower will not, nor will it permit any of its Subsidiaries to, sell or otherwise dispose of any notes receivable or accounts receivable, with or without recourse.

6.15. Sale and Leaseback. The Borrower will not, nor will it permit any of its Subsidiaries to, sell or transfer any of its Property in order to concurrently or subsequently lease as lessee such or similar Property.

6.16. Acquisitions and Investments. Without the prior written consent of the Required Lenders, the Borrower will not, nor will it permit any of its Subsidiaries to:

- (i) make any Acquisition, except mergers permitted pursuant to Section 6.12;
- (ii) make any Investments in, any unconsolidated Person to the extent such Investments, in the aggregate would exceed fifteen percent (15%) of their Total Tangible Assets on a consolidated basis;
- (iii) Make any Investment in land to the extent such Investments in the aggregate would exceed fifteen percent (15%) of Total Tangible Assets;
- (iv) Make any Investment in mortgage loans or other types of indebtedness secured by real property to the extent such Investments in the aggregate would exceed fifteen percent (15%) of Total Tangible Assets;
- (v) Make any Investment in Projects which are treated as assets under development under GAAP to the extent such Investments in the aggregate would exceed fifteen percent (15%) of Total Tangible Assets.

The total Investments in categories (ii) through (v) above shall not exceed thirty percent (30%) of Total Tangible Assets.

Acquisitions and Investments permitted pursuant to this Section 6.16 shall be deemed to be "Permitted Acquisitions".

6.17. Liens. The Borrower will not, nor will it permit any of its Subsidiaries to, create, incur, or suffer to exist any Lien in, of or on the Property of the Borrower or any of its Subsidiaries, except:

- (i) Liens for taxes, assessments or governmental charges or levies on its Property if the same shall not at the time be delinquent or thereafter can be paid without penalty, or are being contested in good faith and by

appropriate proceedings and for which adequate reserves shall have been set aside on its books;

- (ii) Liens imposed by law, such as carriers', warehousemen's and mechanics' liens and other similar liens arising in the ordinary course of business which secure payment of obligations not more than 60 days past due or which are being contested in good faith by appropriate proceedings and for which adequate reserves shall have been set aside on its books;
- (iii) Liens arising out of pledges or deposits under worker's compensation laws, unemployment insurance, old age pensions, or other social security or retirement benefits, or similar legislation;
- (iv) Utility easements, building restrictions and such other encumbrances or charges against real property as are of a nature generally existing with respect to properties of a similar character and which do not in any material way affect the marketability of the same or interfere with the use thereof in the business of the Borrower or its Subsidiaries;
- (v) Liens existing on the date hereof and described in Schedule 3 hereto; and
- (vi) Liens arising in connection with any Indebtedness permitted hereunder.

Notwithstanding anything contained in this Agreement to the contrary, Borrower may from time to time encumber its Properties with Liens in addition to those set forth in clauses (i) through (vi) above, provided that the granting or existence of such other Liens shall not cause Borrower to be in breach of the provisions of Section 6.21 hereof.

Liens permitted pursuant to this Section 6.17 shall be deemed to be "Permitted Liens".

6.18. Affiliates. The Borrower will not, nor will it permit any of their Subsidiaries to, enter into any transaction (including, without limitation, the purchase or sale of any Property or service) with, or make any payment or transfer to, any Affiliate except in the ordinary course of business and pursuant to the reasonable requirements of the Borrower's or such Subsidiary's business and upon fair and reasonable terms no less favorable to the Borrower or such Subsidiary than the Borrower or such Subsidiary would obtain in a comparable arms length transaction.

6.19. Reserved.

6.20. Consolidated Tangible Net Worth. The Borrower on a consolidated basis with its Subsidiaries shall maintain a Consolidated Tangible Net Worth of not less than \$568,942,750, plus 80% of any net cash proceeds from equity offerings completed subsequent to March 31, 2004.

6.21. Indebtedness and Cash Flow Covenants. The Borrower on a consolidated basis with its Subsidiaries shall not, as of the last day of any fiscal quarter, permit:

- (i) Consolidated Total Indebtedness to exceed fifty-five percent (55%) of Total Capitalization Value;



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- (ii) Consolidated Secured Indebtedness to exceed thirty percent (30%) of Total Capitalization Value;
  - (iii) the Value of Unencumbered Assets to be less than 1.82 times the Consolidated Unsecured Indebtedness; and
  - (iv) annualized EBITDA (determined by multiplying (x) the sum of EBITDA for the two most recently ended fiscal quarters, by (y) two) to be less than 2.00 times the Fixed Charges.

6.22. Environmental Matters. Borrower and its Subsidiaries shall:

- (i) Comply with, and use all reasonable efforts to ensure compliance by all tenants and subtenants, if any, with, all applicable Environmental Laws and obtain and comply with and maintain, and use all reasonable efforts to ensure that all tenants and subtenants obtain and comply with and maintain, any and all licenses, approvals, notifications, registrations or permits required by applicable Environmental Laws, except to the extent that failure to do so could not be reasonably expected to have a Material Adverse Effect; provided that in no event shall the Borrower or its Subsidiaries be required to modify the terms of leases, or renewals thereof, with existing tenants (i) at Property owned by the Borrower or its Subsidiaries as of the date hereof, or (ii) at Property hereafter acquired by the Borrower or its Subsidiaries as of the date of such acquisition, to add provisions to such effect.
- (ii) Conduct and complete all investigations, studies, sampling and testing, and all remedial, removal and other actions required under Environmental Laws and promptly comply in all material respects with all lawful orders and directives of all Governmental Authorities regarding Environmental Laws, except to the extent that (i) the same are being contested in good faith by appropriate proceedings and the pendency of such proceedings could not be reasonably expected to have a Material Adverse Effect, or (ii) the Borrower has determined in good faith that contesting the same is not in the best interests of the Borrower and its Subsidiaries and the failure to contest the same could not be reasonably expected to have a Material Adverse Effect.
- (iii) Defend, indemnify and hold harmless Agent and each Lender, and their respective officers and directors, from and against any claims, demands, penalties, fines, liabilities, settlements, damages, costs and expenses of whatever kind or nature known or unknown, contingent or otherwise, arising out of, or in any way relating to the violation of, noncompliance with or liability under any Environmental Laws applicable to the

operations of the Borrower, its Subsidiaries or the Property, or any orders, requirements or demands of Governmental Authorities related thereto, including, without limitation, attorney's and consultant's fees, investigation and laboratory fees, response costs, court costs and litigation expenses, except to the extent that any of the foregoing arise out of the gross negligence or willful misconduct of the party seeking indemnification therefor. This indemnity shall continue in full force and effect regardless of the termination of this Agreement.

