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

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**FORM 10-K/A**  
**Amendment No. 1**

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

For fiscal year ended December 31, 2019

OR

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

COMMISSION FILE NO. 001-06622

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**WASHINGTON REAL ESTATE INVESTMENT TRUST**

(Exact name of registrant as specified in its charter)

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**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**

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

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
Shares of Beneficial Interest	WRE	NYSE

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

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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

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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 June 28, 2019, the aggregate market value of such shares held by non-affiliates of the registrant was \$2,125,135,478 (based on the closing price of the stock on June 28, 2019).

As of February 13, 2020, 82,115,352 common shares were outstanding.

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#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of our definitive Proxy Statement relating to the 2020 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission, are incorporated by reference in Part III, Items 10-14 of this Annual Report on Form 10-K as indicated herein.

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### Explanatory Note

This Amendment No. 1 to the Annual Report on Form 10-K (the "Amendment") amends Washington Real Estate Investment Trust's Annual Report on Form 10-K for the fiscal year ended December 31, 2019 (the "Form 10-K"), as filed with the Securities and Exchange Commission on February 19, 2020, and is being filed solely to amend both of the reports titled "Report of Independent Registered Public Accounting Firm" contained in Item 8 of the Form 10-K (the "Audit Reports") to correct a typographical error in the signature of both reports. The signature in both reports incorrectly identifies the independent registered public accounting firm as "Ernst & Young LLC". The correct name of the firm is "Ernst & Young LLP".

Pursuant to Rule 12b-15 promulgated under the Securities and Exchange Act of 1934, as amended, we have included the entire text of Item 8 of the Form 10-K in this Amendment. However, there have been no changes made to the text of such item other than the change stated in the immediately preceding paragraph. Furthermore, there have been no changes to the XBRL data filed in Exhibit 101 of the Form 10-K.

Except as expressly set forth above, this Amendment does not, and does not purport to, amend, update or restate the information in the remainder of the Form 10-K or reflect any events that have occurred after the filing of the original Form 10-K. Accordingly, this Amendment should be read in conjunction with the Form 10-K.

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**PART II**

**ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The financial statements and supplementary data required by this item begin on page 8 of this Amendment No. 1 to the Annual Report on Form 10-K and are incorporated herein by reference.

**PART IV**

**ITEM 15: EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(A) The following documents are filed as part of this Amendment No. 1 to the Annual Report on Form 10-K:

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| 1. <u>Financial Statements</u>  |                    |
| Report of Independent Registered Public Accounting Firm   | <a href="#">8</a>  |
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| Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2019, 2018 and 2017  | <a href="#">13</a> |
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| Notes to Consolidated Financial Statements  | <a href="#">17</a> |
| 2. <u>Financial Statement Schedules</u>   |                    |
| Schedule II – Valuation and Qualifying Accounts   | <a href="#">48</a> |
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| All other schedules are omitted because they are either not required or the required information is shown in the financial statements or notes thereto. |                    |
| 3. <u>Exhibits:</u>   |                    |

