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

FORM 10-Q

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

For quarterly period ended September 30, 2019

OR

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

COMMISSION FILE NO. 1-6622

**WASHINGTON REAL ESTATE
INVESTMENT TRUST**

(Exact name of registrant as specified in its charter)

Maryland
(State of incorporation)

53-0261100
(IRS Employer Identification Number)

1775 EYE STREET, NW, SUITE 1000, WASHINGTON, DC 20006
(Address of principal executive office) (Zip code)

Registrant's telephone number, including area code: (202) 774-3200

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Shares of Beneficial Interest	WRE	NYSE

Securities registered pursuant to Section 12(g) of the Act: None

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

Indicate by checkmark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	<input checked="" type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-accelerated Filer	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>
		Emerging Growth Company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of October 24, 2019, 80,594,744 common shares were outstanding.

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PART I
FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

The information furnished in the accompanying unaudited Consolidated Balance Sheets, Condensed Consolidated Statements of Operations, Condensed Consolidated Statements of Comprehensive Income, Consolidated Statements of Equity and Consolidated Statements of Cash Flows 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, 2018 included in Washington Real Estate Investment Trust's 2018 Annual Report on Form 10-K.

WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES

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

	September 30, 2019 (Unaudited)	December 31, 2018
Assets		
Land	\$ 611,797	\$ 526,572
Income producing property	2,486,966	2,055,349
	3,098,763	2,581,921
Accumulated depreciation and amortization	(724,433)	(669,281)
Net income producing property	2,374,330	1,912,640
Properties under development or held for future development	110,572	87,231
Total real estate held for investment, net	2,484,902	1,999,871
Investment in real estate held for sale, net	—	203,410
Cash and cash equivalents	12,931	6,016
Restricted cash	1,578	1,624
Rents and other receivables	69,414	63,962
Prepaid expenses and other assets	106,251	123,670
Other assets related to properties held for sale	—	18,551
Total assets	<u>\$ 2,675,076</u>	<u>\$ 2,417,104</u>
Liabilities		
Notes payable, net	\$ 996,455	\$ 995,397
Mortgage notes payable, net	47,319	48,277
Line of credit	211,000	188,000
Accounts payable and other liabilities	75,735	57,946
Dividend payable	—	24,022
Advance rents	9,475	9,965
Tenant security deposits	10,849	9,501
Other liabilities related to properties held for sale	—	15,518
Total liabilities	<u>1,350,833</u>	<u>1,348,626</u>
Equity		
Shareholders' equity		
Preferred shares; \$0.01 par value; 10,000 shares authorized; no shares issued or outstanding	—	—
Shares of beneficial interest, \$0.01 par value; 100,000 shares authorized; 80,292 and 79,910 shares issued and outstanding, as of September 30, 2019 and December 31, 2018, respectively	803	799
Additional paid in capital	1,539,734	1,526,574
Distributions in excess of net income	(212,978)	(469,085)
Accumulated other comprehensive (loss) income	(3,659)	9,839
Total shareholders' equity	<u>1,323,900</u>	<u>1,068,127</u>
Noncontrolling interests in subsidiaries	343	351
Total equity	<u>1,324,243</u>	<u>1,068,478</u>
Total liabilities and equity	<u>\$ 2,675,076</u>	<u>\$ 2,417,104</u>

See accompanying notes to the consolidated financial statements.

WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE DATA)(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenue				
Real estate rental revenue	\$ 80,259	\$ 71,001	\$ 228,513	\$ 219,990
Expenses				
Real estate expenses	30,692	25,988	84,969	79,938
Depreciation and amortization	37,340	27,951	97,441	83,134
General and administrative expenses	6,045	5,267	18,517	16,737
Lease origination expenses	416	—	1,286	—
Real estate impairment	—	—	8,374	1,886
	<u>74,493</u>	<u>59,206</u>	<u>210,587</u>	<u>181,695</u>
(Loss) gain on sale of real estate	—	—	(1,046)	2,495
Real estate operating income	<u>5,766</u>	<u>11,795</u>	<u>16,880</u>	<u>40,790</u>
Other expense				
Interest expense	(14,198)	(12,342)	(41,946)	(38,155)
Loss on extinguishment of debt	—	—	—	(1,178)
	<u>(14,198)</u>	<u>(12,342)</u>	<u>(41,946)</u>	<u>(39,333)</u>
(Loss) income from continuing operations	<u>(8,432)</u>	<u>(547)</u>	<u>(25,066)</u>	<u>1,457</u>
Discontinued operations:				
Income from operations of properties sold or held for sale	2,942	6,440	16,158	18,485
Gain on sale of real estate	339,024	—	339,024	—
Loss on extinguishment of debt	(764)	—	(764)	—
Income from discontinued operations	<u>341,202</u>	<u>6,440</u>	<u>354,418</u>	<u>18,485</u>
Net income	<u>332,770</u>	<u>5,893</u>	<u>329,352</u>	<u>19,942</u>
Less: Net income attributable to noncontrolling interests in subsidiaries	—	—	—	—
Net income attributable to the controlling interests	<u>\$ 332,770</u>	<u>\$ 5,893</u>	<u>\$ 329,352</u>	<u>\$ 19,942</u>
Basic net (loss) income attributable to the controlling interests per share:				
Continuing operations	\$ (0.10)	\$ (0.01)	\$ (0.31)	\$ 0.01
Discontinued operations	4.24	0.08	4.41	0.23
Net income attributable to the controlling interests per share ⁽¹⁾	<u>\$ 4.14</u>	<u>\$ 0.07</u>	<u>\$ 4.10</u>	<u>\$ 0.25</u>
Diluted net (loss) income attributable to the controlling interests per share:				
Continuing operations	\$ (0.10)	\$ (0.01)	\$ (0.31)	\$ 0.01
Discontinued operations	4.24	0.08	4.41	0.23
Net income attributable to the controlling interests per share ⁽¹⁾	<u>\$ 4.14</u>	<u>\$ 0.07</u>	<u>\$ 4.10</u>	<u>\$ 0.25</u>
Weighted average shares outstanding – basic	79,981	79,076	79,933	78,695
Weighted average shares outstanding – diluted	79,981	79,076	79,933	78,802

⁽¹⁾ Earnings per share may not sum due to rounding

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income	\$ 332,770	\$ 5,893	\$ 329,352	\$ 19,942
Other comprehensive (loss) income:				
Unrealized (loss) gain on interest rate hedges	(2,387)	1,474	(13,498)	7,762
Comprehensive income	330,383	7,367	315,854	27,704
Less: Comprehensive income attributable to noncontrolling interests	—	—	—	—
Comprehensive income attributable to the controlling interests	<u>\$ 330,383</u>	<u>\$ 7,367</u>	<u>\$ 315,854</u>	<u>\$ 27,704</u>

See accompanying notes to the consolidated financial statements.

WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY
(IN THOUSANDS)
(UNAUDITED)

	Shares Issued and Out- standing	Shares of Beneficial Interest at Par Value	Additional Paid in Capital	Distributions in Excess of Net Income	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity	Noncontrolling Interests in Subsidiaries	Total Equity
Balance, December 31, 2018	79,910	\$ 799	\$ 1,526,574	\$ (469,085)	\$ 9,839	\$ 1,068,127	\$ 351	\$ 1,068,478
Cumulative effect of change in accounting principle (see note 4)	—	—	—	(906)	—	(906)	—	(906)
Net income attributable to the controlling interests	—	—	—	329,352	—	329,352	—	329,352
Unrealized loss on interest rate hedges	—	—	—	—	(13,498)	(13,498)	—	(13,498)
Distributions to noncontrolling interests	—	—	—	—	—	—	(8)	(8)
Dividends	—	—	—	(72,339)	—	(72,339)	—	(72,339)
Equity issuances, net of issuance costs	145	2	3,679	—	—	3,681	—	3,681
Shares issued under dividend reinvestment program	128	1	3,429	—	—	3,430	—	3,430
Share grants, net of forfeitures and tax withholdings	109	1	6,052	—	—	6,053	—	6,053
Balance, September 30, 2019	<u>80,292</u>	<u>\$ 803</u>	<u>\$ 1,539,734</u>	<u>\$ (212,978)</u>	<u>\$ (3,659)</u>	<u>\$ 1,323,900</u>	<u>\$ 343</u>	<u>\$ 1,324,243</u>
	Shares Issued and Out- standing	Shares of Beneficial Interest at Par Value	Additional Paid in Capital	Distributions in Excess of Net Income	Accumulated Other Comprehensive Income	Total Shareholders' Equity	Noncontrolling Interests in Subsidiaries	Total Equity
Balance, December 31, 2017	78,510	\$ 785	\$ 1,483,980	\$ (399,213)	\$ 9,419	\$ 1,094,971	\$ 365	\$ 1,095,336
Net income attributable to the controlling interests	—	—	—	19,942	—	19,942	—	19,942
Unrealized gain on interest rate hedges	—	—	—	—	7,762	7,762	—	7,762
Distributions to noncontrolling interests	—	—	—	—	—	—	(11)	(11)
Dividends	—	—	—	(71,478)	—	(71,478)	—	(71,478)
Equity issuances, net of issuance costs	1,165	11	35,461	—	—	35,472	—	35,472
Shares issued under dividend reinvestment program	74	1	1,810	—	—	1,811	—	1,811
Share grants, net of forfeitures and tax withholdings	95	1	4,874	—	—	4,875	—	4,875
Balance, September 30, 2018	<u>79,844</u>	<u>\$ 798</u>	<u>\$ 1,526,125</u>	<u>\$ (450,749)</u>	<u>\$ 17,181</u>	<u>\$ 1,093,355</u>	<u>\$ 354</u>	<u>\$ 1,093,709</u>

See accompanying notes to the consolidated financial statements.

WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY
(IN THOUSANDS)
(UNAUDITED)

	Shares Issued and Out-standing	Shares of Beneficial Interest at Par Value	Additional Paid in Capital	Distributions in Excess of Net Income	Accumulated Other Comprehensive Loss	Total Shareholders' Equity	Noncontrolling Interests in Subsidiaries	Total Equity
Balance, June 30, 2019	80,082	\$ 801	\$ 1,532,497	\$ (521,661)	\$ (1,272)	\$ 1,010,365	\$ 343	\$ 1,010,708
Net income attributable to the controlling interests	—	—	—	332,770	—	332,770	—	332,770
Unrealized loss on interest rate hedges	—	—	—	—	(2,387)	(2,387)	—	(2,387)
Dividends	—	—	—	(24,087)	—	(24,087)	—	(24,087)
Equity offerings, net of issuance costs	145	2	3,679	—	—	3,681	—	3,681
Shares issued under Dividend Reinvestment Program	64	—	1,757	—	—	1,757	—	1,757
Share grants, net of share grant amortization and forfeitures	1	—	1,801	—	—	1,801	—	1,801
Balance, September 30, 2019	80,292	\$ 803	\$ 1,539,734	\$ (212,978)	\$ (3,659)	\$ 1,323,900	\$ 343	\$ 1,324,243

	Shares Issued and Out-standing	Shares of Beneficial Interest at Par Value	Additional Paid in Capital	Distributions in Excess of Net Income	Accumulated Other Comprehensive Income	Total Shareholders' Equity	Noncontrolling Interests in Subsidiaries	Total Equity
Balance, June 30, 2018	78,661	\$ 787	\$ 1,488,366	\$ (432,585)	\$ 15,707	\$ 1,072,275	\$ 358	\$ 1,072,633
Net income attributable to the controlling interests	—	—	—	5,893	—	5,893	—	5,893
Unrealized gain on interest rate hedges	—	—	—	—	1,474	1,474	—	1,474
Distributions to noncontrolling interests	—	—	—	—	—	—	(4)	(4)
Dividends	—	—	—	(24,057)	—	(24,057)	—	(24,057)
Equity issuances, net of issuance costs	1,165	11	35,461	—	—	35,472	—	35,472
Shares issued under dividend reinvestment program	18	—	565	—	—	565	—	565
Share grants, net of forfeitures and tax withholdings	—	—	1,733	—	—	1,733	—	1,733
Balance, September 30, 2018	79,844	\$ 798	\$ 1,526,125	\$ (450,749)	\$ 17,181	\$ 1,093,355	\$ 354	\$ 1,093,709

See accompanying notes to the consolidated financial statements.

WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

	Nine Months Ended September 30,	
	2019	2018
Cash flows from operating activities		
Net income	\$ 329,352	\$ 19,942
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	102,367	90,119
Credit (recoveries) losses on lease related receivables	(45)	1,077
Real estate impairment	8,374	1,886
Gain on sale of real estate	(337,978)	(2,495)
Share-based compensation expense	6,265	5,064
Amortization of debt premiums, discounts and related financing costs	2,632	1,565
Loss on extinguishment of debt	764	1,178
Changes in operating other assets	(12,353)	(9,233)
Changes in operating other liabilities	(8,098)	(8,229)
Net cash provided by operating activities	91,280	100,874
Cash flows from investing activities		
Real estate acquisitions, net	(528,588)	(106,400)
Net cash received for sale of real estate	582,551	174,297
Capital improvements to real estate	(30,588)	(33,437)
Development in progress	(26,884)	(25,036)
Non-real estate capital improvements	(317)	(626)
Net cash (used in) provided by investing activities	(3,826)	8,798
Cash flows from financing activities		
Line of credit borrowings, net	23,000	17,000
Dividends paid	(96,361)	(95,059)
Principal payments – mortgage notes payable	(12,596)	(169,480)
Repayments of unsecured term loan debt	(450,000)	(150,000)
Proceeds from term loan	450,000	250,000
Payment of financing costs	(1,219)	(5,565)
Distributions to noncontrolling interests	(8)	(11)
Proceeds from dividend reinvestment program	3,430	1,811
Net proceeds from equity issuances	3,681	35,472
Payment of tax withholdings for restricted share awards	(512)	(301)
Net cash used in financing activities	(80,585)	(116,133)
Net increase (decrease) in cash, cash equivalents and restricted cash	6,869	(6,461)
Cash, cash equivalents and restricted cash at beginning of period	7,640	12,623
Cash, cash equivalents and restricted cash at end of period	\$ 14,509	\$ 6,162

WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

	Nine Months Ended September 30,	
	2019	2018
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of amounts capitalized	\$ 34,481	\$ 32,021
Change in accrued capital improvements and development costs	13,638	6,352
Reconciliation of cash, cash equivalents and restricted cash:		
Cash and cash equivalents	\$ 12,931	\$ 4,810
Restricted cash	1,578	1,352
Cash, cash equivalents and restricted cash	<u>\$ 14,509</u>	<u>\$ 6,162</u>

See accompanying notes to the consolidated financial statements.

WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019
(UNAUDITED)

NOTE 1: NATURE OF BUSINESS

Washington Real Estate Investment Trust ("WashREIT"), a Maryland real estate investment trust, is a self-administered equity real estate investment trust, successor to a trust organized in 1960. Our business consists of the ownership and operation of income producing real estate properties in the greater Washington metro region. We own a diversified portfolio of commercial and multifamily buildings. During the 2019 Quarter (as defined below), we sold eight retail properties (see note 3). These properties met the criteria for classification as discontinued operations. The remaining retail properties do not meet the qualitative or quantitative criteria for a reportable segment (see note 11). The acquisitions of multifamily properties and dispositions of retail properties are part of a strategic shift away from the retail sector to the multifamily sector. This strategic shift simplifies our portfolio to two reportable segments (office and multifamily) and reduces our exposure to future retail lease expirations.

Federal Income Taxes

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

Seven of the eight retail properties sold during the 2019 Quarter were identified for deferred exchanges under Section 1031 of the Code (see note 3). We acquired eight multifamily replacement properties (see note 3) during the 2019 Period (as defined below).

Generally, and subject to our ongoing qualification as a REIT, no provisions for income taxes are necessary except for taxes on undistributed taxable income and taxes on the income generated by our taxable REIT subsidiaries ("TRSs"). Our TRSs are subject to corporate federal and state income tax on their taxable income at regular statutory rates, or as calculated under the alternative minimum tax, as appropriate. As of both September 30, 2019 and December 31, 2018, our TRSs had a deferred tax asset of \$1.4 million that was fully reserved. As of both September 30, 2019 and December 31, 2018, we had deferred state and local tax liabilities of \$0.6 million. These deferred tax liabilities are primarily related to temporary differences in the timing of the recognition of revenue, depreciation and amortization.

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

Significant Accounting Policies

We have prepared our consolidated financial statements using the accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2018, except as noted in note 4 related to our adoption of ASU 2016-02, *Leases (Topic 842)* as of January 1, 2019.

Pronouncements Adopted

Standard/Description	Effective Date and Adoption Considerations	Effect on Financial Statements or Other significant Matters
<p>ASU 2016-02, <i>Leases (Topic 842)</i> (“ASU 2016-02”). This standard amends existing lease accounting standards for both lessees and lessors.</p> <p>Lessees</p> <p>Lessees must classify most leases as either finance or operating leases. For lease contracts, or contracts with an embedded lease, with a duration of more than one year in which we are the lessee, the present value of future lease payments are recognized on our consolidated balance sheets as a right-of-use asset and a corresponding lease liability.</p> <p>Lessors</p> <p>Lease contracts currently classified as operating leases are accounted for similarly as under existing guidance. However, lessors are required to account for each lease and non-lease component, such as common area maintenance or tenant service revenues, of a contract separately. In July 2018, the Financial Accounting Standards Board (“FASB”) issued 2018-11, <i>Leases (Topic 842) - Targeted Improvements</i> (“ASU 2018-11”), which provides lessors optional transition relief from implementing this aspect of ASU 2016-02 if the following criteria are met: (1) both components have the same timing and pattern of revenue and (2) if accounted for separately, both components would be classified as an operating lease.</p> <p>Also under ASU 2016-02, only incremental costs or initial direct costs of executing a lease contract qualify for capitalization, while prior accounting standards allowed for the capitalization of indirect leasing costs.</p>	<p>We adopted the new standard as of January 1, 2019.</p>	<p>We adopted ASU 2016-02 as of January 1, 2019 using the modified retrospective approach and by applying the transitional practical expedients noted below. Under the modified retrospective approach, we recognized a cumulative effect adjustment of \$0.9 million to retained earnings as of January 1, 2019 (see note 4 for further discussion of the impact of adoption on our consolidated financial statements). We did not elect the hindsight expedient, which would have allowed us to reevaluate lease terms in calculating lease liabilities as part of adoption.</p> <p>Under ASU 2018-11, the FASB offered optional transition relief, if elected as a package, and applied consistently by an entity to all of its leases. Accordingly, upon adoption we elected, as a package, the practical expedients for all leases as follows: (1) we will not reassess whether any expired or existing contracts are or contain leases, (2) we will not reassess the lease classification for any expired or existing leases, and (3) we will not reassess initial direct costs for any existing leases.</p>

Pronouncements Not Yet Adopted

Standard/Description	Effective Date and Adoption Considerations	Effect on Financial Statements or Other significant Matters
ASU 2016-13, <i>Measurement of Credit Losses on Financial Instruments</i> . This standard requires financial assets measured at an amortized cost basis, including trade receivables, to be presented at the net amount expected to be collected.	The new standard is effective for public entities for fiscal years beginning after December 15, 2019 and for interim periods therein, with adoption one year earlier permitted.	We are currently evaluating the impact the new standard may have on our consolidated financial statements.
ASU 2018-15, <i>Intangibles - Goodwill and Other - Internal-Use Software</i> . This standard requires a customer in a cloud computing arrangement that is a service contract to follow the internal-use software guidance to determine which implementation costs to capitalize as assets.	The standard is effective for public entities for fiscal years beginning after December 31, 2019 and for interim periods therein, with early adoption permitted.	We are currently evaluating the impact the new standard may have on our consolidated financial statements.

Principles of Consolidation and Basis of Presentation

The accompanying unaudited consolidated financial statements include the consolidated accounts of WashREIT, our majority-owned subsidiaries and entities in which WashREIT has a controlling interest. All intercompany balances and transactions have been eliminated in consolidation.

We have prepared the accompanying unaudited financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP 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 of the results for the periods presented 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, 2018.

Within these notes to the financial statements, we refer to the three months ended September 30, 2019 and September 30, 2018 as the “2019 Quarter” and the “2018 Quarter,” respectively, and the nine months ended September 30, 2019 and September 30, 2018 as the “2019 Period” and the “2018 Period,” respectively.

Discontinued Operations

We classify properties as held for sale when they meet the necessary criteria, which include: (a) senior management commits to a plan to sell the assets, (b) the assets are available for immediate sale in their present condition subject only to terms that are usual and customary for sales of such assets, (c) an active program to locate a buyer and other actions required to complete the plan to sell the assets have been initiated, (d) the sale of the assets is probable, and transfer of the assets is expected to qualify for recognition as a completed sale, within one year, (e) the assets are being actively marketed for sale at a price that is reasonable in relation to its current fair value and (f) actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. Depreciation on these properties is discontinued at the time they are classified as held for sale, but operating revenues, operating expenses and interest expense continue to be recognized until the date of sale.

Revenues and expenses of properties that are either sold or classified as held for sale are presented as discontinued operations for all periods presented in the consolidated statements of operations if the dispositions represent a strategic shift that has (or will have) a major effect on our operations and financial results. Interest on debt that can be identified as specifically attributed to these properties is included in discontinued operations. If the dispositions do not represent a strategic shift that has (or will have) a major effect on our operations and financial results, then the revenues and expenses of the properties that are classified as sold or held for sale are presented as continuing operations in the consolidated statements of operations for all periods presented.

Restricted Cash

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

Use of Estimates in the Financial Statements

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

NOTE 3: REAL ESTATE

Acquisitions

We acquired the following properties during the 2019 Period:

Acquisition Date	Property	Type	# of units (unaudited)	Contract Purchase Price (in thousands)
April 30, 2019	Assembly Portfolio - Virginia ⁽¹⁾	Multifamily	1,685	\$ 379,100
June 27, 2019	Assembly Portfolio - Maryland ⁽²⁾	Multifamily	428	82,070
July 23, 2019	Cascade at Landmark	Multifamily	277	69,750
			2,390	\$ 530,920

⁽¹⁾ Consists of Assembly Alexandria, Assembly Manassas, Assembly Dulles, Assembly Leesburg, and Assembly Herndon.

⁽²⁾ Consists of Assembly Germantown and Assembly Watkins Mill. The Assembly Portfolio - Virginia and Assembly Portfolio - Maryland properties are collectively the "Assembly Portfolio."

The purchases of the Assembly Portfolio and Cascade at Landmark were structured as exchanges under Section 1031 of the Code in a manner such that legal title was held by an Exchange Accommodator until certain identified properties were sold and the deferred exchanges were completed. We retained all of the legal and economic benefits and obligations related to the Assembly Portfolio and Cascade at Landmark. As such, the Assembly Portfolio and Cascade at Landmark were considered to be variable interest entities until legal title was transferred to us upon completion of the 1031 exchanges, which occurred during the 2019 Quarter. We consolidated the assets and liabilities of the Assembly Portfolio and Cascade at Landmark because we determined that WashREIT was the primary beneficiary of the Assembly Portfolio and Cascade at Landmark.

The results of operations from the 2019 acquisitions are included in the consolidated statements of operations as of their acquisition dates and are as follows:

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Real estate rental revenue	\$ 11,013	\$ 16,467
Net loss	(4,698)	(8,179)

We accounted for the 2019 acquisitions as asset acquisitions. Accordingly, we capitalized \$2.9 million of costs directly associated with the acquisitions. We measured the value of the acquired physical assets (land and building) and in-place leases (absorption costs) by allocating the total cost of the acquisitions on a relative fair value basis.

The total cost of the 2019 acquisitions was as follows (in thousands):

	Assembly Portfolio	Cascade at Landmark	Total
Contract purchase price	\$ 461,170	\$ 69,750	\$ 530,920
Credit to buyer	(2,252)	—	(2,252)
Capitalized acquisition costs	2,362	498	2,860
Total	<u>\$ 461,280</u>	<u>\$ 70,248</u>	<u>\$ 531,528</u>

We have recorded the total cost of the 2019 acquisitions as follows (in thousands):

Land	\$ 92,391
Building	423,663
Absorption costs	15,474
Total	<u>\$ 531,528</u>

The weighted remaining average life for the absorption costs is two months.

The difference in the total cost of the acquisitions of \$531.5 million and the acquisition cost per the consolidated statements of cash flows of \$528.6 million is primarily due to credits received at settlement totaling \$2.9 million.

Development/Redevelopment

We have properties under development/redevelopment and held for current or future development as of September 30, 2019.

In the multifamily segment, we have The Trove, a multifamily development adjacent to The Wellington, and own land held for future multifamily development adjacent to Riverside Apartments. As of September 30, 2019, we had invested \$95.7 million and \$24.2 million, including the costs of acquiring the land, in The Trove and the development adjacent to Riverside Apartments, respectively. We substantially completed major construction activities for The Trove garage levels 1-5 during the 2019 Quarter and placed into service assets totaling \$12.0 million.

We also had a redevelopment project to add rentable space at Spring Valley Village, a retail center in Washington, DC. As of September 30, 2019, we had invested \$6.5 million in the redevelopment. We substantially completed major construction activities on this project during the fourth quarter of 2018 and placed into service assets totaling \$4.2 million.

Properties Sold and Held for Sale

We intend to hold our properties for investment with a view to long-term appreciation, to engage in the business of acquiring, developing and owning our properties, and to make occasional sales of the properties that no longer meet our long-term strategy or return objectives and where market conditions for sale are favorable. The proceeds from the sales may be reinvested into other properties, used to fund development operations or to support other corporate needs, or distributed to our shareholders.

We sold the following properties during 2019 and 2018:

Disposition Date	Property Name	Property Type	Rentable Square Feet	Contract Sales Price (in thousands)	(Loss) Gain on Sale (in thousands)
June 26, 2019	Quantico Corporate Center ⁽¹⁾	Office	272,000	\$ 33,000	\$ (1,046)
July 23, 2019	Shopping Center Portfolio ⁽²⁾	Retail	800,000	485,250	333,023
August 21, 2019	Frederick Crossing and Frederick County Square	Retail	520,000	57,500	9,507
August 27, 2019	Centre at Hagerstown	Retail	330,000	23,500	(3,506)
	Total 2019		1,922,000	\$ 599,250	\$ 337,978
January 19, 2018	Braddock Metro Center	Office	356,000	\$ 93,000	\$ —
June 28, 2018	2445 M Street	Office	292,000	101,600	2,495
	Total 2018		648,000	\$ 194,600	\$ 2,495

⁽¹⁾ Consists of 925 and 1000 Corporate Drive.