- (iv) Prior to the acquisition of a new Property after the Closing Date, perform or cause to be performed an environmental investigation which investigation shall at a minimum comply with the specifications and procedures attached hereto as Exhibit H. In connection with any such investigation, Borrower shall cause to be prepared a report of such investigation, to be made available to any Lenders upon reasonable request, for informational purposes and to assure compliance with the specifications and procedures.

## ARTICLE VII.

### DEFAULTS

The occurrence of any one or more of the following events shall constitute a Default:

7.1. Any representation or warranty made or deemed made by or on behalf of the Borrower or any of its Subsidiaries to the Lenders or the Agent under or in connection with this Agreement, any Loan, or any certificate or information delivered in connection with this Agreement or any other Loan Document shall be materially false on the date as of which made.

7.2. Nonpayment of principal of any Note when due, or nonpayment of interest upon any Note or of any commitment fee or other obligations under any of the Loan Documents within five Business Days after the same becomes due.

7.3. The breach of any of the terms or provisions of Sections 6.2, 6.11, 6.12, 6.14, 6.15, 6.16, 6.20, and 6.21 hereof.

7.4. The breach by the Borrower (other than a breach which constitutes a Default under Section 7.1, 7.2, or 7.3) of any of the terms or provisions of this Agreement which is not remedied within thirty days after written notice from the Agent or any Lender.

7.5. Failure of the Borrower or any of its Subsidiaries to pay when due any "recourse" Indebtedness (i.e., Indebtedness which is recoverable from the general assets of the Borrower and/or its Subsidiaries) which is outstanding in an individual or aggregate amount of at least \$10,000,000; or failure of the Borrower or any of its Subsidiaries to pay when due any Indebtedness which is not "recourse", which is outstanding in an individual or aggregate amount of at least \$50,000,000; or the default by the Borrower or any of its Subsidiaries in the performance of any term, provision or condition contained in any agreement under which such "recourse" or non-recourse Indebtedness was created or is governed, or any other event shall

occur or condition exist, the effect of which is to cause such "recourse" or non-recourse Indebtedness to become due prior to its stated maturity; or any "recourse" or non-recourse Indebtedness of the Borrower or any of its Subsidiaries (other than "recourse" or non-recourse Indebtedness which is "due on demand") shall be declared to be due and payable or required to be prepaid (other than by a regularly scheduled payment) prior to the stated maturity thereof;

7.6. The Borrower or any of its Subsidiaries shall not pay, or admit in writing its inability to pay, its debts generally as they become due.

7.7. The Borrower or any of its Subsidiaries that has more than \$10,000,000 of Total Tangible Assets shall (i) have an order for relief entered with respect to it under the Federal bankruptcy laws as now or hereafter in effect, (ii) make an assignment for the benefit of creditors, (iii) apply for, seek, consent to, or acquiesce in, the appointment of a receiver, custodian, trustee, examiner, liquidator or similar official for it or any Substantial Portion of its Property, (iv) institute any proceeding seeking an order for relief under the Federal bankruptcy laws as now or hereafter in effect or seeking to adjudicate it a bankrupt or insolvent, or seeking dissolution, winding up, liquidation, reorganization, arrangement, adjustment or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors or fail to file an answer or other pleading denying the material allegations of any such proceeding filed against it, (v) take any corporate action to authorize or effect any of the foregoing actions set forth in this Section 7.7 or (vi) fail to contest in good faith any appointment or proceeding described in Section 7.8.

7.8. A receiver, trustee, examiner, liquidator or similar official shall be appointed for the Borrower or any Subsidiary that has more than \$10,000,000 of Total Tangible Assets or any Substantial Portion of their Property, or a proceeding described in Section 7.7(iv) shall be instituted against the Borrower or any such Subsidiary and such appointment continues undischarged or such proceeding continues undismissed or unstayed for a period of 30 consecutive days.

7.9. Any court, government or governmental agency shall condemn, seize or otherwise appropriate, or take custody or control of (each a "Condemnation"), all or any portion of the Property of the Borrower and its Subsidiaries which, when taken together with all other Property of the Borrower and its Subsidiaries so condemned, seized, appropriated, or taken custody or control of, during the twelve month period ending with the month in which any such Condemnation occurs, constitutes a Substantial Portion of their Property.

7.10. The Borrower or any of its Subsidiaries shall fail within 30 days to pay, bond or otherwise discharge any judgment or order for the payment of money in excess of \$5,000,000, which is not stayed on appeal or otherwise being appropriately contested in good faith.

7.11. The Unfunded Liabilities of all Single Employer Plans shall exceed in the aggregate \$100,000 or any Reportable Event shall occur in connection with any Plan.

7.12. The Borrower or any other member of the Controlled Group shall have been notified by the sponsor of a Multiemployer Plan that it has incurred withdrawal liability to such Multiemployer Plan in an amount which, when aggregated with all other amounts required to be

paid to Multiemployer Plans by the Borrower or any other member of the Controlled Group as withdrawal liability (determined as of the date of such notification), exceeds \$100,000 or requires payments exceeding \$1,000,000 per annum.

7.13. The Borrower or any other member of the Controlled Group shall have been notified by the sponsor of a Multiemployer Plan that such Multiemployer Plan is in reorganization or is being terminated, within the meaning of Title IV of ERISA, if as a result of such reorganization or termination the aggregate annual contributions of the Borrower and the other members of the Controlled Group (taken as a whole) to all Multiemployer Plans which are then in reorganization or being terminated have been or will be increased over the amounts contributed to such Multiemployer Plans for the respective plan years of each such Multiemployer Plan immediately preceding the plan year in which the reorganization or termination occurs by an amount exceeding \$100,000.