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File Number	Exhibit	Filing Date	
3.1	<a href="#">Articles of Amendment and Restatement</a>	DEF 14A	001-06622	B	4/1/2011	
3.2	<a href="#">Articles of Amendment to the Washington Real Estate Investment Trust Articles of Amendment and Restatement</a>	8-K	001-06622	3.1	6/7/2017	
3.3	<a href="#">Amended and Restated Bylaws of Washington Real Estate Investment Trust, as adopted on February 8, 2017</a>	10-Q	001-06622	3.2	7/31/2017	
4.1	<a href="#">Indenture dated as of August 1, 1996 between Washington REIT and The First National Bank of Chicago</a>	8-K	001-06622	(c)	8/13/1996	
4.2	<a href="#">Form of 2028 Notes</a>	8-K	001-06622	99.1	2/25/1998	
4.3	<a href="#">Supplemental Indenture by and between Washington REIT and the Bank of New York Trust Company, N.A. dated as of July 3, 2007</a>	8-K	001-06622	4.1	7/5/2007	
4.4	<a href="#">Form of 4.95% Senior Notes due October 1, 2020</a>	8-K	001-06622	4.1	9/30/2010	
4.5	<a href="#">Officers' Certificate establishing the terms of the 4.95% Senior Notes due October 1, 2020</a>	8-K	001-06622	4.2	9/30/2010	
4.6	<a href="#">Form of 3.95% Senior Notes due October 15, 2022</a>	8-K	001-06622	4.1	9/17/2012	
4.7	<a href="#">Officers' Certificate establishing the terms of 3.95% Notes due October 15, 2022</a>	8-K	001-06622	4.2	9/17/2012	
4.8	<a href="#">Description of Registrant's Securities</a>	10-K	001-06622	4.8	2/19/2020	
10.1*	<a href="#">Share Purchase Plan</a>	10-Q	001-06622	10(j)	11/14/2002	
10.2*	<a href="#">Supplemental Executive Retirement Plan</a>	10-Q	001-06622	10(k)	11/14/2002	
10.3*	<a href="#">Supplemental Executive Retirement Plan</a>	10-K	001-06622	10(p)	3/16/2006	
10.4*	<a href="#">2007 Omnibus Long Term Incentive Plan</a>	DEF 14A	001-06622	B	4/9/2007	
10.5*	<a href="#">Deferred Compensation Plan for Officers dated January 1, 2007</a>	10-K	001-06622	10(gg)	2/29/2008	
10.6*	<a href="#">Supplemental Executive Retirement Plan II dated May 23, 2007</a>	10-K	001-06622	10(hh)	2/29/2008	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File Number	Exhibit	Filing Date	
10.7*	<a href="#">Form of Indemnification Agreement by and between Washington REIT and the indemnitee</a>	8-K	001-06622	10(nn)	7/27/2009	
10.8*	<a href="#">Executive Stock Ownership Policy, adopted October 27, 2010</a>	8-K	001-06622	10.31	11/2/2010	
10.9*	<a href="#">Amendment to Deferred Compensation Plan for Officers, adopted October 27, 2010</a>	8-K	001-06622	10.32	11/2/2010	
10.10*	<a href="#">Amendment to Deferred Compensation Plan for Officers, adopted December 31, 2012</a>	10-K	001-06622	10.37	2/27/2013	
10.11*	<a href="#">Amendment to Deferred Compensation Plan for Officers, adopted February 13, 2013</a>	10-Q	001-06622	10.45	5/9/2013	
10.12*	<a href="#">Amendment to Deferred Compensation Plan for Directors, adopted February 13, 2013</a>	10-Q	001-06622	10.46	5/9/2013	
10.13*	<a href="#">Amendment to Short Term Incentive Plan, adopted as of January 22, 2013</a>	10-Q	001-06622	10.47	5/9/2013	
10.14*	<a href="#">Amended and Restated Deferred Compensation Plan for Directors, effective October 22, 2013</a>	10-Q	001-06622	10.53	11/1/2013	
10.15*	<a href="#">Employment Agreement dated August 19, 2013 with Paul T. McDermott</a>	10-Q	001-06622	10.54	11/1/2013	
10.16*	<a href="#">Change in control agreement dated October 1, 2013 with Paul T. McDermott</a>	10-K	001-06622	10.44	3/3/2014	
10.17*	<a href="#">Amendment to Deferred Compensation Plan for Officers, adopted February 18, 2014</a>	10-K	001-06622	10.45	3/3/2014	
10.18*	<a href="#">Amendment to Deferred Compensation Plan for Directors as Amended and Restated, adopted February 18, 2014</a>	10-K	001-06622	10.46	3/3/2014	
10.19*	<a href="#">Short Term Incentive Compensation Plan (effective January 1, 2014)</a>	10-Q	001-06622	10.47	5/7/2014	
10.20*	<a href="#">Long Term Incentive Plan (effective January 1, 2014)</a>	10-Q	001-06622	10.50	8/5/2014	
10.21*	<a href="#">Amendment to Short Term Incentive Plan (effective January 1, 2014)</a>	10-Q	001-06622	10.51	8/5/2014	
10.22*	<a href="#">Executive Officer Severance Pay Plan, adopted August 4, 2014</a>	10-Q	001-06622	10.54	10/30/2014	
10.23*	<a href="#">Change in control agreement dated April 1, 2013 with Edward J. Murn IV</a>	10-K	001-06622	10.52	3/2/2015	
10.24*	<a href="#">Description of Washington REIT Trustee Compensation Plan, effective January 1, 2015</a>	10-K	001-06622	10.54	3/2/2015	
10.25*	<a href="#">Offer Letter to Stephen E. Riffce</a>	10-K	001-06622	10.55	3/2/2015	
10.26*	<a href="#">Change in control agreement dated February 27, 2015 with Stephen E. Riffce</a>	10-K	001-06622	10.56	3/2/2015	