⁽²⁾ Consists of five retail properties: Gateway Overlook, Wheaton Park, Olney Village Center, Bradlee Shopping Center and Shoppes of Foxchase.

During the first quarter of 2018, we executed a purchase and sale agreement to sell 2445 M Street, a 292,000 square foot office property in Washington, DC, for a contract sales price of \$100.0 million, with settlement originally scheduled for the third quarter of 2018. During 2017, we evaluated 2445 M Street for impairment and recognized a \$24.1 million impairment charge in order to reduce the carrying value of the property to its estimated fair value. Upon execution of the purchase and sale agreement, the property met the criteria for classification as held for sale. Due to the property's classification as held for sale, we recorded an additional impairment charge of \$1.9 million in the first quarter of 2018 in order to reduce the carrying value of the property to its estimated fair value, less estimated selling costs. We based this fair value on the expected sales price from a potential sale. There are few observable market transactions for similar properties. This fair valuation falls into Level 2 of the fair value hierarchy due to its reliance on a quoted price in a market that is not active. During the second quarter of 2018, we executed an amendment to the purchase and sale agreement which increased the contract sales price to \$101.6 million and advanced the settlement date. On June 28, 2018, we sold 2445 M Street, recognizing a gain on sale of real estate of \$2.5 million.

During the first quarter of 2019, we executed a letter of intent for the sale of Quantico Corporate Center, an office property in Stafford, Virginia, consisting of two office buildings totaling 272,000 square feet. The property did not meet the criteria for classification as held for sale as of March 31, 2019. Due to the negotiations to sell the property, we evaluated Quantico Corporate Center for impairment and recognized an \$8.4 million impairment charge during the first quarter of 2019 in order to reduce the carrying value of the property to its estimated fair value. We based this fair valuation on the expected sale price from a potential sale. There are few observable market transactions for similar properties. This fair valuation falls into Level 2 of the fair value hierarchy due to its reliance on a quoted price in a market that is not active. On April 22, 2019, we executed a purchase and sale agreement to sell Quantico Corporate Center for a contract sale price of \$33.0 million. On June 26, 2019, we sold Quantico Corporate Center, recognizing a loss on sale of real estate of \$1.0 million.

In June 2019, we entered into two separate purchase and sale agreements with two separate buyers to sell the Shopping Center Portfolio and the Power Center Portfolio (Frederick Crossing, Frederick County Square and Centre at Hagerstown). As of June 30, 2019, we had a non-refundable deposit from the potential buyer of the Shopping Center Portfolio and expected to receive a non-refundable deposit from the potential buyer of the Power Center Portfolio in July 2019. As of June 30, 2019, the properties in the Retail Portfolio (as defined below) met the criteria for classification as held for sale.

We closed on the Shopping Center Portfolio sale transaction on July 23, 2019, recognizing a gain on sale of real estate of \$333.0 million. Prior to closing on the disposition of the Shopping Center Portfolio, we prepaid the mortgage note secured by Olney Village Center, incurring a loss on extinguishment of debt of approximately \$0.8 million, which we recognized in the 2019 Quarter.

Subsequent to the end of the second quarter of 2019, the purchase and sale agreement to sell the Power Center Portfolio was amended to include only Frederick Crossing and Frederick County Square. We closed on the sales of these assets on August 21, 2019, recognizing a gain on sale of real estate of \$9.5 million. Following the amendment to the purchase and sale agreement to sell the Power Center Portfolio, we marketed Centre at Hagerstown for sale and identified a separate buyer. We closed on the sales of this asset on August 27, 2019, recognizing a loss on sale of real estate of \$3.5 million.

References to the “Retail Portfolio” include the Shopping Center Portfolio, Frederick Crossing, Frederick County Square and Centre at Hagerstown. The disposition of the Retail Portfolio represents a strategic shift that will have a major effect on our financial results and we have accordingly reported the Retail Portfolio as discontinued operations. The Retail Portfolio represents a majority of our retail assets and we have determined that our retail line of business is no longer a reportable segment (see note 11).

We have fully transferred control of the assets associated with the sold properties.

Discontinued Operations

The results of the Retail Portfolio are classified as discontinued operations and are summarized as follows (amounts in thousands, except for share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Real estate rental revenue	\$ 4,126	\$ 11,500	\$ 28,200	\$ 33,998
Real estate expenses	(1,095)	(2,582)	(6,803)	(8,036)
Depreciation and amortization	(59)	(2,321)	(4,926)	(6,985)
Interest expense	(30)	(157)	(313)	(492)
Loss on extinguishment of debt	(764)	—	(764)	—
Gain on sale of real estate	339,024	—	339,024	—
Income from discontinued operations	\$ 341,202	\$ 6,440	\$ 354,418	\$ 18,485
Basic net income per share	\$ 4.24	\$ 0.08	\$ 4.41	\$ 0.23
Diluted net income per share	\$ 4.24	\$ 0.08	\$ 4.41	\$ 0.23
Capital expenditures	\$ —	\$ 1,020	\$ 809	\$ 1,834

All assets related to the Retail Portfolio were sold as of September 30, 2019. As of December 31, 2018, assets related to the Retail Portfolio were as follows (in thousands):

	December 31, 2018
Land	\$ 88,087
Income producing property	216,577
	304,664
Accumulated depreciation and amortization	(101,254)
Income producing property, net	203,410
Rents and other receivables	9,898
Prepaid expenses and other assets	8,653
Total assets	\$ 221,961

All liabilities related to the Retail Portfolio were sold as of September 30, 2019. As of December 31, 2018, liabilities related to the Retail Portfolio were as follows (in thousands):

	December 31, 2018
Mortgage notes payable, net	\$ 11,515
Accounts payable and other liabilities	1,620
Advance rents	1,771
Tenant security deposits	612
Liabilities related to properties sold or held for sale	\$ 15,518

NOTE 4: LEASE ACCOUNTING

Leasing as a Lessor

Revenue Recognition

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

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

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

Upon adoption of ASU 2016-02, we elected not to bifurcate lease contracts into lease and non-lease components, since the timing and pattern of revenue is not materially different and the non-lease components are not the primary component of the lease. Accordingly, both lease and non-lease components are presented in "Real estate rental revenue" in our consolidated financial statements. The adoption of ASU 2016-02 did not result in a material change to our recognition of real estate rental revenue.

Accounts Receivable

Lease related receivables, which include contractual amounts accrued and unpaid from tenants and accrued straight-line rents receivable, are reduced for credit losses. Such amounts are recognized as a reduction to real estate rental revenues. We evaluate the collectability of lease receivables monthly using several factors including a lessee's creditworthiness. We recognize the credit loss on lease related receivables when, in the opinion of management, collection of substantially all lease payments is not probable. When collectability is determined not probable, any lease income recognized subsequent to recognizing the credit loss is limited to the lesser of the lease income reflected on a straight-line basis or cash collected. The adoption of ASU 2016-02 resulted in an adjustment to our opening distributions in excess of net income balance of \$0.9 million, associated with lease related receivables where collection of substantially all operating lease payments was not probable as of January 1, 2019.

Future Minimum Rental Income

As of September 30, 2019, non-cancelable commercial operating leases provide for future minimum rental income from continuing operations as follows (in thousands). Apartment leases are not included as the terms are generally for one year or less.

2019	\$	38,665
2020		153,366
2021		136,394
2022		122,558
2023		105,126
Thereafter		396,401
	\$	<u>952,510</u>

As of December 31, 2018, non-cancelable commercial operating leases provide for future minimum rental income from continuing operations as follows (in thousands):

2019	\$	154,260
2020		143,566
2021		125,008
2022		108,688
2023		89,969
Thereafter		253,749
	\$	<u>875,240</u>

Leasing as a Lessee

2000 M Street, an office property in Washington, DC, is subject to an operating ground lease with a remaining term of 52 years. Rental payments under this lease are subject to percentage rent variable payments, which are not included as part of our measurement of straight-line rental expense. We recognized variable rental payments of \$0.3 million during each of the 2019 and 2018 Quarters and \$0.9 million and \$0.8 million during 2019 and 2018 Periods, respectively.

Upon adoption of ASU 2016-02, we recognized a right of use asset (included in Income producing property) and lease liability (included in Accounts payable and other liabilities) of \$4.2 million. We used a discount rate of approximately 5.9%, which was derived from our assessment of securitized rates for similar assets and credit quality. We recognized \$0.1 million and \$0.2 million of right-of-use and lease liability amortization during the 2019 Quarter and 2019 Period, respectively. In addition, as of January 1, 2019 we reclassified the associated below-market ground lease intangible asset of \$10.0 million, net of accumulated amortization of \$2.1 million, from Prepaid expenses and other assets to Income producing property on our consolidated balance sheets.

The following table sets forth the undiscounted cash flows of our scheduled obligations for future minimum payments on our operating ground lease as of September 30, 2019 and a reconciliation of those cash flows to the operating lease liability as of September 30, 2019 (in thousands):

2019	\$	65
2020		260
2021		260
2022		260
2023		260
2024		260
Thereafter		<u>11,895</u>
		13,260
Imputed interest		<u>(9,229)</u>
Lease liability	\$	<u>4,031</u>

NOTE 5: UNSECURED LINE OF CREDIT PAYABLE

During the first quarter of 2018, we entered into an amended and restated credit agreement (“Credit Agreement”) which provides for a \$700.0 million unsecured revolving credit facility (“Revolving Credit Facility”), the continuation of an existing \$150.0 million unsecured term loan (“2015 Term Loan”) and an additional \$250.0 million unsecured term loan (“2018 Term Loan”). The Revolving Credit Facility has a four-year term ending in March 2022, with two six-month extension options. The Credit Agreement has an accordion feature that allows us to increase the aggregate facility to \$1.5 billion, subject to the lenders’ agreement to provide additional revolving loan commitments or term loans.

The Revolving Credit Facility bears interest at a rate of either one month LIBOR plus a margin ranging from 0.775% to 1.55% or the base rate plus a margin ranging from 0.0% to 0.55% (in each case depending upon WashREIT’s credit rating). The base rate is the highest of the administrative agent’s prime rate, the federal funds rate plus 0.50% and the LIBOR market index rate plus 1.0%. In addition, the Revolving Credit Facility requires the payment of a facility fee ranging from 0.10% to 0.30% (depending on WashREIT’s credit rating) on the \$700.0 million committed revolving loan capacity, without regard to usage. As of

September 30, 2019, the interest rate on the Revolving Credit Facility is one month LIBOR plus 1.00%, the one month LIBOR is 2.02% and the facility fee is 0.20%.

All outstanding advances for the Revolving Credit Facility are due and payable upon maturity in March 2022, unless extended pursuant to one or both of the two six-month extension options. Interest only payments are due and payable generally on a monthly basis.

The 2018 Term Loan increases and replaces the \$150.0 million unsecured term loan, initially entered into on July 22, 2016 (“2016 Term Loan”), that was scheduled to mature in July 2023. The 2018 Term Loan is scheduled to mature in July 2023 and bears interest at a rate of either one month LIBOR plus a margin ranging from 0.85% to 1.75% or the base rate plus a margin ranging from 0.0% to 0.75% (in each case depending upon WashREIT’s credit rating). We used the \$100.0 million of additional proceeds from the 2018 Term Loan primarily to repay outstanding borrowings on the Revolving Credit Facility.

We had previously used interest rate derivatives to effectively fix the interest rate of the 2016 Term Loan. These interest rate derivatives now effectively fix the interest rate on a \$150.0 million portion of the 2018 Term Loan at 2.31%. In March 2018, we entered into interest rate derivatives that commenced on June 29, 2018 to effectively fix the interest rate on the remaining \$100.0 million of the 2018 Term Loan at 3.71%. The 2018 Term Loan has an all-in fixed interest rate of 2.87%.

The amount of the Revolving Credit Facility’s unsecured line of credit unused and available at September 30, 2019 is as follows (in thousands):

Committed capacity	\$	700,000
Borrowings outstanding		(211,000)
Unused and available	\$	489,000

We executed borrowings and repayments on the Revolving Credit Facility during the 2019 Period as follows (in thousands):

Balance, December 31, 2018	\$	188,000
Borrowings		659,000
Repayments		(636,000)
Balance, September 30, 2019	\$	211,000

NOTE 6: NOTES PAYABLE

On April 30, 2019, we entered into a six-month \$450.0 million unsecured term loan facility (“2019 Term Loan”), maturing on October 30, 2019 with an option to extend for a six-month period. The 2019 Term Loan bore interest, at WashREIT’s option, at a rate of either LIBOR plus a margin ranging from 0.75% to 1.65% or the base rate plus a margin ranging 0.0% to 0.65% (in each case depending upon WashREIT’s credit rating). The base rate is the highest of the administrative agent’s prime rate, the federal funds rate plus 0.50% and the daily one-month LIBOR rate plus 1.0%. At WashREIT’s election, the 2019 Term Loan had an interest rate of one-week LIBOR plus 100 basis points, based on WashREIT’s current unsecured debt rating. The 2019 Term Loan was used to fund the acquisition of the Assembly Portfolio (see note 3). During the 2019 Quarter, we repaid the \$450.0 million of borrowings on the 2019 Term Loan with proceeds from the sale of the Retail Portfolio (see note 3).