7.14. Failure to remediate within the time period permitted by law or governmental order (or within a reasonable time give the nature of the problem if no specific time period has been given) material environmental problems related to Properties whose aggregate book values are in excess of \$20,000,000 or where the estimated cost of remediation for one of such Properties is in excess of \$250,000 or for all of such Properties in the aggregate is in excess of \$1,000,000, in each case after all administrative hearings and appeals have been concluded.

7.15. The occurrence of any default under any Loan Document or the breach of any of the terms or provisions of any Loan Document, which default or breach continues beyond any period of grace therein provided.

#### **ARTICLE VIII.**

##### **ACCELERATION, WAIVERS, AMENDMENTS AND REMEDIES**

8.1. Acceleration. If any Default described in Section 7.6, 7.7 or 7.8 occurs with respect to the Borrower, the obligations of the Lenders to make Loans hereunder shall automatically terminate and the Obligations shall immediately become due and payable without any election or action on the part of the Agent or any Lender. If any other Default occurs, the Required Lenders may terminate or suspend the obligations of the Lenders to make Loans hereunder, or declare the Obligations to be due and payable, or both, whereupon the Obligations shall become immediately due and payable, without presentment, demand, protest or notice of any kind, all of which the Borrower hereby expressly waives.

If, within 10 days after acceleration of the maturity of the Obligations or termination of the obligations of the Lenders to make Loans hereunder as a result of any Default (other than any Default as described in Section 7.6, 7.7 or 7.8 with respect to the Borrower) and before any judgment or decree for the payment of the Obligations due shall have been obtained or entered, the Required Lenders (in their sole discretion) shall so direct, the Agent shall, by notice to the Borrower, rescind and annul such acceleration and/or termination.

8.2. Amendments. Subject to the provisions of this Article VIII, the Required Lenders (or the Agent with the consent in writing of the Required Lenders) and the Borrower may enter

into agreements supplemental hereto for the purpose of adding or modifying any provisions to the Loan Documents or changing in any manner the rights of the Lenders or the Borrower hereunder or waiving any Default hereunder; provided, however, that no such supplemental agreement shall, without the consent of each Lender affected thereby:

- (i) Extend the maturity of any Loan or Note (except in accordance with Section 2.20) or forgive all or any portion of the principal amount thereof, or reduce the rate or extend the time of payment of interest or fees thereon.
- (ii) (Reduce the percentage specified in the definition of Required Lenders.
- (iii) Extend the Facility Termination Date (except in accordance with the terms of Section 2.20) or reduce the amount or extend the payment date for, the mandatory payments required under Section 2.2 (other than as provided for under Section 2.2), or increase the amount of the Commitment of any Lender hereunder (except in accordance with the terms of Section 2.1), or permit the Borrower to assign its rights under this Agreement.
- (iv) Amend this Section 8.2.

Notwithstanding any provision contained in this Section 8.2, the Aggregate Commitment may be increased prior to the Facility Termination Date (up to the Maximum Aggregate Commitment) solely by the consent of the Borrower and each Lender whose Commitment is being increased. No amendment of any provision of this Agreement relating to the Agent shall be effective without the written consent of the Agent.

8.3. Preservation of Rights. No delay or omission of the Lenders or the Agent to exercise any right under the Loan Documents shall impair such right or be construed to be a waiver of any Default or an acquiescence therein, and the making of a Loan notwithstanding the existence of a Default or the inability of the Borrower to satisfy the conditions precedent to such Loan shall not constitute any waiver or acquiescence. Any single or partial exercise of any such right shall not preclude other or further exercise thereof or the exercise of any other right, and no waiver, amendment or other variation of the terms, conditions or provisions of the Loan Documents whatsoever shall be valid unless in writing signed by the Lenders required pursuant to Section 8.2, and then only to the extent in such writing specifically set forth. All remedies contained in the Loan Documents or by law afforded shall be cumulative and all shall be available to the Agent and the Lenders until the Obligations have been paid in full.

## **ARTICLE IX.**

### **GENERAL PROVISIONS**

9.1. Survival of Representations. All representations and warranties of the Borrower contained in this Agreement shall survive delivery of the Notes and the making of the Loans herein contemplated.

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9.2. Governmental Regulation. Anything contained in this Agreement to the contrary notwithstanding, no Lender shall be obligated to extend credit to the Borrower in violation of any limitation or prohibition provided by any applicable statute or regulation.

9.3. Taxes. Any taxes (excluding (i) federal taxation of the net income of any Lender or applicable Lending Installation, (ii) state and local taxation in the jurisdiction where a Lender's home office is situated, (iii) state and local taxation in a jurisdiction other than described in (ii) above to the extent such Lender receives credit on its tax payments in its home jurisdiction for such taxes, and (iv) federal withholding tax imposed on payments due hereunder or under the Notes) or other similar assessments or charges made by any governmental or revenue authority in respect of the Loan Documents shall be paid by the Borrower when due (and Agent shall forward to Borrower copies of any notices of such taxes promptly following Agent's receipt of any such notices).

9.4. Headings. Section headings in the Loan Documents are for convenience of reference only, and shall not govern the interpretation of any of the provisions of the Loan Documents.

9.5. Entire Agreement. The Loan Documents embody the entire agreement and understanding among the Borrower, the Agent and the Lenders and supersede all prior commitments, agreements and understandings among the Borrower, the Agent and the Lenders relating to the subject matter thereof.

9.6. Several Obligations; Benefits of this Agreement. The respective obligations of the Lenders hereunder are several and not joint and no Lender shall be the partner or agent of any other (except to the extent to which the Agent is authorized to act as such). The failure of any Lender to perform any of its obligations hereunder shall not relieve any other Lender from any of its obligations hereunder. This Agreement shall not be construed so as to confer any right or benefit upon any Person other than the parties to this Agreement and their respective successors and assigns.