10.27*	<a href="#">Revised Description of Washington REIT Trustee Compensation Plan, effective January 1, 2015</a>	10-Q	001-06622	10.57	5/5/2015	
10.28*	<a href="#">Statement of Amendment of STIP and LTIP for S. Riffce</a>	10-Q	001-06622	10.58	5/5/2015	
10.29*	<a href="#">Amendment to Long Term Incentive Plan</a>	10-Q	001-06622	10.60	11/4/2015	
10.30*	<a href="#">Amended and restated Trustee Deferred Compensation Plan</a>	10-Q	001-06622	10.61	11/4/2015	
10.31*	<a href="#">2016 Omnibus Incentive Plan</a>	DEF 14A	001-06622	Annex A	3/23/2016	
10.32*	<a href="#">Revocation of Statement of Amendment of STIP and LTIP</a>	10-K	001-06622	10.49	2/20/2018	
10.33*	<a href="#">Offer letter to Taryn D. Fielder</a>	10-K	001-06622	10.50	2/20/2018	
10.34*	<a href="#">Change in control agreement dated July 21, 2017 with Taryn D. Fielder</a>	10-Q	001-06622	10.1	7/31/2017	
10.35	<a href="#">Purchase and sale agreement, dated December 29, 2017, for Arlington Tower</a>	10-K	001-06622	10.52	2/20/2018	
10.36	<a href="#">Amended and Restated Credit Agreement, dated March 29, 2018, by and among Washington Real Estate Investment Trust, as borrower, the financial institutions party thereto as lenders, and Wells Fargo Bank, National Association, as administrative agent</a>	10-Q	001-06622	10.53	5/1/2018	
10.37*	<a href="#">Amendment Number Two to Washington Real Estate Investment Trust 2014 Long-Term Incentive Plan (effective January 1, 2018)</a>	10-Q	001-06622	10.54	4/30/2018	
10.38*	<a href="#">Second Amendment to Washington Real Estate Investment Trust Short-Term Incentive Plan</a>	10-Q	001-06622	10.1	4/29/2019	
10.39*	<a href="#">Separation Agreement and General Release between Thomas O. Bakke and Washington Real Estate Investment Trust</a>	10-Q	001-06622	10.2	4/29/2019	
10.40*	<a href="#">Amendment No. 1 to Separation Agreement and General Release between Thomas O. Bakke and Washington Real Estate Investment Trust</a>	10-Q	001-06622	10.3	4/29/2019	
10.41	<a href="#">Purchase and sale agreement, dated April 2, 2019, for the Assembly Portfolio by and among Washington Real Estate Investment Trust and Barton's Crossing LP, Magazine Carlyle Station LP, Magazine Fox Run LP, Magazine Glen LP, Magazine Lionsgate LP, Magazine Village At McNair Farms LP, and Magazine Watkins Station LP</a>	10-Q	001-06622	10.1	7/29/2019	
10.42	<a href="#">First amendment to purchase and sale agreement, dated April 19, 2019, for the Assembly Portfolio</a>	10-Q	001-06622	10.2	7/29/2019	
10.43	<a href="#">Term Loan Agreement, dated April 30, 2019, by and among Washington Real Estate Investment Trust, as borrower, Wells Fargo Bank, National Association, as administrative agent, and the financial institutions party thereto as lenders or agents</a>	8-K	001-06622	10.1	5/1/2019	
10.44	<a href="#">Purchase and Sale Agreement, dated June 26, 2019, by and between Washington Real Estate Investment Trust and Global Retail Investors, LLC</a>	8-K	001-06622	10.1	7/26/2019	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File Number	Exhibit	Filing Date	
10.45*	<a href="#">Washington Real Estate Investment Trust Amended and Restated Executive Short-Term Incentive Plan, effective January 1, 2020</a>	10-K	001-06622	10.45	2/19/2020	
10.46*	<a href="#">Washington Real Estate Investment Trust Amended and Restated Executive Long-Term Incentive Plan, effective January 1, 2020</a>	10-K	001-06622	10.46	2/19/2020	
21	<a href="#">Subsidiaries of Registrant</a>	10-K	001-06622	21	2/19/2020	
23.1	<a href="#">Consent of Independent Registered Public Accounting Firm</a>	10-K	001-06622	23	2/19/2020	
23.2	<a href="#">Consent of Independent Registered Public Accounting Firm</a>					X
24	<a href="#">Power of Attorney</a>	10-K	001-06622	24	2/19/2020	
31.1	<a href="#">Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended ("the Exchange Act")</a>	10-K	001-06622	31.1	2/19/2020	
31.2	<a href="#">Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act</a>	10-K	001-06622	31.2	2/19/2020	
31.3	<a href="#">Certification of the Chief Accounting Officer pursuant to Rule 13a-14(a) of the Exchange Act</a>	10-K	001-06622	31.3	2/19/2020	
31.4	<a href="#">Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended ("the Exchange Act")</a>					X
31.5	<a href="#">Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act</a>					X
31.6	<a href="#">Certification of the Chief Accounting Officer pursuant to Rule 13a-14(a) of the Exchange Act</a>					X
32.1	<a href="#">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</a>	10-K	001-06622	32	2/19/2020	
32.2	<a href="#">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</a>					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)					