NOTE 7: DERIVATIVE INSTRUMENTS

On September 15, 2015, we entered into two interest rate swap arrangements with a total notional amount of \$150.0 million to swap the floating interest rate under the \$150.0 million 2015 Term Loan (see note 5) to an all-in fixed interest rate of 2.72% starting on October 15, 2015 and extending until the maturity of the 2015 Term Loan on March 15, 2021.

On July 22, 2016, we entered into two forward interest rate swap arrangements with a total notional amount of \$150.0 million to swap the floating interest rate under the \$150.0 million 2016 Term Loan (see note 5) to an all-in fixed interest rate of 2.86% starting on March 31, 2017 and extending until the maturity of the 2016 Term Loan on July 21, 2023.

On March 29, 2018, we entered into the \$250.0 million 2018 Term Loan (see note 5) maturing on July 21, 2023, which increased and replaced the 2016 Term Loan. The interest rate swap arrangements that had effectively fixed the 2016 Term Loan now effectively fix the interest rate on a \$150.0 million portion of the 2018 Term Loan at 2.31%. On March 29, 2018, we entered into four interest rate swap arrangements with a total notional amount of \$100.0 million to effectively fix the interest rate on the remaining

\$100.0 million of the 2018 Term Loan at 3.71%, that commenced on June 29, 2018 and extending until the maturity of the 2018 Term Loan on July 21, 2023. The \$250.0 million 2018 Term Loan has an all-in fixed interest rate of 2.87%.

The interest rate swaps qualify as cash flow hedges and are recorded at fair value in accordance with GAAP, based on discounted cash flow methodologies and observable inputs. We record the total change in fair value of the interest rate swap arrangements associated with our cash flow hedges in other comprehensive (loss) income. The resulting unrealized (loss) gain of the cash flow hedges was the only activity in other comprehensive (loss) income during the periods presented in our consolidated financial statements. We assess the effectiveness of our cash flow hedges both at inception and on an ongoing basis. The cash flow hedges were highly effective for all periods presented.

The fair values of the interest rate swaps as of September 30, 2019 and December 31, 2018, are as follows (in thousands):

Derivative Instrument	Aggregate Notional Amount	Effective Date	Maturity Date	Fair Value	
				September 30, 2019	December 31, 2018
Interest rate swaps	\$ 150,000	October 15, 2015	March 15, 2021	\$ (140)	\$ 2,720
Interest rate swaps	150,000	March 31, 2017	July 21, 2023	1,007	7,918
Interest rate swaps	100,000	June 29, 2018	July 21, 2023	(4,526)	(799)
	<u>\$ 400,000</u>			<u>\$ (3,659)</u>	<u>\$ 9,839</u>

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Unrealized (loss) gain on interest rate swaps	\$ (2,387)	\$ 1,474	\$ (13,498)	\$ 7,762

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on our variable-rate debt. During the next twelve months, we estimate that an additional \$0.3 million will be reclassified as an increase to interest expense.

We have agreements with each of our derivative counterparties that contain a provision whereby we could be declared in default on our derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to our default on the indebtedness. As of September 30, 2019, the fair value of derivative assets, including accrued interest, was \$1.0 million, and the fair value of the derivative liabilities, including accrued interest, was \$4.7 million. As of September 30, 2019, we have not posted any collateral related to these agreements.

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

NOTE 8: FAIR VALUE DISCLOSURES

Assets and Liabilities Measured at Fair Value

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

Level 1: Quoted prices in active markets for identical assets

Level 2: Significant other observable inputs

Level 3: Significant unobservable inputs

The only assets or liabilities we had at September 30, 2019 and December 31, 2018 that are recorded at fair value on a recurring basis are the assets held in the Supplemental Executive Retirement Plan ("SERP"), which primarily consist of investments in mutual funds, and the interest rate swaps (see note 7).

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

The valuation of the interest rate swaps is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each interest rate swap. This analysis reflects the contractual terms of the interest rate swaps, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash payments (or receipts) and the discounted expected variable cash receipts (or payments). The variable cash payments (or receipts) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. To comply with the provisions of ASC 820, *Fair Value Measurement*, we incorporate credit valuation adjustments in the fair value measurements to appropriately reflect both our own nonperformance risk and the respective counterparty's nonperformance risk. These credit valuation adjustments were concluded to not be significant inputs for the fair value calculations for the periods presented. In adjusting the fair value of our derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements, such as the posting of collateral, thresholds, mutual puts and guarantees. The valuation of interest rate swaps fall into Level 2 in the fair value hierarchy.

The fair values of these assets and liabilities at September 30, 2019 and December 31, 2018 were as follows (in thousands):

	September 30, 2019				December 31, 2018			
	Fair Value	Level 1	Level 2	Level 3	Fair Value	Level 1	Level 2	Level 3
Assets:								
SERP	\$ 1,636	\$ —	\$ 1,636	\$ —	\$ 1,364	\$ —	\$ 1,364	\$ —
Interest rate swaps	1,007	—	1,007	—	10,638	—	10,638	—
Liabilities:								
Interest rate swaps	\$ (4,666)	\$ —	\$ (4,666)	\$ —	\$ (799)	\$ —	\$ (799)	\$ —

Financial Assets and Liabilities Not Measured at Fair Value

The following disclosures of estimated fair value were determined by management using available market information and established valuation methodologies, including discounted cash flow models. Many of these estimates involve significant judgment. The estimated fair value disclosed may not necessarily be indicative of the amounts we could realize on disposition of the financial instruments. The use of different market assumptions or estimation methodologies could have an effect on the estimated fair value amounts. In addition, fair value estimates are made at a point in time and thus, estimates of fair value subsequent to September 30, 2019 may differ significantly from the amounts presented. The valuations of cash and cash equivalents and restricted cash fall into Level 1 in the fair value hierarchy and the valuations of debt instruments fall into Level 3 in the fair value hierarchy.

As of September 30, 2019 and December 31, 2018, the carrying values and estimated fair values of our financial instruments were as follows (in thousands):

	September 30, 2019		December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	\$ 12,931	\$ 12,931	\$ 6,016	\$ 6,016
Restricted cash	1,578	1,578	1,624	1,624
Mortgage notes payable, net	47,319	48,259	48,277	48,368
Line of credit	211,000	211,000	188,000	188,000
Notes payable, net	996,455	1,025,248	995,397	1,015,210

The mortgage note secured by Olney Village Center was reclassified to Other liabilities related to properties held for sale prior to its prepayment during the 2019 Quarter (see note 3). As of September 30, 2019 and December 31, 2018, the carrying values and estimated fair values of the mortgage note secured by Olney Village Center were as follows (in thousands):

	September 30, 2019		December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Mortgage notes payable, net	\$ —	\$ —	\$ 11,515	\$ 12,030

NOTE 9: STOCK BASED COMPENSATION

WashREIT maintains short-term (“STIP”) and long-term (“LTIP”) incentive plans that allow for stock based awards to officers and non-officer employees. Stock based awards are provided to officers and non-officer employees, as well as trustees, under the Washington Real Estate Investment Trust 2016 Omnibus Incentive Plan which allows for awards in the form of restricted shares, restricted share units, options and other awards up to an aggregate of 2,400,000 shares over the ten-year period in which the plan will be in effect. Restricted share units are converted into shares of our stock upon full vesting through the issuance of new shares.

During the first quarter of 2019, we amended the STIP for executive officers and the STIP and LTIP for non-executive officers and staff to replace the use of core funds available for distribution as a performance metric and performance goal, respectively, with a Leasing Target performance metric and performance goal. Leasing Target means the aggregate annual leasing target amount (measured in square feet of leasing space) as approved by the compensation committee of our board of trustees for a given performance period and performance year, respectively, with regards to our office and retail properties. The amendments became effective as of March 18, 2019 for performance periods beginning on or after January 1, 2019.

Total Compensation Expense

Total compensation expense recognized in the consolidated financial statements for all outstanding share based awards was \$1.7 million for both the 2019 Quarter and 2018 Quarter, and \$6.3 million and \$5.1 million for the 2019 Period and 2018 Period, respectively.

Restricted Share Awards

The total fair values of restricted share awards vested was \$1.7 million and \$1.1 million for the 2019 Period and 2018 Period, respectively.

The total unvested restricted share awards at September 30, 2019 was 428,840 shares, which had a weighted average grant date fair value of \$28.08 per share. As of September 30, 2019, the total compensation cost related to unvested restricted share awards was \$7.0 million, which we expect to recognize over a weighted average period of 24 months.

NOTE 10: EARNINGS PER COMMON SHARE

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

We also determine “Diluted earnings per share” as the more dilutive of the two-class method or the treasury stock method with respect to the unvested restricted share awards. We further evaluate any other potentially dilutive securities at the end of the period and adjust the basic earnings per share calculation for the impact of those securities that are dilutive. Our diluted earnings per share calculation includes the dilutive impact of operating partnership units under the if-converted method and our share based awards with performance conditions prior to the grant date and all market condition awards under the contingently issuable method.

The computations of basic and diluted earnings per share for the three and nine months ended September 30, 2019 and 2018 were as follows (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Numerator:				
(Loss) income from continuing operations	\$ (8,432)	\$ (547)	\$ (25,066)	\$ 1,457
Allocation of losses (earnings) to unvested restricted share awards to continuing operations	47	(144)	118	(432)
Adjusted (loss) income from continuing operations attributable to the controlling interests	(8,385)	(691)	(24,948)	1,025
Income from discontinued operations	341,202	6,440	354,418	18,485
Allocation of earnings to unvested restricted share awards to discontinued operations	(1,841)	—	(1,870)	—
Adjusted income from discontinuing operations	339,361	6,440	352,548	18,485
Adjusted net income attributable to the controlling interests	\$ 330,976	\$ 5,749	\$ 327,600	\$ 19,510
Denominator:				
Weighted average shares outstanding – basic	79,981	79,076	79,933	78,695
Effect of dilutive securities:				
Operating partnership units	—	—	—	12
Employee restricted share awards	—	—	—	95
Weighted average shares outstanding – diluted	79,981	79,076	79,933	78,802
Earnings per common share, basic:				
Continuing operations	\$ (0.10)	\$ (0.01)	\$ (0.31)	\$ 0.01
Discontinued operations	4.24	0.08	4.41	0.23
Basic net income attributable to the controlling interests per common share ⁽¹⁾	\$ 4.14	\$ 0.07	\$ 4.10	\$ 0.25
Earnings per common share, diluted:				
Continuing operations	\$ (0.10)	\$ (0.01)	\$ (0.31)	\$ 0.01
Discontinued operations	4.24	0.08	4.41	0.23
Diluted net income attributable to the controlling interests per common share ⁽¹⁾	\$ 4.14	\$ 0.07	\$ 4.10	\$ 0.25
Dividends declared per common share	\$ 0.30	\$ 0.30	\$ 0.90	\$ 0.90

⁽¹⁾ Earnings per share may not sum due to rounding.

NOTE 11: SEGMENT INFORMATION

We have two reportable segments: office and multifamily. Office properties provide office space for various types of businesses and professions. Multifamily properties provide rental housing for individuals and families throughout the greater Washington metro region. We previously had a retail segment consisting of grocery store-anchored neighborhood centers that include other small shop tenants and regional power centers with several junior box tenants. During the second quarter of 2019, we executed purchase and sale agreements for the sale of eight retail properties, which properties were ultimately sold during the 2019 Quarter (see note 3). These properties met the criteria for classification as held for sale as of June 30, 2019 and are classified as discontinued operations. The remaining retail properties do not meet the qualitative or quantitative criteria for a reportable segment, and are classified within “Corporate and other” on our segment disclosure tables. The dispositions of the eight retail properties are part of a strategic shift away from the retail sector. This strategic shift simplified our portfolio to two reportable segments (office and multifamily) and reduced our exposure to future retail lease expirations.