9.7. Expenses; Indemnification. The Borrower shall reimburse the Agent for any costs, internal charges and out of pocket expenses (including, without limitation, all reasonable fees for consultants and reasonable fees and reasonable expenses for attorneys for the Agent, which attorneys may be employees of the Agent) paid or incurred by the Agent in connection with the preparation, negotiation, execution, delivery, review, amendment, modification, and administration of the Loan Documents; provided that the provisions of Section 12.2.1 and 12.3.1 shall govern with respect to payment of the fees and expenses associated with the sale of participating interests in, and assignments of, the Loans. The Borrower also agrees to reimburse the Agent and the Lenders for any costs, internal charges and out of pocket expenses (including, without limitation, all reasonable fees and reasonable expenses for attorneys for the Agent and the Lenders, which attorneys may be employees of the Agent or the Lenders) paid or incurred by the Agent or any Lender in connection with the collection and enforcement of the Loan Documents (including, without limitation, any workout). The Borrower further agrees to indemnify the Agent and each Lender, its directors, officers and employees against all losses, claims, damages, penalties, judgments, liabilities and expenses (including, without limitation, all expenses of litigation or preparation therefor whether or not the Agent or any Lender is a party

thereto) which any of them may pay or incur arising out of or relating to this Agreement, the other Loan Documents, the Properties, the transactions contemplated hereby or the direct or indirect application or proposed application of the proceeds of any Loan hereunder, except that the foregoing indemnity shall not apply to a Lender to the extent that any losses, claims, damages, penalties, judgments, liabilities and expenses are the result of such Lender's gross negligence or willful misconduct. The obligations of the Borrower under this Section shall survive the termination of this Agreement.

9.8. Numbers of Documents. All statements, notices, closing documents, and requests hereunder shall be furnished to the Agent with sufficient counterparts so that the Agent may furnish one to each of the Lenders.

9.9. Accounting. Except as provided to the contrary herein, all accounting terms used herein shall be interpreted and all accounting determinations hereunder shall be made in accordance with GAAP, except that any calculation or determination which is to be made on a consolidated basis shall be made for the Borrower and all its Subsidiaries, including those Subsidiaries, if any, which are unconsolidated on the Borrower's official financial statements.

9.10. Severability of Provisions. Any provision in any Loan Document that is held to be inoperative, unenforceable, or invalid in any jurisdiction shall, as to that jurisdiction, be inoperative, unenforceable, or invalid without affecting the remaining provisions in that jurisdiction or the operation, enforceability, or validity of that provision in any other jurisdiction, and to this end the provisions of all Loan Documents are declared to be severable.

9.11. Nonliability of Lenders. The relationship between the Borrower, on the one hand, and the Lenders and the Agent, on the other, shall be solely that of borrower and lender. Neither the Agent nor any Lender shall have any fiduciary responsibilities to the Borrower. Neither the Agent nor any Lender undertakes any responsibility to the Borrower to review or inform the Borrower of any matter in connection with any phase of the Borrower's business or operations.

9.12. CHOICE OF LAW. THE LOAN DOCUMENTS (OTHER THAN THOSE CONTAINING A CONTRARY EXPRESS CHOICE OF LAW PROVISION) SHALL BE CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS (AND NOT THE LAW OF CONFLICTS) OF THE STATE OF ILLINOIS, BUT GIVING EFFECT TO FEDERAL LAWS APPLICABLE TO NATIONAL BANKS.

9.13. CONSENT TO JURISDICTION. THE BORROWER HEREBY IRREVOCABLY SUBMITS TO THE NON EXCLUSIVE JURISDICTION OF ANY UNITED STATES FEDERAL OR ILLINOIS STATE COURT SITTING IN CHICAGO IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO ANY LOAN DOCUMENTS AND THE BORROWER HEREBY IRREVOCABLY AGREES THAT ALL CLAIMS IN RESPECT OF SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN ANY SUCH COURT AND IRREVOCABLY WAIVES ANY OBJECTION IT MAY NOW OR HEREAFTER HAVE AS TO THE VENUE OF ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN SUCH A COURT OR THAT SUCH COURT IS AN INCONVENIENT FORUM. NOTHING HEREIN SHALL LIMIT THE RIGHT OF THE AGENT OR ANY LENDER TO BRING PROCEEDINGS AGAINST THE BORROWER IN

THE COURTS OF ANY OTHER JURISDICTION. ANY JUDICIAL PROCEEDING BY THE BORROWER AGAINST THE AGENT OR ANY LENDER OR ANY AFFILIATE OF THE AGENT OR ANY LENDER INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH ANY LOAN DOCUMENT SHALL BE BROUGHT ONLY IN A COURT IN CHICAGO, ILLINOIS.

9.14. WAIVER OF JURY TRIAL. THE BORROWER, THE AGENT AND EACH LENDER HEREBY WAIVE TRIAL BY JURY IN ANY JUDICIAL PROCEEDING INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER (WHETHER SOUNDING IN TORT, CONTRACT OR OTHERWISE) IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH ANY LOAN DOCUMENT OR THE RELATIONSHIP ESTABLISHED THEREUNDER.

9.15. Exclusion from Confidentiality for Tax Treatment Notwithstanding anything to the contrary set forth herein or in any other written or oral understanding or agreement to which the parties hereto are parties or by which they are bound, the parties hereto acknowledge and agree that (i) any obligations of confidentiality contained herein and therein do not apply and have not applied from the commencement of discussions between the parties to the tax treatment and tax structure of the transactions contemplated by the Loan Documents (and any related transactions or arrangements), and (ii) each party (and each of its employees, representatives, or other agents) may disclose to any and all persons as required, without limitation of any kind, the tax treatment and tax structure of the transactions contemplated by the Loan Documents and all materials of any kind (including opinions or other tax analyses) that are provided to such party relating to such tax treatment and tax structure, all within the meaning of Treasury Regulations Section 1.6011-4; provided, however, that each party recognizes that the privilege each has to maintain, in its sole discretion, with regard to the confidentiality of a communication relating to the transactions contemplated by the Loan Documents, including a confidential communication with its attorney or a confidential communication with a federally authorized tax practitioner under Section 7525 of the Internal Revenue Code, is not intended to be affected by the foregoing.