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

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

**SIGNATURES**

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

WASHINGTON REAL ESTATE INVESTMENT TRUST

Date: March 6, 2020

By: /s/ W. Drew Hammond  
W. Drew Hammond  
Chief Accounting Officer and Treasurer

## Report of Independent Registered Public Accounting Firm

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

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Washington Real Estate Investment Trust and Subsidiaries (the Company) as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and financial statement schedules listed in the Index at Item 15(a) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 18, 2020 expressed an unqualified opinion thereon.

### Basis for Opinion

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

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

### Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

#### *Impairment Assessment of Income Producing Properties*

##### *Description of the Matter*

The Company had net income producing property of \$2.3 billion as of December 31, 2019 and recognized an impairment charge of \$8.4 million on real estate during the year ended December 31, 2019 as disclosed in Note 3 to the consolidated financial statements. As discussed in Note 2 to the consolidated financial statements, real estate is evaluated for recoverability based on estimated cash flows if there are indicators of potential impairment.

Auditing the Company's impairment analysis involved a high degree of subjectivity due to the uncertainty around the Company's estimated cash flows used in the impairment assessment. Estimated future cash flows are based on assumptions, including the projected annual and residual cash flows and the estimated holding period for individual properties, that are forward looking and could be affected by future economic and market conditions.