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

The following tables present revenues, net operating income, capital expenditures and total assets for the three and nine months ended September 30, 2019 and 2018 from these segments, and reconcile net operating income of reportable segments to net income (loss) attributable to the controlling interests as reported (in thousands):

	Three Months Ended September 30, 2019			
	Office	Multifamily	Corporate and Other ⁽¹⁾	Consolidated
Real estate rental revenue	\$ 39,810	\$ 35,790	\$ 4,659	\$ 80,259
Real estate expenses	15,148	14,232	1,312	30,692
Net operating income	\$ 24,662	\$ 21,558	\$ 3,347	\$ 49,567
Depreciation and amortization				(37,340)
General and administrative expenses				(6,045)
Lease origination expenses				(416)
Interest expense				(14,198)
Discontinued operations:				
Income from operations of properties sold or held for sale				2,942
Gain on sale of real estate				339,024
Loss on extinguishment of debt				(764)
Net income				332,770
Less: Net income attributable to noncontrolling interests in subsidiaries				—
Net income attributable to the controlling interests				\$ 332,770
Capital expenditures	\$ 6,039	\$ 5,742	\$ 369	\$ 12,150
Total assets	\$ 1,191,838	\$ 1,333,146	\$ 150,092	\$ 2,675,076
	Three Months Ended September 30, 2018			
	Office	Multifamily	Corporate and Other ⁽¹⁾	Consolidated
Real estate rental revenue	\$ 42,438	\$ 23,953	\$ 4,610	\$ 71,001
Real estate expenses	15,368	9,297	1,323	25,988
Net operating income	\$ 27,070	\$ 14,656	\$ 3,287	\$ 45,013
Depreciation and amortization				(27,951)
General and administrative expenses				(5,267)
Interest expense				(12,342)
Discontinued operations:				
Income from operations of properties sold or held for sale				6,440
Net income				5,893
Less: Net income attributable to noncontrolling interests in subsidiaries				—
Net income attributable to the controlling interests				\$ 5,893
Capital expenditures	\$ 8,537	\$ 5,708	\$ 1,259	\$ 15,504
Total assets	\$ 1,246,026	\$ 785,397	\$ 385,094	\$ 2,416,517

	Nine Months Ended September 30, 2019			
	Office	Multifamily	Corporate and Other ⁽¹⁾	Consolidated
Real estate rental revenue	\$ 124,164	\$ 90,012	\$ 14,337	\$ 228,513
Real estate expenses	45,937	34,928	4,104	84,969
Net operating income	\$ 78,227	\$ 55,084	\$ 10,233	\$ 143,544
Depreciation and amortization				(97,441)
General and administrative				(18,517)
Leasing origination expense				(1,286)
Interest expense				(41,946)
Real estate impairment				(8,374)
Loss on sale of real estate				(1,046)
Discontinued operations:				
Income from operations of properties sold or held for sale				16,158
Gain on sale of real estate				339,024
Loss on extinguishment of debt				(764)
Net income				329,352
Less: Net income attributable to noncontrolling interests in subsidiaries				—
Net income attributable to the controlling interests				\$ 329,352
Capital expenditures	\$ 16,347	\$ 12,841	\$ 1,717	\$ 30,905

	Nine Months Ended September 30, 2018			
	Office	Multifamily	Corporate and Other ⁽¹⁾	Consolidated
Real estate rental revenue	\$ 135,258	\$ 71,168	\$ 13,564	\$ 219,990
Real estate expenses	48,031	28,012	3,895	79,938
Net operating income	\$ 87,227	\$ 43,156	\$ 9,669	\$ 140,052
Depreciation and amortization				(83,134)
General and administrative				(16,737)
Interest expense				(38,155)
Gain on sale of real estate				2,495
Real estate impairment				(1,886)
Loss on extinguishment of debt				(1,178)
Discontinued operations:				
Income from operations of properties sold or held for sale				18,485
Net income				19,942
Less: Net income attributable to noncontrolling interests in subsidiaries				—
Net income attributable to the controlling interests				\$ 19,942
Capital expenditures	\$ 17,926	\$ 13,068	\$ 3,069	\$ 34,063

⁽¹⁾ Net operating income includes the retail properties not classified as discontinued operations: Takoma Park, Westminster, Concord Center, Chevy Chase Metro Plaza, 800 S. Washington Street, Randolph Shopping Center, Montrose Shopping Center and Spring Valley Village, and total assets and capital expenditures include all retail properties, including those classified as discontinued operations.

NOTE 12: SHAREHOLDERS' EQUITY

On May 4, 2018, we entered into eight separate equity distribution agreements (collectively, the “Equity Distribution Agreements”) with each of Wells Fargo Securities, LLC, BNY Mellon Capital Markets, LLC, Capital One Securities, Inc., Citigroup Global Markets Inc., Goldman Sachs & Co. LLC, J.P. Morgan Securities LLC, KeyBanc Capital Markets Inc. and SunTrust Robinson Humphrey, Inc. relating to the issuance of up to \$250.0 million of our common shares from time to time. Issuances of our common shares are made at market prices prevailing at the time of issuance. We may use net proceeds from the issuance of common shares under this program for general corporate purposes, including, without limitation, working capital, the acquisition, renovation, expansion, improvement, development or redevelopment of income producing properties or the repayment of debt. During the 2019 Quarter and Period, we issued 0.1 million common shares at a weighted average price of \$27.52 for net proceeds of \$3.7 million. During the 2018 Quarter and Period, we issued 1.2 million common shares at a weighted average price of \$31.18 for net proceeds of \$35.5 million.

We have a dividend reinvestment program, whereby shareholders may use their dividends and optional cash payments to purchase common shares. The common shares sold under this program may either be common shares issued by us or common shares purchased in the open market. Net proceeds under this program were used for general corporate purposes.

Our issuances and net proceeds on the dividend reinvestment program were as follows (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Issuance of common shares	64	18	128	74
Weighted average price per share	\$ 27.67	\$ 30.68	\$ 26.97	\$ 29.29
Net proceeds	\$ 1,757	\$ 565	\$ 3,430	\$ 1,811

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

The following discussion should be read in conjunction with our consolidated financial statements and the notes thereto appearing in Item 1 of this report and the more detailed information contained in our Annual Report on Form 10-K for the year ended December 31, 2018 filed with the Securities and Exchange Commission ("SEC") on February 19, 2019.

We refer to the three months ended September 30, 2019 and September 30, 2018 as the "2019 Quarter" and the "2018 Quarter," respectively, and the nine months ended September 30, 2019 and September 30, 2018 as the "2019 Period" and the "2018 Period," respectively.

Forward-Looking Statements

This Form 10-Q contains forward-looking statements which involve risks and uncertainties. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. In some cases, you can identify forward looking statements by the use of forward-looking terminology such as "may," "will," "should," "expects," "intends," "plans," "anticipates," "believes," "estimates," "predicts," or "potential" or the negative of these words and phrases or similar words or phrases which are predictions of or indicate future events or trends and which do not relate solely to historical matters. Such statements involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance, or achievements of WashREIT to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to the risks associated with the ownership of real estate in general and our real estate assets in particular; the risk of failure to enter into/and or complete contemplated dispositions at all, within the price ranges anticipated and on the terms and timing anticipated; the economic health of the greater Washington Metro region; fluctuations in interest rates; reductions in or actual or threatened changes to the timing of federal government spending; the risks related to use of third-party providers and joint venture partners; the ability to control our operating expenses; the economic health of our tenants; the supply of competing properties; shifts away from brick and mortar stores to e-commerce; the availability and terms of financing and capital and the general volatility of securities markets; compliance with applicable laws, including those concerning the environment and access by persons with disabilities; terrorist attacks or actions and/or cyber-attacks; weather conditions and natural disasters; ability to maintain key personnel; failure to qualify and maintain our qualification as a REIT and the risks of changes in laws affecting REITs; and other risks and uncertainties detailed from time to time in our filings with the SEC, including our 2018 Form 10-K and subsequent Quarterly Reports on Form 10-Q. While forward-looking statements reflect our good faith beliefs, they are not guarantees of future performance. We undertake no obligation to update our forward-looking statements or risk factors to reflect new information, future events, or otherwise.

General

Introductory Matters

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

- *Overview.* Discussion of our business outlook, operating results, investment activity, financing activity and capital requirements to provide context for the remainder of MD&A.
- *Results of Operations.* Discussion of our financial results comparing the 2019 Quarter to the 2018 Quarter and the 2019 Period to the 2018 Period.
- *Liquidity and Capital Resources.* Discussion of our financial condition and analysis of changes in our capital structure and cash flows.
- *Funds From Operations.* Calculation of NAREIT Funds From Operations ("NAREIT FFO"), a non-GAAP supplemental measure to net income.
- *Critical Accounting Policies and Estimates.* Descriptions of accounting policies that reflect significant judgments and estimates used in the preparation of our consolidated financial statements.

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

- *Net operating income ("NOI"),* calculated as set forth below under the caption "Results of Operations - Net Operating Income." NOI is a non-GAAP supplemental measure to net income.

- *Funds From Operations* (“NAREIT FFO”), calculated as set forth below under the caption “Funds from Operations.” NAREIT FFO is a non-GAAP supplemental measure to net income.
- *Ending occupancy*, calculated as occupied square footage as a percentage of total square footage as of the last day of that period.
- *Leased percentage*, calculated as the percentage of available physical net rentable area leased for our office and retail properties and percentage of apartments leased for our multifamily properties.
- *Leasing activity*, including new leases, renewals and expirations.

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

Overview

Our revenues are derived primarily from the ownership and operation of income producing properties in the greater Washington metro region. As of September 30, 2019, we owned a diversified portfolio of 46 properties, totaling approximately 4.2 million square feet of commercial space and 6,658 multifamily units, and land held for development. These 46 properties consisted of 17 office properties, 8 retail centers and 21 multifamily properties.

During the 2019 Quarter, we sold five retail shopping centers and three retail power centers (see note 3 to the condensed consolidated financial statements). These properties meet the criteria for classification as discontinued operations. Also during the 2019 Quarter, we acquired Cascade at Landmark, a 277-unit multifamily property in Alexandria, Virginia. During the second quarter of 2019, we acquired seven multifamily properties in Virginia and Maryland, known as the Assembly Portfolio, with a total of 2,113 units for a contract purchase price of \$461.2 million.

After giving effect to the sale of the five retail shopping centers and three retail power centers referenced above, our remaining retail properties consist of: Takoma Park, Westminster, Concord Centre, Chevy Chase Metro Plaza, 800 S. Washington Street, Randolph Shopping Center, Montrose Shopping Center and Spring Valley Village. These remaining retail properties do not meet the qualitative or quantitative criteria for a reportable segment (see note 11 to the condensed consolidated financial statements).

The acquisitions of multifamily properties and dispositions of retail properties are part of a strategic shift away from the retail sector to the multifamily sector. This strategic shift simplifies our portfolio to two reportable segments (office and multifamily) and reduces our exposure to future retail lease expirations.

On October 24, 2019, we renewed and extended the lease with the World Bank at 1776 G Street, which was scheduled to expire in 2020 and has now been renewed through 2025. Separately, the World Bank and a subsidiary of WashREIT entered into an agreement under which WashREIT has granted the World Bank a one-time purchase right with respect to the building, which purchase right is scheduled to expire prior to the end of 2019.

Operating Results

Net (loss) income attributable to the controlling interests, NOI and NAREIT FFO for the three months ended September 30, 2019 and 2018 were as follows (in thousands):

	Three Months Ended September 30,			
	2019	2018	\$ Change	% Change
Net income attributable to the controlling interests	\$ 332,770	\$ 5,893	\$ 326,877	5,546.9 %
NOI ⁽¹⁾	\$ 49,567	\$ 45,013	\$ 4,554	10.1 %
NAREIT FFO ⁽²⁾	\$ 31,145	\$ 36,165	\$ (5,020)	(13.9)%

⁽¹⁾ See page 33 of the MD&A for a reconciliation of NOI to net income.

⁽²⁾ See page 42 of the MD&A for a reconciliation of NAREIT FFO to net income.

The higher net income attributable to the controlling interests is primarily due to gains on the sale of real estate (\$339.0 million) and higher NOI (\$4.6 million), partially offset by higher depreciation and amortization (\$9.4 million), lower income from discontinued operations (\$3.5 million), higher interest expense (\$1.9 million), higher general and administrative expenses (\$0.8 million), higher lease origination expenses (\$0.4 million) and loss on extinguishment of debt (\$0.8 million).

The higher NOI is primarily due to the acquisitions of Assembly Portfolio and Cascade at Landmark (\$6.5 million) during the 2019 Period, partially offset by sale of Quantico Corporate Center (\$0.9 million) during the second quarter of 2019 and lower NOI from same-store properties (\$0.6 million) and Arlington Tower (\$0.4 million). The lower same-store NOI is explained in further detail beginning on page 33 (Results of Operations - 2019 Quarter Compared to 2018 Quarter). Same-store ending occupancy decreased to 92.7% as of September 30, 2019 from 94.7% as of September 30, 2018, primarily due to lower occupancy in the office segment.

The lower NAREIT FFO is primarily attributable to lower income from discontinued operations net of depreciation and amortization (\$5.8 million), higher interest (\$1.9 million), general and administrative (\$0.8 million) and lease origination (\$0.4 million) expenses and loss on extinguishment of debt (\$0.8 million), partially offset by higher NOI (\$4.6 million) during the 2019 Quarter.

Investment and Financing Activity

Significant investment and financing transactions during the 2019 Period included the following:

- The disposition of Quantico Corporate Center, an office property in Stafford, Virginia, consisting of two office buildings totaling 272,000 square feet for a contract sales price of \$33.0 million.
- The acquisition of the Assembly Portfolio, consisting of seven multifamily properties in Virginia and Maryland with a total of 2,113 units, for a contract purchase price of \$461.2 million. In connection with the acquisition of these properties, we obtained a six-month, \$450.0 million unsecured term loan facility (the "2019 Term Loan") in the original principal amount of \$450.0 million (see note 6 to the condensed consolidated financial statements). We repaid this term loan during the 2019 Quarter using proceeds from the sales of retail properties.
- The acquisition of Cascade at Landmark, a 277-unit multifamily property in Alexandria, Virginia, for a contract purchase price of \$69.8 million.
- The disposition of five retail shopping centers and three retail power centers in three separate transactions. We recognized an aggregate gain on sale of real estate of \$339.0 million from these transactions. Prior to closing on the disposition of the Shopping Center Portfolio, we prepaid the mortgage note secured by Olney Village Center, incurring a loss on extinguishment of debt of approximately \$0.8 million.