## **ARTICLE X.**

### **THE AGENT**

10.1. Appointment Bank One, NA is hereby appointed by each of the Lenders as its contractual representative (herein referred to as the "Agent") hereunder and under each other Loan Document, and each of the Lenders irrevocably authorizes the Agent to act as the contractual representative of such Lender with the rights and duties expressly set forth herein and in the other Loan Documents. The Agent agrees to act as such contractual representative upon the express conditions contained in this Article X. Notwithstanding the use of the defined term "Agent," it is expressly understood and agreed that the Agent shall not have any fiduciary responsibilities to any Lender by reason of this Agreement or any other Loan Document and that the Agent is merely acting as the contractual representative of the Lenders with only those duties as are expressly set forth in this Agreement and the other Loan Documents. In its capacity as the Lenders' contractual representative, the Agent (i) does not hereby assume any fiduciary duties to any of the Lenders, (ii) is a "representative" of the Lenders within the meaning of the term "secured party" as defined in the Illinois Uniform Commercial Code and (iii) is acting as an



independent contractor, the rights and duties of which are limited to those expressly set forth in this Agreement and the other Loan Documents. Each of the Lenders hereby agrees to assert no claim against the Agent on any agency theory or any other theory of liability for breach of fiduciary duty, all of which claims each Lender hereby waives.

10.2. Powers. The Agent shall have and may exercise such powers under the Loan Documents as are specifically delegated to the Agent by the terms of each thereof, together with such powers as are reasonably incidental thereto. The Agent shall have no implied duties to the Lenders, or any obligation to the Lenders to take any action thereunder except any action specifically provided by the Loan Documents to be taken by the Agent.

10.3. General Immunity. Neither the Agent nor any of its directors, officers, agents or employees shall be liable to the Borrower, the Lenders or any Lender for (i) any action taken or omitted to be taken by it or them hereunder or under any other Loan Document or in connection herewith or therewith except for its or their own gross negligence or willful misconduct; or (ii) any determination by the Agent that compliance with any law or any governmental or quasi governmental rule, regulation, order, policy, guideline or directive (whether or not having the force of law) requires the Advances and Commitments hereunder to be classified as being part of a “highly leveraged transaction”.

10.4. No Responsibility for Loans, Recitals, etc. Neither the Agent nor any of its directors, officers, agents or employees shall be responsible for or have any duty to ascertain, inquire into, or verify (i) any statement, warranty or representation made in connection with any Loan Document or any borrowing hereunder; (ii) the performance or observance of any of the covenants or agreements of any obligor under any Loan Document, including, without limitation, any agreement by an obligor to furnish information directly to each Lender; (iii) the satisfaction of any condition specified in Article IV, except receipt of items required to be delivered to the Agent; (iv) the validity, effectiveness or genuineness of any Loan Document or any other instrument or writing furnished in connection therewith; or (v) the value, sufficiency, creation, perfection or priority of any interest in any collateral security. The Agent shall have no duty to disclose to the Lenders information that is not required to be furnished by the Borrower to the Agent at such time, but is voluntarily furnished by the Borrower to the Agent (either in its capacity as Agent or in its individual capacity).

10.5. Action on Instructions of Lenders. The Agent shall in all cases be fully protected in acting, or in refraining from acting, hereunder and under any other Loan Document in accordance with written instructions signed by the Required Lenders, and such instructions and any action taken or failure to act pursuant thereto shall be binding on all of the Lenders and on all holders of Notes. The Agent shall be fully justified in failing or refusing to take any action hereunder and under any other Loan Document unless it shall first be indemnified to its satisfaction by the Lenders pro rata against any and all liability, cost and expense that it may incur by reason of taking or continuing to take any such action.

10.6. Employment of Agents and Counsel. The Agent may execute any of its duties as Agent hereunder and under any other Loan Document by or through employees, agents, and attorneys in fact and shall not be answerable to the Lenders, except as to money or securities received by it or its authorized agents, for the default or misconduct of any such agents or

attorneys in fact selected by it with reasonable care. The Agent shall be entitled to advice of counsel concerning all matters pertaining to the agency hereby created and its duties hereunder and under any other Loan Document.

10.7. Reliance on Documents; Counsel. The Agent shall be entitled to rely upon any Note, notice, consent, certificate, affidavit, letter, telegram, statement, paper or document believed by it to be genuine and correct and to have been signed or sent by the proper person or persons, and, in respect to legal matters, upon the opinion of counsel selected by the Agent, which counsel may be employees of the Agent.

10.8. Agent's Reimbursement and Indemnification. The Lenders agree to reimburse and indemnify the Agent ratably in proportion to their respective Commitments (i) for any amounts not reimbursed by the Borrower for which the Agent is entitled to reimbursement by the Borrower under the Loan Documents, (ii) for any other expenses incurred by the Agent on behalf of the Lenders, in connection with the preparation, execution, delivery, administration and enforcement of the Loan Documents and (iii) for any liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind and nature whatsoever which may be imposed on, incurred by or asserted against the Agent in any way relating to or arising out of the Loan Documents or any other document delivered in connection therewith or the transactions contemplated thereby, or the enforcement of any of the terms thereof or of any such other documents, provided that no Lender shall be liable for any of the foregoing to the extent they arise from the gross negligence or willful misconduct of the Agent. The obligations of the Lenders under this Section 10.8 shall survive payment of the Obligations and termination of this Agreement.

10.9. Rights as a Lender. In the event the Agent is a Lender, the Agent shall have the same rights and powers hereunder and under any other Loan Document as any Lender and may exercise the same as though it were not the Agent, and the term "Lender" or "Lenders" shall, at any time when the Agent is a Lender, unless the context otherwise indicates, include the Agent in its individual capacity. The Agent may accept deposits from, lend money to, and generally engage in any kind of trust, debt, equity or other transaction, in addition to those contemplated by this Agreement or any other Loan Document, with the Borrower or any of its Subsidiaries in which the Borrower or such Subsidiary is not restricted hereby from engaging with any other Person. The Agent, in its individual capacity, is not obligated to remain a Lender.

10.10. Lender Credit Decision. Each Lender acknowledges that it has, independently and without reliance upon the Agent or any other Lender and based on the financial statements prepared by the Borrower and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement and the other Loan Documents. Each Lender also acknowledges that it will, independently and without reliance upon the Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement and the other Loan Documents.