*How We Addressed the Matter in Our Audit* We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's process for assessing impairment of income producing properties. For example, we tested controls over management's review of properties' expected future cash flows, which is used to evaluate qualitative and quantitative indicators of impairment and in the recoverability evaluation, and we tested management's review of the sensitivity of assumptions used in their impairment assessment.

Our testing of the Company's impairment assessment included, among other procedures, evaluating the significant assumptions and testing the completeness and accuracy of the underlying data used by the Company to develop its estimated future cash flows for individual income producing properties. We held discussions with management about the current status of potential transactions and about management's judgments to understand the probability of future events that could affect the holding period and other cash flow assumptions for the properties. We searched for and evaluated information that corroborates or contradicts the Company's assumptions. We also compared the significant assumptions to current industry, market and economic trends and to the historical results of the properties.

#### ***Accounting for Acquisition of Real Estate Properties***

*Description of the Matter* During 2019, the Company completed a series of acquisitions encompassing eight multifamily properties, for a total purchase price of \$531.5 million as disclosed in Notes 2 and 3 to the consolidated financial statements. These transactions were accounted for as asset acquisitions.

Auditing the Company's accounting for these acquisitions was challenging due to the significant estimation required by management to determine the fair values of the acquired assets used to allocate costs of the acquisitions on a relative fair value basis. The significant estimation was primarily due to the sensitivity of the respective fair values to underlying assumptions. The significant assumptions used to estimate the values of the tangible and intangible assets included the replacement cost of the properties, estimated rental and absorption rates, estimated future cash flows and other valuation assumptions.

*How We Addressed the Matter in Our Audit* We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's acquisition and purchase price allocation process, including controls over management's review of the significant assumptions described above. For example, we tested controls over management's review of the valuation methodology, the purchase price allocation, and the significant assumptions used.

To test the costs allocated to the tangible and intangible assets, we involved our valuation specialists and performed audit procedures that included, among others, evaluating the Company's valuation methodologies, testing the significant assumptions described above and testing the completeness and accuracy of the underlying data. For example, we compared the significant assumptions to observable market data, including other properties within the same submarkets, and compared significant projected operating expenses used in the valuation to historical results of the other properties in the Company's existing multifamily portfolio. We also performed sensitivity analyses of the significant assumptions to evaluate the change in fair values resulting from the changes in assumptions. In addition, we compared the Company's estimated fair values of acquired assets to independent estimates developed by our valuation specialist.

/s/ Ernst & Young LLP

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

Tysons, Virginia

February 18, 2020

## Report of Independent Registered Public Accounting Firm

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

### Opinion on Internal Control over Financial Reporting

We have audited Washington Real Estate Investment Trust and Subsidiaries' internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), (the COSO criteria). In our opinion, Washington Real Estate Investment Trust and Subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the 2019 consolidated financial statements of the Company and our report dated February 18, 2020 expressed an unqualified opinion thereon.

### Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ Ernst & Young LLP

Tysons, Virginia

February 18, 2020

WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES

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

	December 31,	
	2019	2018
<b>Assets</b>		
Land	\$ 566,807	\$ 526,572
Income producing property	2,392,415	2,055,349
	<u>2,959,222</u>	<u>2,581,921</u>
Accumulated depreciation and amortization	(693,610)	(669,281)
Net income producing property	2,265,612	1,912,640
Properties under development or held for future development	124,193	87,231
Total real estate held for investment, net	<u>2,389,805</u>	<u>1,999,871</u>
Investment in real estate held for sale, net	57,028	203,410
Cash and cash equivalents	12,939	6,016
Restricted cash	1,812	1,624
Rents and other receivables	65,259	63,962
Prepaid expenses and other assets	95,149	123,670
Other assets related to properties sold or held for sale	6,336	18,551
Total assets	<u>\$ 2,628,328</u>	<u>\$ 2,417,104</u>
<b>Liabilities</b>		
Notes payable, net	\$ 996,722	\$ 995,397
Mortgage notes payable, net	47,074	48,277
Line of credit	56,000	188,000
Accounts payable and other liabilities	71,136	57,946
Dividend payable	24,668	24,022
Advance rents	9,353	9,965
Tenant security deposits	10,595	9,501
Other liabilities related to properties sold or held for sale	718	15,518
Total liabilities	<u>1,216,266</u>	<u>1,348,626</u>
<b>Equity</b>		
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; 82,099 and 79,910 shares issued and outstanding, as of December 31, 2019 and December 31, 2018 respectively	821	799
Additional paid in capital	1,592,487	1,526,574
Distributions in excess of net income	(183,405)	(469,085)
Accumulated other comprehensive income	1,823	9,839
Total shareholders' equity	<u>1,411,726</u>	<u>1,068,127</u>
Noncontrolling interests in subsidiaries	336	351
Total equity	<u>1,412,062</u>	<u>1,068,478</u>
Total liabilities and equity	<u>\$ 2,628,328</u>	<u>\$ 2,417,104</u>

See accompanying notes to the consolidated financial statements.

WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES

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

	Year Ended December 31,		
	2019	2018	2017
Revenue			
Real estate rental revenue	\$ 309,180	\$ 291,730	\$ 280,281
Expenses			
Real estate expenses	115,580	105,592	105,400
Depreciation and amortization	136,253	111,826	101,430
Real estate impairment	8,374	1,886	33,152
General and administrative expenses	24,370	22,089	22,580
Lease origination expenses	1,698	—	—
	286,275	241,393	262,562
Other operating income			
Gain on sale of real estate	59,961	2,495	24,915
Real estate operating income	82,866	52,832	42,634
Other income (expense)			
Interest expense	(53,734)	(50,501)	(46,793)
Other income	—	—	507
Loss on extinguishment of debt	—	(1,178)	—
Income tax benefit	—	—	84
	(53,734)	(51,679)	(46,202)
Income (loss) from continuing operations	29,132	1,153	(3,568)
Discontinued operations:			
Income from operations of properties sold or held for sale	16,158	24,477	23,180
Gain on sale of real estate	339,024	—	—
Loss on extinguishment of debt	(764)	—	—
Income from discontinued operations	354,418	24,477	23,180
Net income	383,550	25,630	19,612
Less: Net loss attributable to noncontrolling interests in subsidiaries	—	—	56
Net income attributable to the controlling interests	\$ 383,550	\$ 25,630	\$ 19,668
Basic net income (loss) attributable to the controlling interests per share			
Continuing operations	\$ 0.36	\$ 0.01	\$ (0.05)
Discontinued operations, including gain on sale of real estate	4.39	0.31	0.30
Net income attributable to the controlling interests per share	\$ 4.75	\$ 0.32	\$ 0.25
Diluted net income (loss) attributable to the controlling interests per share			
Continuing operations	\$ 0.36	\$ 0.01	\$ (0.05)
Discontinued operations, including gain on sale of real estate	4.39	0.31	0.30
Net income attributable to the controlling interests per share	\$ 4.75	\$ 0.32	\$ 0.25
Weighted average shares outstanding – basic	80,257	78,960	76,820
Weighted average shares outstanding – diluted	80,335	79,042	76,820

See accompanying notes to the consolidated financial statements.

WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(IN THOUSANDS)

	Year Ended December 31,		
	2019	2018	2017
Net income	\$ 383,550	\$ 25,630	\$ 19,612
Other comprehensive income:			
Unrealized (loss) gain on interest rate hedges	(8,016)	420	1,808
Comprehensive income	375,534	26,050	21,420
Less: Net loss attributable to noncontrolling interests	—	—	56
Comprehensive income attributable to the controlling interests	\$ 375,534	\$ 26,050	\$ 21,476

See accompanying notes to the financial statements.

WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY  
(IN THOUSANDS)

	Shares	Shares of Beneficial Interest at Par Value	Additional Paid in Capital	Distributions in Excess of Net Income	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity	Non- controlling Interests in Subsidiary	Total Equity
Balance, December 31, 2016	74,606	\$ 746	\$ 1,368,636	\$ (326,047)	\$ 7,611	\$ 1,050,946	\$ 1,116	\$ 1,052,062
Net income attributable to the controlling interests	—	—	—	19,668	—	19,668	—	19,668
Net loss attributable to noncontrolling interests	—	—	—	—	—	—	(56)	(56)
Unrealized gain on interest rate hedges	—	—	—	—	1,808	1,808	—	1,808
Distributions to noncontrolling interests	—	—	(3,128)	—	—	(3,128)	(1,071)	(4,199)
Contributions from noncontrolling interest	—	—	—	—	—	—	376	376
Dividends	—	—	—	(92,834)	—	(92,834)	—	(92,834)
Equity offerings, net of issuance costs	3,587	36	113,158	—	—	113,194	—	113,194
Shares issued under Dividend Reinvestment Program	80	1	2,575	—	—	2,576	—	2,576
Share grants, net of forfeitures and tax withholdings	237	2	2,739	—	—	2,741	—	2,741
Balance, December 31, 2017	78,510	785	1,483,980	(399,213)	9,419	1,094,971	365	1,095,336
Net income attributable to the controlling interests	—	—	—	25,630	—	25,630	—	25,630
Unrealized gain on interest rate hedges	—	—	—	—	420	420	—	420
Distributions to noncontrolling interests	—	—	—	—	—	—	(14)	(14)
Dividends	—	—	—	(95,502)	—	(95,502)	—	(95,502)
Equity offerings, net of issuance costs	1,165	11	35,461	—	—	35,472	—	35,472
Shares issued under Dividend Reinvestment Program	81	1	1,972	—	—	1,973	—	1,973
Share grants, net of forfeitures and tax withholdings	154	2	5,161	—	—	5,163	—	5,163
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	—	—	—	383,550	—	383,550	—	383,550
Unrealized loss on interest rate hedges	—	—	—	—	(8,016)	(8,016)	—	(8,016)
Distributions to noncontrolling interests	—	—	—	—	—	—	(15)	(15)
Dividends	—	—	—	(96,964)	—	(96,964)	—	(96,964)
Equity offerings, net of issuance costs	1,859	18	54,898	—	—	54,916	—	54,916
Shares issued under Dividend Reinvestment Program	173	2	4,753	—	—	4,755	—	4,755
Share grants, net of forfeitures and tax withholdings	157	2	6,262	—	—	6,264	—	6,264
Balance, December 31, 2019	<u>82,099</u>	<u>\$ 821</u>	<u>\$ 1,592,487</u>	<u>\$ (183,405)</u>	<u>\$ 1,823</u>	<u>\$ 1,411,726</u>	<u>\$ 336</u>	<u>\$ 1,412,062</u>

See accompanying notes to the consolidated financial statements.

WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(IN THOUSANDS)