As of September 30, 2019, the interest rate on the \$700.0 million unsecured revolving credit facility ("Revolving Credit Facility") was one month LIBOR plus 1.00% and the facility fee was 0.20%. As of October 24, 2019, our Revolving Credit Facility has a borrowing capacity of \$476.0 million.

Capital Requirements

We have no debt maturities in 2019. We expect to have additional capital requirements as set forth on page 39 (Liquidity and Capital Resources - Capital Requirements).

Results of Operations

The discussion that follows is based on our consolidated results of operations for the 2019 Quarter and 2019 Period and 2018 Quarter and 2018 Period. The ability to compare one period to another is significantly affected by acquisitions completed and dispositions made during 2019 and 2018 (see note 3 to the consolidated financial statements).

Net Operating Income

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

2019 Quarter Compared to 2018 Quarter

The following table reconciles NOI to net income attributable to the controlling interests and provides the basis for our discussion of our consolidated results of operations and NOI in the 2019 Quarter compared to the 2018 Quarter. All amounts are in thousands, except percentage amounts.

	Same-Store				Non-Same-Store						Consolidated			
			\$ Change	% Change	Acquisitions (1)		Development/ Re-development (2)		Held for Sale or Sold(3)				\$ Change	% Change
	2019	2018			2019	2018	2019	2018	2019	2018	2019	2018		
Real estate rental revenue	\$ 63,523	\$ 63,671	\$ (148)	(0.2)%	\$ 16,724	\$ 5,947	\$ 12	\$ —	\$ —	\$ 1,383	\$ 80,259	\$ 71,001	\$ 9,258	13.0 %
Real estate expenses	24,587	24,106	481	2.0 %	6,082	1,455	23	(64)	—	491	30,692	25,988	4,704	18.1 %
NOI	\$ 38,936	\$ 39,565	\$ (629)	(1.6)%	\$ 10,642	\$ 4,492	\$ (11)	\$ 64	\$ —	\$ 892	\$ 49,567	\$ 45,013	\$ 4,554	10.1 %
Reconciliation to net income attributable to the controlling interests:														
Depreciation and amortization											(37,340)	(27,951)	(9,389)	33.6 %
General and administrative expenses											(6,045)	(5,267)	(778)	14.8 %
Lease origination expenses											(416)	—	(416)	— %
Interest expense											(14,198)	(12,342)	(1,856)	15.0 %
Discontinued operations (4):														
Income from properties sold or held for sale											2,942	6,440	(3,498)	(54.3)%
Gain on sale of real estate											339,024	—	339,024	— %
Loss on extinguishment of debt											(764)	—	(764)	— %
Net income											332,770	5,893	326,877	5,546.9 %
Less: Net income attributable to noncontrolling interests											—	—	—	— %
Net income attributable to the controlling interests											\$ 332,770	\$ 5,893	\$ 326,877	5,546.9 %

(1) Acquisitions:
2019 Multifamily - Assembly Portfolio and Cascade at Landmark
2018 Office - Arlington Tower

(2) Development/redevelopment:
Multifamily development properties – The Trove and land adjacent to Riverside Apartments

(3) Sold (classified as continuing operations):
2019 Office - Quantico Corporate Center
2018 Office - 2445 M Street

(4) Discontinued operations:
2019 Retail - Wheaton Park, Bradlee Shopping Center, Shoppes of Foxchase, Gateway Overlook, Olney Village Center, Frederick County Square, Centre at Hagerstown and Frederick Crossing

Real Estate Rental Revenue

Real estate rental revenue is comprised of (a) minimum base rent, which includes rental revenues recognized on a straight-line basis, (b) revenue from the recovery of operating expenses from our tenants, (c) credit losses on lease related receivables, (d) revenue from the collection of lease termination fees and (e) parking and other tenant charges such as percentage rents.

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

	Three Months Ended September 30,			
	2019	2018	\$ Change	% Change
Office	\$ 34,101	\$ 35,108	\$ (1,007)	(2.9)%
Multifamily	24,763	23,953	810	3.4 %
Other	4,659	4,610	49	1.1 %
Total same-store real estate rental revenue	\$ 63,523	\$ 63,671	\$ (148)	(0.2)%

- *Office*: Decrease primarily due to lower rental revenue (\$0.8 million) due to lease expirations at Watergate 600 and 1227 25th Street, lower recoveries (\$0.2 million), higher rent abatements (\$0.1 million) and lower parking income (\$0.1 million), partially offset by lower credit losses (\$0.2 million).
- *Multifamily*: Increase primarily due to higher rental revenue (\$0.6 million), lower abatements (\$0.1 million) and higher parking income (\$0.1 million).

Real estate rental revenue from acquisitions increased due to the acquisitions of Assembly Portfolio (\$9.8 million) during the second quarter of 2019 and Cascade at Landmark (\$1.2 million) during 2019 Quarter, partially offset by lower real estate rental revenue from Arlington Tower (\$0.2 million).

Real estate rental revenue from held for sale and sold properties classified as continuing operations decreased due to the sale of Quantico Corporate Center (\$1.4 million) during the second quarter of 2019.

Ending occupancy is calculated as occupied square footage indicated as a percentage of total square footage as of the last day of that period. Ending occupancy for properties classified as continuing operations by segment for the 2019 Quarter and 2018 Quarter was as follows:

Segment	September 30, 2019			September 30, 2018			(Decrease) increase		
	Same-Store	Non-Same-Store	Total	Same-Store	Non-Same-Store	Total	Same-Store	Non-Same-Store	Total
Office	90.6%	87.6%	90.3%	94.8%	82.8%	92.7%	(4.2)%	4.8%	(2.4)%
Multifamily	95.2%	95.0%	95.1%	95.4%	N/A	95.4%	(0.2)%	N/A	(0.3)%
Other	89.0%	N/A	89.0%	91.0%	N/A	91.0%	(2.0)%	N/A	(2.0)%
Total	92.7%	93.9%	93.0%	94.7%	82.8%	93.8%	(2.0)%	11.1%	(0.8)%

- *Office*: Decrease in same-store ending occupancy was primarily due to lower ending occupancy at Watergate 600, 1220 19th Street and 1227 25th Street, partially offset by higher ending occupancy at Army Navy Building.
- *Multifamily*: Decrease in same-store ending occupancy was primarily due to lower ending occupancy at 3801 Connecticut Avenue and Park Adams, partially offset by higher ending occupancy at Bethesda Hill Apartments.

During the 2019 Quarter, we executed new and renewal leases in our office segment as follows:

	Square Feet (in thousands)	Average Rental Rate (per square foot)	% Rental Rate Increase (Decrease)	Leasing Costs ⁽¹⁾ (per square foot)	Free Rent (weighted average months)
Office	51	\$ 51.91	20.1 %	\$ 70.47	6.8

⁽¹⁾ Consists of tenant improvements and leasing commissions.

Real Estate Expenses

Real estate expenses as a percentage of revenue for the 2019 Quarter and 2018 Quarter were 38.2% and 36.6%, respectively.

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

	Three Months Ended September 30,		\$ Change	% Change
	2019	2018		
Office	\$ 13,545	\$ 13,422	\$ 123	0.9 %
Multifamily	9,730	9,361	369	3.9 %
Other	1,312	1,323	(11)	(0.8)%
Total same-store real estate expenses	\$ 24,587	\$ 24,106	\$ 481	2.0 %

- *Office*: Increase primarily due to higher real estate tax expenses (\$0.2 million), partially offset by lower utilities expenses (\$0.1 million).
- *Multifamily*: Increase primarily due to higher real estate tax (\$0.2 million) and repairs and maintenance (\$0.1 million) expenses.

Other Income and Expenses

Depreciation and Amortization: Increase primarily due to the acquisitions of Assembly Portfolio (\$9.8 million) and Cascade at Landmark (\$1.4 million) and placing into service a portion of the parking garage at The Trove development (\$0.1 million) during the 2019 Period. These increases were partially offset by lower depreciation and amortization at same-store properties (\$0.7 million) and Arlington Tower (\$0.6 million) and the disposition of Quantico Corporate Center (\$0.6 million).

General and administrative expenses: Increase primarily due to higher severance expenses (\$0.3 million) and higher professional fees (\$0.3 million).

Lease Origination Expenses: In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, *Leases (Topic 842)* (“ASU 2016-02”), which amended existing lease accounting standards for both lessees and lessors (see note 2 to the condensed consolidated financial statements). We adopted the new standard for the fiscal year beginning on January 1, 2019. Under ASU 2016-02, the FASB determined that only incremental costs or initial direct costs of executing a lease contract qualify for capitalization, while prior accounting standards allowed for the capitalization of indirect leasing costs. We incurred \$0.4 million of indirect leasing expenses during the 2019 Quarter.

Interest Expense: Interest expense by debt type for the three months ended September 30, 2019 and 2018 was as follows (in thousands):

Debt Type	Three Months Ended September 30,		\$ Change	% Change
	2019	2018		
Notes payable	\$ 12,094	\$ 10,207	\$ 1,887	18.5 %
Mortgage notes payable	518	835	(317)	(38.0)%
Line of credit	2,371	1,983	388	19.6 %
Capitalized interest	(785)	(683)	(102)	14.9 %
Total	\$ 14,198	\$ 12,342	\$ 1,856	15.0 %

- *Notes payable:* Increase primarily due to executing the 2019 Term Loan in April 2019, which was used to partially fund the acquisitions during the second quarter of 2019.
- *Mortgage notes payable:* Decrease primarily due to repayments of the mortgage note secured by Olney Village Center in July 2019 and the mortgage note secured by Kenmore Apartments in August 2018.
- *Line of credit:* Increase primarily due to higher weighted average borrowings of \$203.1 million and a higher weighted average interest rate of 3.2% during the 2019 Quarter, as compared to \$165.7 million and 3.1%, respectively, during the 2018 Quarter.
- *Capitalized interest:* Increase primarily due to higher spending related to the Trove, the multifamily development adjacent to The Wellington and the capitalization of interest on spending related to the multifamily development adjacent to Riverside Apartments.

Discontinued operations:

Income from properties sold or held for sale: Decrease primarily due to the sale of the properties classified as discontinued operations during 2019 Quarter.

Gain on sale of real estate: Increase due to gains on the sales of the Shopping Center Portfolio (\$333.0 million) and Frederick Crossing/Frederick County Square (\$9.5 million), partially offset by a loss on the sale of Centre at Hagerstown (\$3.5 million).

Loss on extinguishment of debt: We recognized a \$0.8 million loss on extinguishment of debt during the 2019 Quarter related to the prepayment of the mortgage note secured by Olney Village Center prior to that property’s disposition as part of the Shopping Center Portfolio.

2019 Period Compared to 2018 Period

The following tables reconcile NOI to net income attributable to the controlling interests and provide the basis for our discussion of our consolidated results of operations and NOI in the 2019 Period compared to the 2018 Period. All amounts are in thousands, except percentage amounts.

	Same-Store				Non-Same-Store						All Properties			
			\$ Change	% Change	Acquisitions (1)		Development/Redevelopment (2)		Held for Sale or Sold(3)				\$ Change	% Change
	2019	2018			2019	2018	2019	2018	2019	2018	2019	2018		
Real estate rental revenue	\$ 192,339	\$ 190,298	\$ 2,041	1.1%	\$ 33,325	\$ 16,485	\$ 12	\$ —	\$ 2,837	\$ 13,207	\$ 228,513	\$ 219,990	\$ 8,523	3.9%
Real estate expenses	73,076	71,206	1,870	2.6%	10,875	3,693	23	21	995	5,018	84,969	79,938	5,031	6.3%
NOI	\$ 119,263	\$ 119,092	\$ 171	0.1%	\$ 22,450	\$ 12,792	\$ (11)	\$ (21)	\$ 1,842	\$ 8,189	\$ 143,544	\$ 140,052	\$ 3,492	2.5%
Reconciliation to net income attributable to the controlling interests:														
Depreciation and amortization											(97,441)	(83,134)	(14,307)	17.2%
General and administrative expenses											(18,517)	(16,737)	(1,780)	10.6%
Lease origination expenses											(1,286)	—	(1,286)	—%
Real estate impairment											(8,374)	(1,886)	(6,488)	344.0%
(Loss) gain on sale of real estate											(1,046)	2,495	(3,541)	(141.9)%
Interest expense											(41,946)	(38,155)	(3,791)	9.9%
Loss on extinguishment of debt											—	(1,178)	1,178	(100.0)%
(Loss) income from continuing operations											(25,066)	1,457	(26,523)	(1,820.4)%
Discontinued operations (4):														
Income from properties sold or held for sale											16,158	18,485	(2,327)	(12.6)%
Gain on sale of real estate											339,024	—	339,024	—%
Loss on extinguishment of debt											(764)	—	(764)	—%
Net income											329,352	19,942	309,410	1,551.5%
Less: Net income attributable to noncontrolling interests											—	—	—	—%
Net income attributable to the controlling interests											\$ 329,352	\$ 19,942	\$ 309,410	1,551.5%

(1) Acquisitions:
2019 Multifamily - Assembly Portfolio and Cascade at Landmark
2018 Office - Arlington Tower

(2) Development/redevelopment:
Multifamily development property - The Trove and land adjacent to Riverside Apartments

(3) Sold (classified as continuing operations):
2019 Office - Quantico Corporate Center
2018 Office - Braddock Metro Center and 2445 M Street

(4) Discontinued operations:
2019 Retail - Wheaton Park, Bradlee Shopping Center, Shoppes of Foxchase, Gateway Overlook, Olney Village Center, Frederick County Square, Centre at Hagerstown and Frederick Crossing

Real Estate Rental Revenue

Real estate rental revenue is comprised of (a) minimum base rent, which includes rental revenues recognized on a straight-line basis, (b) revenue from the recovery of operating expenses from our tenants, (c) credit losses on lease related receivables, (d) revenue from the collection of lease termination fees and (e) parking and other tenant charges such as percentage rents.