10.11. Successor Agent. The Agent may resign at any time by giving written notice thereof to the Lenders and the Borrower, such resignation to be effective upon the appointment of a successor Agent or, if no successor Agent has been appointed, forty-five days after the

retiring Agent gives notice of its intention to resign. Upon any such resignation, the Required Lenders shall have the right to appoint, on behalf of the Borrower and the Lenders, a successor Agent. If no successor Agent shall have been so appointed by the Required Lenders within thirty days after the resigning Agent's giving notice of its intention to resign, then the resigning Agent may appoint, on behalf of the Borrower and the Lenders, a successor Agent. If the Agent has resigned and no successor Agent has been appointed, the Lenders may perform all the duties of the Agent hereunder and the Borrower shall make all payments in respect of the Obligations to the applicable Lender and for all other purposes shall deal directly with the Lenders. No successor Agent shall be deemed to be appointed hereunder until such successor Agent has accepted the appointment. Any such successor Agent shall be a commercial bank having capital and retained earnings of at least \$50,000,000. Upon the acceptance of any appointment as Agent hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the resigning Agent. Upon the effectiveness of the resignation of the Agent, the resigning Agent shall be discharged from its duties and obligations hereunder and under the Loan Documents. After the effectiveness of the resignation of an Agent, the provisions of this Article X shall continue in effect for the benefit of such Agent in respect of any actions taken or omitted to be taken by it while it was acting as the Agent hereunder and under the other Loan Documents.

10.12. Performance Through Sub-Agents. The Agent may perform any and all its duties and exercise its rights and powers by or through any one or more sub-agents appointed by the Agent. The Agent and any such sub-agent may perform any and all its duties and exercise its rights and powers through their respective Affiliates. The exculpatory provisions of the preceding paragraphs shall apply to any such sub-agent and to the Affiliates of the Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as Administrative Agent.

## ARTICLE XI.

### SETOFF; RATABLE PAYMENTS

11.1. Setoff. In addition to, and without limitation of, any rights of the Lenders under applicable law, if a Default occurs, any and all deposits (including all account balances, whether provisional or final and whether or not collected or available) and any other Indebtedness at any time held or owing by any Lender to or for the credit or account of the Borrower may be offset and applied toward the payment of the Obligations owing to such Lender, whether or not the Obligations, or any part hereof, shall then be due.

11.2. Ratable Payments. If any Lender, whether by setoff or otherwise, has payment made to it upon its Loans (other than payments received pursuant to Sections 3.1, 3.2, 3.4 and 3.5) in a greater proportion than that received by any other Lender, such Lender agrees, promptly upon demand, to purchase a portion of the Loans held by the other Lenders so that after such purchase each Lender will hold its ratable proportion of Loans. If any Lender, whether in connection with setoff or amounts which might be subject to setoff or otherwise, receives collateral or other protection for its Obligations or such amounts which may be subject to setoff, such Lender agrees, promptly upon demand, to take such action necessary such that all Lenders share in the benefits of such collateral ratably in proportion to their Loans. In case any such

payment is disturbed by legal process, or otherwise, appropriate further adjustments shall be made.

## ARTICLE XII.

### **BENEFIT OF AGREEMENT; ASSIGNMENTS; PARTICIPATIONS**

12.1. Successors and Assigns. The terms and provisions of the Loan Documents shall be binding upon and inure to the benefit of the Borrower and the Lenders and their respective successors and assigns, except that (i) the Borrower shall not have the right to assign its rights or obligations under the Loan Documents and (ii) any assignment by any Lender must be made in compliance with Section 12.3. The parties to this Agreement acknowledge that clause (ii) of this Section 12.1 relates only to absolute assignments and does not prohibit assignments creating security interests, including, without limitation, (x) any pledge or assignment by any Lender of all or any portion of its rights under this Agreement and any Note to a Federal Reserve Bank or (y) in the case of a Lender which is a fund, any pledge or assignment of all or any portion of its rights under this Agreement and any Note to its trustee in support of its obligations to its trustee; provided, however, that no such pledge or assignment creating a security interest shall release the transferor Lender from its obligations hereunder unless and until the parties thereto have complied with the provisions of Section 12.3. The Agent may treat the Person which made any Loan or which holds any Note as the owner thereof for all purposes hereof unless and until such Person complies with Section 12.3; provided, however, that the Agent may in its discretion (but shall not be required to) follow instructions from the Person which made any Loan or which holds any Note to direct payments relating to such Loan or Note to another Person. Any assignee of the rights to any Loan or any Note agrees by acceptance of such assignment to be bound by all the terms and provisions of the Loan Documents. Any request, authority or consent of any Person, who at the time of making such request or giving such authority or consent is the owner of the rights to any Loan (whether or not a Note has been issued in evidence thereof), shall be conclusive and binding on any subsequent holder or assignee of the rights to such Loan.

#### 12.2. Participations.

12.2.1 Permitted Participants: Effect. Any Lender may, in the ordinary course of its business and in accordance with applicable law, at any time sell to one or more banks or other entities ("Participants") participating interests in any Loan owing to such Lender, any Note held by such Lender, any Commitment of such Lender or any other interest of such Lender under the Loan Documents. In the event of any such sale by a Lender of participating interests to a Participant, such Lender's obligations under the Loan Documents shall remain unchanged, such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, such Lender shall remain the owner of its Loans and the holder of any Note issued to it in evidence thereof for all purposes under the Loan Documents, all amounts payable by the Borrower under this Agreement shall be determined as if such Lender had not sold such participating interests, and the Borrower and the Agent shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under the Loan Documents. Notwithstanding anything contained in this Agreement to the contrary, Borrower shall not be obligated to pay any fees and expenses incurred by any Lender in

connection with the sale of any participating interests in any Loan pursuant to this Section.

12.2.2 Voting Rights. Each Lender shall retain the sole right to approve, without the consent of any Participant, any amendment, modification or waiver of any provision of the Loan Documents other than any amendment, modification or waiver with respect to any Loan or Commitment in which such Participant has an interest which would require consent of all of the Lenders pursuant to the terms of Section 8.2 or of any other Loan Document.