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

	Nine Months Ended September 30,			
	2019	2018	\$ Change	% Change
Office	\$ 104,470	\$ 105,566	\$ (1,096)	(1.0)%
Multifamily	73,532	71,168	2,364	3.3%
Other	14,337	13,564	773	5.7%
Total same-store real estate rental revenue	\$ 192,339	\$ 190,298	\$ 2,041	1.1%

- *Office*: Decrease primarily due to lower rental income (\$1.1 million) due to lease expirations at Watergate 600 and 1600 Wilson Boulevard, higher rent abatements (\$0.8 million) and lower tax reimbursements (\$0.2 million), partially offset by higher lease termination fees (\$0.7 million) and lower credit losses (\$0.4 million).
- *Multifamily*: Increase primarily due to higher rental rates (\$1.8 million), lower rent abatements (\$0.3 million), higher parking income (\$0.1 million), higher recoveries (\$0.1 million) and lower vacancy (\$0.1 million).

Real estate rental revenue from acquisitions increased due to the acquisition of Assembly Portfolio (\$15.3 million) and Cascade at Landmark (\$1.2 million) in the 2019 Period and Arlington Tower (\$0.4 million) in the 2018 Period.

Real estate rental revenue from sold properties classified as continuing operations decreased due to the sale of 2445 M Street (\$8.7 million) during the second quarter of 2018, Quantico Corporate Center (\$1.3 million) during the second quarter of 2019 and Braddock Metro Center (\$0.4 million) during the first quarter of 2018.

During the 2019 Period, we executed new and renewal leases in our office segment as follows:

	Square Feet (in thousands)	Average Rental Rate (per square foot)	% Rental Rate Increase	Leasing Costs ⁽¹⁾ (per square foot)	Free Rent (weighted average months)
Office	311	\$ 50.89	14.0%	\$ 104.13	6.0

⁽¹⁾ Consists of tenant improvements and leasing commissions.

Real Estate Expenses

Real estate expenses as a percentage of revenue for the 2019 Period and 2018 Period were 37.2% and 36.3%, respectively.

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

	Nine Months Ended September 30,		\$ Change	% Change
	2019	2018		
Office	\$ 40,593	\$ 39,320	\$ 1,273	3.2%
Multifamily	28,379	27,991	388	1.4%
Other	4,104	3,895	209	5.4%
Total same-store real estate expenses	\$ 73,076	\$ 71,206	\$ 1,870	2.6%

- *Office*: Increase primarily due to higher real estate tax (\$0.8 million) and administrative (\$0.6 million) expenses, partially offset by lower utilities expenses (\$0.1 million).
- *Multifamily*: Increase primarily due to higher real estate tax (\$0.1 million), custodial (\$0.1 million), contract maintenance (\$0.1 million) and repairs and maintenance (\$0.1 million) expenses.

Other Income and Expenses

Depreciation and Amortization: Increase primarily due to acquisitions of Assembly Portfolio (\$16.7 million) and Cascade at Landmark (\$1.4 million) and placing into service a portion of the parking garage at The Trove development (\$0.1 million) during the 2019 Period. These increases were partially offset by lower depreciation and amortization at Arlington Tower (\$1.2 million), same-store properties (\$1.2 million) and the dispositions of Quantico Corporate Center (\$1.1 million) and 2445 M Street (\$0.4 million).

General and administrative expenses: Increase primarily due to higher share-based compensation (\$1.2 million), higher severance expenses (\$1.0 million) and higher professional fees (\$0.4 million), partially offset by the reversal of a transfer tax liability related to a prior year acquisition (\$0.7 million).

Lease Origination Expenses: In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)* ("ASU 2016-02"), which amended existing lease accounting standards for both lessees and lessors (see note 2 to the consolidated financial statements). We adopted the new standard for the fiscal year beginning on January 1, 2019. Under ASU 2016-02, the FASB determined that only incremental costs or initial direct costs of executing a lease contract qualify for capitalization, while prior accounting standards allowed for the capitalization of indirect leasing costs. We incurred \$1.3 million of indirect leasing expenses during the 2019 Period.

Real estate impairment: The real estate impairment charge of \$8.4 million during the first quarter of 2019 reduced the carrying value of Quantico Corporate Center to its estimated fair value (see note 3 to the consolidated financial statements). During the first quarter

of 2018, 2445 M Street met the criteria for classification as held for sale. We consequently recorded an impairment charge of \$1.9 million during the first quarter of 2018 in order to reduce the carrying value of the property to its estimated fair value, less estimated selling costs.

Loss (gain) on sale of real estate: The loss during 2019 Period is due to the sale of Quantico Corporate Center. Gain during the 2018 Period is due to the sale of 2445 M Street.

Interest Expense: Interest expense by debt type for the nine months ended September 30, 2019 and 2018 was as follows (in thousands):

Debt Type	Nine Months Ended September 30,		\$ Change	% Change
	2019	2018		
Notes payable	\$ 35,394	\$ 29,623	\$ 5,771	19.5 %
Mortgage notes payable	1,558	2,761	(1,203)	(43.6)%
Line of credit	7,281	7,216	65	0.9 %
Capitalized interest	(2,287)	(1,445)	(842)	58.3 %
Total	\$ 41,946	\$ 38,155	\$ 3,791	9.9 %

- *Notes payable:* Increase primarily due to executing the 2019 Term Loan in April 2019 and a \$250.0 million term loan in March 2018, which increased and replaced a \$150 million term loan.
- *Mortgage notes payable:* Decrease primarily due to the repayments of the mortgage note secured by Olney Village Center in July 2019 and the mortgage note secured by Kenmore Apartments in August 2018.
- *Line of credit:* Increase primarily due to a higher weighted average interest rate of 3.4% during the 2019 Period, as compared to 2.8% during the 2018 Period, partially offset by lower weighted average borrowings of \$201.4 million during the 2019 Period as compared to \$245.2 million during the 2018 Period.
- *Capitalized interest:* Increase primarily due to higher spending related to The Trove, the multifamily development adjacent to The Wellington, and the capitalization of interest on spending related to the multifamily development adjacent to Riverside Apartments.

Loss on extinguishment of debt: We recognized a \$1.2 million non-cash loss on extinguishment of debt during the 2018 Period related to the write-off of unamortized loan origination costs associated with the refinancing of an existing \$150.0 million seven-year unsecured term loan with a \$250.0 million five-year unsecured term loan and the execution of an amended, extended and expanded \$700 million unsecured revolving credit facility (see note 5 to the consolidated financial statements).

Discontinued operations:

Income from properties sold or held for sale: Decrease primarily due to the sale of the properties classified as discontinued operations during 2019 Quarter.

Gain on sale of real estate: Increase due to gains on the sales of the Shopping Center Portfolio (\$333.0 million) and Frederick Crossing/Frederick County Square (\$9.5 million), partially offset by a loss on the sale of Centre at Hagerstown (\$3.5 million).

Loss on extinguishment of debt: We recognized a \$0.8 million loss on extinguishment of debt during the 2019 Period related to the prepayment of the mortgage note secured by Olney Village Center prior to that property's disposition as part of the Shopping Center Portfolio.

Liquidity and Capital Resources

Capital Requirements

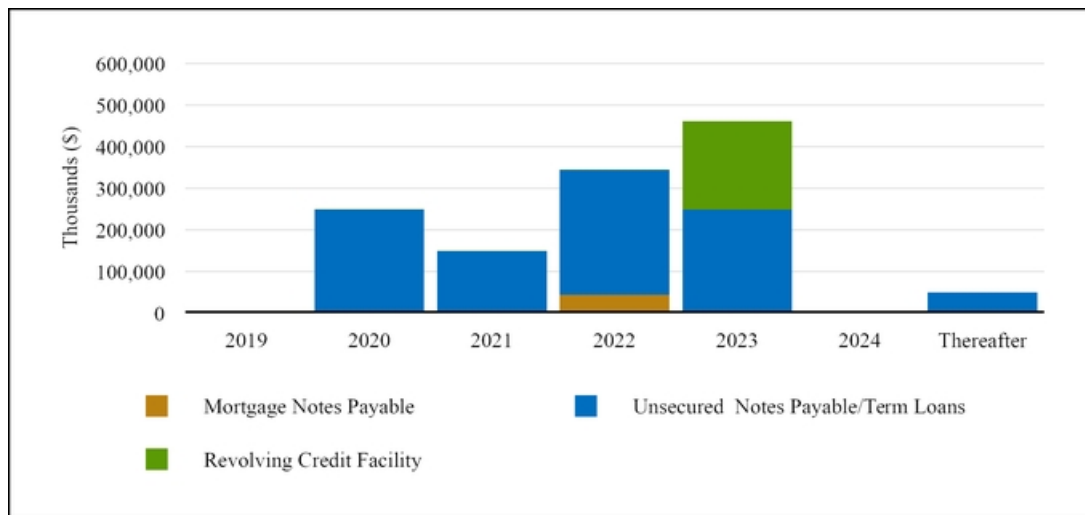
As of the end of the third quarter of 2019, we summarize our full-year 2019 capital requirements as follows:

- Funding dividends and distributions to our shareholders;
- Approximately \$80.0 - \$85.0 million to invest in our existing portfolio of operating assets, including approximately \$20.0 - \$25.0 million to fund tenant-related capital requirements and leasing commissions;
- Approximately \$45.0 - \$50.0 million to invest in our development and redevelopment projects; and
- Funding for potential property acquisitions throughout 2019, offset by proceeds from potential property dispositions.

Debt Financing

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

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



Future Maturities of Debt

Year	Secured Debt	Unsecured Debt	Revolving Credit Facility	Total Debt	Average Interest Rate
2019	\$ —	\$ —	\$ —	\$ —	
2020	—	250,000	—	250,000	5.1%
2021	—	150,000 ⁽¹⁾	—	150,000	2.7%
2022	44,517	300,000	—	344,517	4.0%
2023	—	250,000 ⁽²⁾	211,000 ⁽³⁾	461,000	3.0%
2024	—	—	—	—	
Thereafter	—	50,000	—	50,000	7.4%
Scheduled principal payments	\$ 44,517	\$ 1,000,000	\$ 211,000	\$ 1,255,517	3.8%
Scheduled amortization payments	1,265	—	—	1,265	3.8%
Net premiums/discounts	1,648	(895)	—	753	
Loan costs, net of amortization	(111)	(2,650)	—	(2,761)	
Total	\$ 47,319	\$ 996,455	\$ 211,000	\$ 1,254,774	3.8%

⁽¹⁾ WashREIT uses interest rate swaps to effectively fix the \$150.0 million term loan's variable interest rate at 2.72%.

⁽²⁾ WashREIT uses interest rate swaps to effectively fix the \$250.0 million term loan's variable interest rate at 2.87%.

⁽³⁾ Maturity date for credit facility in March 2023 assumes election of option for two additional 6-month periods.

The weighted average maturity for our debt is 2.9 years. If principal amounts due at maturity cannot be refinanced, extended or paid with proceeds of other capital transactions, such as new equity capital, our cash flow may be insufficient to repay all maturing debt. Prevailing interest rates or other factors at the time of a refinancing, such as possible reluctance of lenders to make commercial real estate loans, may result in higher interest rates and increased interest expense or inhibit our ability to finance our obligations.

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

Debt Covenants

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

- ratio of total debt to total asset value of not more than 0.60 to 1.00 (subject to a higher level following material acquisitions);
- ratio of adjusted EBITDA (earnings before noncontrolling interests, interest expense, income tax expense, depreciation, amortization, acquisition costs, and extraordinary, unusual or nonrecurring gains and losses) to fixed charges of not less than 1.50 to 1.00;
- ratio of secured indebtedness to total asset value of not more than 0.40 to 1.00;
- ratio of adjusted net operating income from unencumbered properties satisfying certain criteria specified in the amended and restated credit agreement ("Revolving Credit Agreement") to interest expense on unsecured indebtedness of not less than 1.75 to 1.00; and
- ratio of unsecured indebtedness to the unencumbered pool value of properties satisfying certain criteria specified in, and valued per the terms of, the Revolving Credit Agreement of not more than 0.60 to 1.00 (subject to a higher level following material acquisitions).

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

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

Our mortgage notes also contain covenants with which we must comply.

Failure to comply with any of the covenants under our mortgage notes, Revolving Credit Facility, unsecured notes or other debt instruments could result in a default under one or more of our debt covenants. This could cause our lenders to accelerate the timing of payments and could therefore have a material adverse effect on our business, operations, financial condition and liquidity. In

addition, our ability to draw on our Revolving Credit Facility or incur other unsecured debt in the future could be restricted by the debt covenants.

As of September 30, 2019, we were in compliance with the covenants related to our mortgage notes, Revolving Credit Facility and unsecured notes.

Common Equity

We have authorized for issuance 100.0 million common shares, of which 80.3 million shares were outstanding at September 30, 2019.

On May 4, 2018, we entered into eight separate equity distribution agreements (collectively, the “Equity Distribution Agreements”) with each of Wells Fargo Securities, LLC, BNY Mellon Capital Markets, LLC, Capital One Securities, Inc., Citigroup Global Markets Inc., Goldman Sachs & Co. LLC, J.P. Morgan Securities LLC, KeyBanc Capital Markets Inc. and SunTrust Robinson Humphrey, Inc. relating to the issuance of up to \$250.0 million of our common shares from time to time. Issuances of our common shares are made at market prices prevailing at the time of issuance. We may use net proceeds from the issuance of common shares under this program for general corporate purposes, including, without limitation, working capital, the acquisition, renovation, expansion, improvement, development or redevelopment of income producing properties or the repayment of debt. During the 2019 Quarter and Period, we issued 0.1 million common shares at a weighted average price of \$27.52 for net proceeds of \$3.7 million. During the 2018 Quarter and Period, we issued 1.2 million common shares at a weighted average price of \$31.18 for net proceeds of \$35.5 million.

We have a dividend reinvestment program, whereby shareholders may use their dividends and optional cash payments to purchase common shares. The common shares sold under this program may either be common shares issued by us or common shares purchased in the open market.

Our issuances and net proceeds on the dividend reinvestment program are summarized as follows (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Issuance of common shares	64	18	128	74
Weighted average price per share	\$ 27.67	\$ 30.68	\$ 26.97	\$ 29.29
Net proceeds	\$ 1,757	\$ 565	\$ 3,430	\$ 1,811

Preferred Equity

WashREIT’s board of trustees can, at its discretion, authorize the issuance of up to 10.0 million preferred shares. The ability to issue preferred equity provides WashREIT an additional financing tool that may be used to raise capital for future acquisitions or other business purposes. As of September 30, 2019, no preferred shares were issued or outstanding.

Historical Cash Flows

Cash flows from operations are an important factor in our ability to sustain our dividend at its current rate. If our cash flows from operations were to decline significantly from current levels, we may have to reduce our dividend. Consolidated cash flow information is summarized as follows (in thousands):

	Nine Months Ended September 30,		Change	
	2019	2018	\$	%
Net cash provided by operating activities	\$ 91,280	\$ 100,874	\$ (9,594)	(9.5)%
Net cash (used in) provided by investing activities	(3,826)	8,798	(12,624)	143.5 %
Net cash used in financing activities	(80,585)	(116,133)	35,548	(30.6)%

Net cash provided by operating activities decreased primarily due to the sales of the Retail Portfolio during the 2019 Quarter and 2445 M Street in the second quarter of 2018, partially offset by the acquisition of the Assembly Portfolio and Cascade at Landmark during the 2019 Period.

Net cash used in investing activities increased primarily due to a higher volume of acquisition activity during the 2019 Period, partially offset by a higher volume of disposition activity during the 2019 Period.

Net cash used in financing activities decreased primarily due to a higher volume of mortgage note repayments during the 2018 Period.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements as of September 30, 2019 that are reasonably likely to have a current or future material effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Funds From Operations

NAREIT FFO is defined by the National Association of Real Estate Investment Trusts, Inc. (“NAREIT”) in its NAREIT FFO White Paper - 2018 Restatement as net income (computed in accordance with GAAP) excluding gains (or losses) associated with sales of properties; impairments of depreciable real estate, and real estate depreciation and amortization. We consider NAREIT FFO to be a standard supplemental measure for equity real estate investment trusts (REITs) because it facilitates an understanding of the operating performance of our properties without giving effect to real estate depreciation and amortization, which historically assumes that the value of real estate assets diminishes predictably over time. Since real estate values have instead historically risen or fallen with market conditions, we believe that NAREIT FFO more accurately provides investors an indication of our ability to incur and service debt, make capital expenditures and fund other needs. Our NAREIT FFO may not be comparable to FFO reported by other REITs. These other REITs may not define the term in accordance with the current NAREIT definition or may interpret the current NAREIT definition differently. NAREIT FFO is a non-GAAP measure.

The following table provides the calculation of our NAREIT FFO and a reconciliation of NAREIT FFO to net income for the three and nine months ended September 30, 2019 and 2018 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income	\$ 332,770	\$ 5,893	\$ 329,352	\$ 19,942
Adjustments:				
Depreciation and amortization	37,340	27,951	97,441	83,134
Real estate impairment	—	—	8,374	1,886
Loss (gain) on sale of depreciable real estate	—	—	1,046	(2,495)
Discontinued operations:				
Depreciation and amortization	59	2,321	4,926	6,985
Gain on sale of depreciable real estate	(339,024)	—	(339,024)	—
NAREIT FFO	\$ 31,145	\$ 36,165	\$ 102,115	\$ 109,452

Critical Accounting Policies and Estimates

We base the discussion and analysis of our financial condition and results of operations upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. There were no changes made by management to the critical accounting policies in the nine months ended September 30, 2019 other than our adoption of ASU 2016-02, *Leases (Topic 842)* as of January 1, 2019, which changed our policy with respect to estimating credit losses on lease related receivables (see note 3 to the consolidated financial statements). For all other critical accounting estimates, see our Annual Report on Form 10-K for the year ended December 31, 2018 filed with the SEC on February 19, 2019.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The principal material financial market risk to which we are exposed is interest rate risk. Our exposure to 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 line of credit.

The table below presents principal, interest and related weighted average fair value interest rates by year of maturity, with respect to debt outstanding on September 30, 2019 (in thousands):

	2019	2020	2021	2022	2023	Thereafter	Total	Fair Value
Unsecured fixed rate debt ⁽¹⁾								
Principal	\$ —	\$ 250,000	\$ 150,000	\$ 300,000	\$ 250,000	\$ 50,000	\$ 1,000,000	\$ 1,025,248
Interest payments	\$ 14,926	\$ 39,102	\$ 23,665	\$ 22,644	\$ 7,807	\$ 16,313	\$ 124,457	
Interest rate on debt maturities		5.1%	2.7%	4.0%	2.9%	7.4%	3.8%	
Unsecured variable rate debt ⁽²⁾								
Principal	\$ —	\$ —	\$ —	\$ —	\$ 211,000	\$ —	\$ 211,000	\$ 211,000
Variable interest rate on debt maturities					3.1%		3.1%	
Mortgages ⁽³⁾								
Principal amortization (30 year schedule)	\$ 128	\$ 529	\$ 560	\$ 44,565	\$ —	\$ —	\$ 45,782	\$ 48,259
Interest payments	\$ 635	\$ 2,520	\$ 2,490	\$ 412	\$ —	\$ —	\$ 6,057	
Weighted average interest rate on principal amortization	3.8%	3.8%	3.8%	3.8%			3.8%	

⁽¹⁾ Includes \$150.0 million and \$250.0 million term loans with floating interest rates. The interest rates on the \$150.0 million and \$250.0 million term loans are effectively fixed by interest rate swap agreements at 2.72% and 2.87%, respectively.

⁽²⁾ Maturity date on the unsecured credit facility of 2023 assumes the election of two additional six-month options.

⁽³⁾ Principal amortization excludes net premiums of \$1.6 million and net unamortized debt issuance costs of \$0.1 million as of September 30, 2019.

We entered into various interest rate swap arrangements to swap the floating interest rates under our \$250.0 million and \$150.0 million term loans. These interest rate swaps, designated and qualifying as cash flow hedges, reduce our exposure to the variability in future cash flows attributable to changes in interest rates. Derivative instruments expose us to credit risk in the event of non-performance by the counterparty under the terms of the interest rate hedge agreement. We believe that we minimize our credit risk on these transactions by dealing with major, creditworthy financial institutions. As part of our ongoing control procedures, we monitor the credit ratings of counterparties and our exposure to any single entity, thus minimizing our credit risk concentration.

The following table sets forth information pertaining to interest rate swap contracts in place as of September 30, 2019 and December 31, 2018 and their respective fair values (in thousands):

Notional Amount	Fixed Rate	Floating Index Rate	Effective Date	Expiration Date	Fair Value as of:	
					September 30, 2019	December 31, 2018
\$ 75,000	1.619%	One-Month LIBOR	10/15/2015	3/15/2021	\$ (66)	\$ 1,367
75,000	1.626%	One-Month LIBOR	10/15/2015	3/15/2021	(74)	1,353
100,000	1.205%	One-Month LIBOR	3/31/2017	7/21/2023	673	5,270
50,000	1.208%	One-Month LIBOR	3/31/2017	7/21/2023	334	2,648
25,000	2.610%	One-Month LIBOR	6/29/2018	7/21/2023	(1,133)	(202)
25,000	2.610%	One-Month LIBOR	6/29/2018	7/21/2023	(1,130)	(200)
25,000	2.610%	One-Month LIBOR	6/29/2018	7/21/2023	(1,133)	(199)
25,000	2.610%	One-Month LIBOR	6/29/2018	7/21/2023	(1,130)	(198)
\$ 400,000					\$ (3,659)	\$ 9,839

We enter into debt obligations primarily to support general corporate purposes including acquisition of real estate properties, capital improvements and working capital needs.

As the majority of our outstanding debt is long-term, fixed rate debt, our interest rate risk has not changed significantly from what was disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018 filed with the SEC on February 19, 2019. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Debt Financing.”

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

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

There have not been any changes in WashREIT’s internal control over financial reporting (as defined by Rule 13a-15(f)) that occurred during the period covered by the report that have materially affected, or are reasonably likely to materially affect, WashREIT’s internal control over financial reporting.

**PART II
OTHER INFORMATION**

ITEM 1: LEGAL PROCEEDINGS

None.

ITEM 1A: RISK FACTORS

As of September 30, 2019, there have been no material changes from the risk factors previously disclosed in response to “Part I - Item 1A. Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2018.

ITEM 2: UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4: MINE SAFETY DISCLOSURES

None.

ITEM 5: OTHER INFORMATION

None.

ITEM 6: EXHIBITS

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File Number	Exhibit	Filing Date	
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended (“the Exchange Act”)					X
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act					X
31.3	Certification of the Chief Accounting Officer pursuant to Rule 13a-14(a) of the Exchange Act					X
32	Certification of the Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.					X
101.SCH	Inline XBRL Taxonomy Extension Schema Document					X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					X
104	Cover Page Interactive Data File (embedded within the Inline XBRL document and contained in Exhibit 101)					

SIGNATURES

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

WASHINGTON REAL ESTATE INVESTMENT TRUST

/s/ Paul T. McDermott

Paul T. McDermott
President and Chief Executive Officer

/s/ Stephen E. Riffie

Stephen E. Riffie
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

/s/ W. Drew Hammond

W. Drew Hammond
Vice President, Chief Accounting Officer and Treasurer
(Principal Accounting Officer)

DATE: October 28, 2019

CERTIFICATION

I, Paul T. McDermott, 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-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

DATE: October 28, 2019

/s/ Paul T. McDermott

Paul T. McDermott

Chief Executive Officer

CERTIFICATION

I, Stephen E. Riffée, 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-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

DATE: October 28, 2019

/s/ Stephen E. Riffée

Stephen E. Riffée

Chief Financial Officer

(Principal Financial Officer)

CERTIFICATION

I, W. Drew Hammond, 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-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

DATE: October 28, 2019

/s/ W. Drew Hammond

W. Drew Hammond
Vice President
Chief Accounting Officer
(Principal Accounting Officer)

WRITTEN STATEMENT OF
CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned, the President and Chief Executive Officer, the Chief Financial Officer and Chief Accounting Officer of Washington Real Estate Investment Trust (“Washington REIT”), each hereby certifies on the date hereof, that:

- (a) the Quarterly Report on Form 10-Q for the quarter ended September 30, 2019 filed on the date hereof with the Securities and Exchange Commission (the “Report”) fully complies with the requirements of Section 13 (a) or 15(d) of the Securities Exchange Act of 1934; and
- (b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Washington REIT.

DATE: October 28, 2019

/s/ Paul T. McDermott

Paul T. McDermott
Chief Executive Officer

DATE: October 28, 2019

/s/ Stephen E. Riffie

Stephen E. Riffie
Chief Financial Officer
(Principal Financial Officer)

DATE: October 28, 2019

/s/ W. Drew Hammond

W. Drew Hammond
Chief Accounting Officer
(Principal Accounting Officer)