12.2.3 Benefit of Certain Provisions. The Borrower agrees that each Participant shall be deemed to have the right of setoff provided in Section 11.1 in respect of its participating interest in amounts owing under the Loan Documents to the same extent as if the amount of its participating interest were owing directly to it as a Lender under the Loan Documents, *provided* that each Lender shall retain the right of setoff provided in Section 11.1 with respect to the amount of participating interests sold to each Participant. The Lenders agree to share with each Participant, and each Participant, by exercising the right of setoff provided in Section 11.1, agrees to share with each Lender, any amount received pursuant to the exercise of its right of setoff, such amounts to be shared in accordance with Section 11.2 as if each Participant were a Lender. The Borrower further agrees that each Participant shall be entitled to the benefits of Sections 3.1, 3.2, 3.4 and 3.5 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to Section 12.3, *provided* that (i) a Participant shall not be entitled to receive any greater payment under Section 3.1, 3.2, 3.4 or 3.5 than the Lender who sold the participating interest to such Participant would have received had it retained such interest for its own account, unless the sale of such interest to such Participant is made with the prior written consent of the Borrower, and (ii) any Participant organized under the laws of any jurisdiction other than the United States of America or any state thereof agrees to comply with the provisions of Section 3.5 to the same extent as if it were a Lender.

### 12.3. Assignments.

12.3.1 Permitted Assignments. Any Lender may, in the ordinary course of its business and in accordance with applicable law, at any time assign to one or more banks or other entities ("Purchasers") all or any part of its rights and obligations under the Loan Documents. Such assignment shall be substantially in the form of Exhibit C or in such other form as may be agreed to by the parties thereto. The consent of the Borrower and the Agent shall be required prior to an assignment becoming effective with respect to a Purchaser which is not a Lender or an Affiliate thereof immediately prior to the assignment; *provided, however*, that if a Default has occurred and is continuing, or if the assignment is in connection with the physical settlement of credit derivative transactions, the consent of the Borrower shall not be required. The Borrower's consent shall not be unreasonably withheld or delayed. Each such assignment with respect to a Purchaser which is not a Lender in connection with any assignment of any portion of the initial \$50,000,000 Maximum Aggregate Commitment or an Affiliate thereof shall (unless each of the Borrower and the Agent otherwise consents) be in an amount not less than the lesser of (i) \$ 5,000,000 or (ii) the remaining amount of the assigning Lender's

Commitment (calculated as at the date of such assignment) or outstanding Loans (if the applicable or Aggregate Commitment above the initial \$50,000,000 Maximum Aggregate Commitment has been terminated). Notwithstanding anything contained in this Agreement, Borrower shall not be obligated to pay any fees and expenses incurred in connection with any assignment of any portion of the initial \$50,000,000 Maximum Aggregate Commitment.

12.3.2 Effect; Effective Date. Upon (i) delivery to the Agent of an assignment, together with any consents required by Section 12.3.1, and (ii) payment of a \$3,500 fee to the Agent for processing such assignment (unless such fee is waived by the Agent), such assignment shall become effective on the effective date specified in such assignment. The assignment shall contain a representation by the Purchaser to the effect that none of the consideration used to make the purchase of the Commitment and Loans under the applicable assignment agreement constitutes "plan assets" as defined under ERISA and that the rights and interests of the Purchaser in and under the Loan Documents will not be "plan assets" under ERISA. On and after the effective date of such assignment, such Purchaser shall for all purposes be a Lender party to this Agreement and any other Loan Document executed by or on behalf of the Lenders and shall have all the rights and obligations of a Lender under the Loan Documents, to the same extent as if it were an original party hereto, and no further consent or action by the Borrower, the Lenders or the Agent shall be required to release the transferor Lender with respect to the percentage of the Aggregate Commitment and Loans assigned to such Purchaser. Upon the consummation of any assignment to a Purchaser pursuant to this Section 12.3.2, the transferor Lender, the Agent and the Borrower shall, if the transferor Lender or the Purchaser desires that its Loans be evidenced by Notes, make appropriate arrangements so that new Notes or, as appropriate, replacement Notes are issued to such transferor Lender and new Notes or, as appropriate, replacement Notes, are issued to such Purchaser, in each case in principal amounts reflecting their respective Commitments, as adjusted pursuant to such assignment.

12.4. Dissemination of Information. The Borrower authorizes each Lender to disclose to any Participant or Purchaser or any other Person acquiring an interest in the Loan Documents by operation of law (each a "Transferee") and any prospective Transferee any and all information in such Lender's possession concerning the creditworthiness of the Borrower and its Subsidiaries.

12.5. Tax Treatment. If any interest in any Loan Document is transferred to any Transferee which is organized under the laws of any jurisdiction other than the United States or any State thereof, the transferor Lender shall cause such Transferee, concurrently with the effectiveness of such transfer, to comply with the provisions of Section 3.5(iv).

### ARTICLE XIII.

#### NOTICES

13.1. Giving Notice. Except as otherwise permitted by Section 2.14 with respect to borrowing notices, all notices and other communications provided to any party hereto under this

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Agreement or any other Loan Document shall be in writing or by facsimile and addressed or delivered to such party at its address set forth below its signature hereto or at such other address as may be designated by such party in a notice to the other parties. Any notice transmitted by facsimile, shall be deemed given when received according to the recipient's automatically generated answerback. Any notice transmitted by Federal Express or other recognized overnight courier shall be presumed (rebuttably) given the business day after it is sent. Any other notice shall be effective only when actually received.

13.2. Change of Address. The Borrower, the Agent and any Lender may each change the address for service of notice upon it by a notice in writing to the other parties hereto.

**ARTICLE XIV.**

**COUNTERPARTS**

This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one agreement, and any of the parties hereto may execute this Agreement by signing any such counterpart. This Agreement shall be effective when it has been executed by the Borrower, the Agent and the Lenders and each party has notified the Agent by telex or telephone, that it has taken such action.

**ARTICLE XV.**

**NO OFFICER, ETC. LIABILITY**

No trustee, officer or agent of the Borrower shall be held to any personal liability whatsoever, in tort, contract or otherwise, in connection with the transactions contemplated by this Agreement.

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IN WITNESS WHEREOF, the Borrower, the Lender and the Agent have executed this Agreement as of the date first above written.

**WASHINGTON REAL ESTATE  
INVESTMENT TRUST**

By: \_\_\_\_\_ /s/ Edmund B. Cronin  
Print Name: Edmund B. Cronin, Jr.  
Title: President and Chief Executive Officer  
6110 Executive Blvd.  
Suite 800  
Rockville, MD 20858  
Phone: 301-984-9400  
Facsimile: 301-984-9610  
Attention: Edmund B. Cronin, Jr.

S-1



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Commitments  
\$25,000,000

**BANK ONE, NA, Individually and as Agent**

By: \_\_\_\_\_ /s/ Kenneth Nelson

Print Name: Kenneth Nelson

Title: Director

One Bank One Plaza

Chicago, Illinois 60670

Phone: (312) 325-3129

Fax: (312) 325-3122

Attention: Corporate Real Estate Division

**WELLS FARGO BANK, NATIONAL ASSOCIATION**

By: \_\_\_\_\_ /s/ Erin Peart  
Print Name: Erin Peart  
Title: Senior Vice President  
1750 H Street NW, Suite 400  
Washington, D.C. 20006  
Attn: Manager, Loan Administration  
Phone: 202-303-3000  
Fax: 202-429-2984

**EXHIBIT A**  
**PRICING GRID**

<u>S&amp;P Rating</u>	<u>Moody's Rating</u>	<u>LIBOR Applicable Margin</u>	<u>ABR Applicable Margin</u>	<u>Facility Fee Rate</u>
A-or higher	A3 or higher	0.55%	0%	0.15%
BBB+	Baa1	0.65%	0%	0.15%
BBB	Baa2	0.80%	0%	0.175%
BBB-	Baa3	1.00%	0.25%	0.20%
Less than BBB-	Less than Baa3	1.25%	0.50%	0.25%

Exhibit A-1

**EXHIBIT B**  
**FORM OF NOTE**

July \_\_, 2004

Washington Real Estate Investment Trust, a real estate investment trust organized under the laws of the State of Maryland (the "Borrower"), promises to pay to the order of Bank One, NA, a national banking association (the "Lender") the aggregate unpaid principal amount of all Loans made by the Lender to the Borrower pursuant to Article II of the Credit Agreement (as the same may be amended or modified from time to time, the "Agreement") hereinafter referred to, in immediately available funds at the main office of Bank One, NA in Chicago, Illinois, as Agent, together with interest on the unpaid principal amount hereof at the rates and on the dates set forth in the Agreement. The Borrower shall pay the principal of and accrued and unpaid interest on the Loans in full on the Facility Termination Date.

The Lender shall, and is hereby authorized to, record on the schedule attached hereto, or to otherwise record in accordance with its usual practice, the date and amount of each Loan and the date and amount of each principal payment hereunder.

This Note is one of the Notes issued pursuant to, and is entitled to the benefits of, the Amended and Restated Credit Agreement, dated as of even date herewith among the Borrower and Bank One, NA, individually and as Agent, and the lenders named therein, including the Lender, to which Agreement reference is hereby made for a statement of the terms and conditions governing this Note, including the terms and conditions under which this Note may be prepaid or its maturity date accelerated. This Note constitutes one of the "Loan Documents." Capitalized terms used herein and not otherwise defined herein are used with the meanings attributed to them in the Agreement.

WASHINGTON REAL ESTATE INVESTMENT TRUST

By: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Schedule 3-1

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**SCHEDULE OF LOANS AND PAYMENTS OF PRINCIPAL**

**TO**

**NOTE OF WASHINGTON REAL ESTATE INVESTMENT TRUST**

**DATED AS OF \_\_\_\_\_, 2004**

<u>Date</u>	<u>Principal Amount of Loan</u>	<u>Maturity of Interest Period</u>	<u>Maturity Principal Amount Paid</u>	<u>Unpaid Balance</u>
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COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES  
(in thousands, except ratio amounts)

	Quarter Ended June 30,		Period Ended June 30,	
	2004	2003	2004	2003
Net Income	\$ 11,082	\$ 11,288	\$ 22,384	\$ 22,502
<b>Additions:</b>				
Fixed charges				
Interest expense	8,614	7,581	17,189	14,628
Capitalized interest	254	50	332	86
	<u>8,868</u>	<u>7,631</u>	<u>17,521</u>	<u>14,714</u>
<b>Deductions:</b>				
Capitalized interest	(254)	(50)	(332)	(86)
<b>Adjusted earnings</b>	<u>\$ 19,696</u>	<u>\$ 18,869</u>	<u>\$ 39,573</u>	<u>\$ 37,130</u>
<b>Fixed Charges (from above)</b>	<u>\$ 8,868</u>	<u>\$ 7,631</u>	<u>\$ 17,521</u>	<u>\$ 14,714</u>
<b>Ratio of Earnings to Fixed Charges</b>	2.2x	2.5x	2.3x	2.5x

## CERTIFICATION

I, Edmund B. Cronin, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q 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-15e and 15d-15e) 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. 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
  - c. 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 reasonable 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 controls over financial reporting which are reasonable 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: August 6, 2004

/s/ Edmund B. Cronin, Jr.

Edmund B. Cronin, Jr.  
Chief Executive Officer

## CERTIFICATION

I, Laura M. Franklin, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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-15e and 15d-15e) 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. 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
  - c. 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 reasonable 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 controls over financial reporting which are reasonable 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: August 6, 2004

/s/ Laura M. Franklin

Laura M. Franklin  
Senior Vice President  
Accounting, Administration and Corporate Secretary



## CERTIFICATION

I, Sara L. Grootwassink, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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-15e and 15d-15e) 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. 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
  - c. 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 reasonable 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 controls over financial reporting which are reasonable 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: August 6, 2004

/s/ Sara L. Grootwassink

Sara L. Grootwassink  
Chief Financial 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 Chairman of the Board, President and Chief Executive Officer, the Senior Vice President Accounting, Administration and Corporate Secretary, and the Chief Financial Officer of Washington Real Estate Investment Trust ("WRIT"), each hereby certifies on the date hereof, that:

- (a) the Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 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 WRIT.

Dated: August 6, 2004

/s/ Edmund B. Cronin, Jr.  
Edmund B. Cronin, Jr.  
Chairman of the Board, President & CEO

Dated: August 6, 2004

/s/ Laura M. Franklin  
Laura M. Franklin  
Senior Vice President  
Accounting, Administration and Corporate Secretary

Dated: August 6, 2004

/s/ Sara L. Grootwassink  
Sara L. Grootwassink  
Chief Financial Officer