	Year Ended December 31,		
	2019	2018	2017
<b>Cash flows from operating activities</b>			
Net income	\$ 383,550	\$ 25,630	\$ 19,612
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain on sale of real estate	(398,985)	(2,495)	(24,915)
Depreciation and amortization	141,179	121,228	112,056
Credit (gains) losses on lease related receivables	(10)	2,136	882
Deferred tax benefit	—	—	(84)
Real estate impairment	8,374	1,886	33,152
Share-based compensation expense	7,743	6,746	4,771
Amortization of debt premiums, discounts and deferred issuance costs	3,195	2,101	1,897
Loss on extinguishment of debt	764	1,178	—
Changes in other assets	(10,086)	(8,674)	(20,199)
Changes in other liabilities	(4,801)	(2,367)	3,454
Net cash provided by operating activities	130,923	147,369	130,626
<b>Cash flows from investing activities</b>			
Real estate acquisitions, net	(528,589)	(106,400)	(138,371)
Capital improvements to real estate	(68,456)	(71,070)	(60,515)
Development in progress	(47,492)	(34,806)	(18,150)
Net cash received from sale of real estate	706,064	174,297	30,798
Real estate deposits, net	—	—	(6,250)
Non-real estate capital improvements	(491)	(963)	(3,866)
Net cash provided by (used in) investing activities	61,036	(38,942)	(196,354)
<b>Cash flows from financing activities</b>			
Line of credit (repayments) borrowings, net	(132,000)	22,000	46,000
Principal payments – mortgage notes payable	(12,724)	(170,081)	(52,571)
Proceeds from dividend reinvestment program	4,755	1,973	2,576
Repayments of unsecured term loan debt	(450,000)	(150,000)	—
Proceeds from term loan	450,000	250,000	50,000
Payment of financing costs	(1,303)	(5,650)	(319)
Dividends paid	(96,361)	(95,059)	(91,666)
Distributions to noncontrolling interests	(15)	(14)	(4,199)
Net proceeds from equity offerings	54,916	35,472	113,194
Payment of tax withholdings for restricted share awards	(2,116)	(2,051)	(2,286)
Net cash (used in) provided by financing activities	(184,848)	(113,410)	60,729
Net increase (decrease) in cash, cash equivalents and restricted cash	7,111	(4,983)	(4,999)
Cash, cash equivalents and restricted cash at beginning of year	7,640	12,623	17,622
Cash, cash equivalents and restricted cash at end of year	\$ 14,751	\$ 7,640	\$ 12,623

WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(IN THOUSANDS)

	Year Ended December 31,		
	2019	2018	2017
Supplemental disclosure of cash flow information:			
Cash paid for interest, net of capitalized interest expense	\$ 50,999	\$ 49,058	\$ 45,730
Cash paid for income taxes	—	—	17
Change in accrued capital improvements and development costs	7,908	(2,769)	3,264
Dividend payable	24,668	24,022	23,581
Operating partnership units issued with acquisition	—	—	376
Reconciliation of cash, cash equivalents and restricted cash:			
Cash and cash equivalents	\$ 12,939	\$ 6,016	\$ 9,847
Restricted cash	1,812	1,624	2,776
Cash, cash equivalents and restricted cash	\$ 14,751	\$ 7,640	\$ 12,623

See accompanying notes to the consolidated financial statements.



**WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017**

**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 D.C. metro region. We own a portfolio of multifamily and commercial properties. During 2019, we acquired eight multifamily properties with a total of 2,390 units and sold eight retail properties (see note 3). The eight sold retail 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 14). 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 (multifamily and office) and reduces our exposure to future retail lease expirations.

*U.S. Federal Income Taxes*

We believe that we qualify as a REIT under Sections 856-860 of the Internal Revenue Code of 1986, as amended (the “Code”), and intend to continue to qualify as such. To maintain our status as a REIT, we are, among other things, required to distribute 90% of our REIT taxable income (which is, generally, our ordinary taxable income, with certain modifications), excluding any net capital gains and any deductions for dividends paid to our shareholders on an annual basis. When selling a property, we generally have the option of (a) reinvesting the sales proceeds of property sold, in a way that allows us to defer recognition of some or all taxable gain realized on the sale, (b) distributing gains to the shareholders with no tax to us or (c) treating net long-term capital gains as having been distributed to our shareholders, paying the tax on the gain deemed distributed and allocating the tax paid as a credit to our shareholders. During the three years ended December 31, 2019, we sold our interests in the following properties (in thousands):

Disposition Date	Property	Type	(Loss) Gain on Sale
June 26, 2019	Quantico Corporate Center <sup>(1)</sup>	Office	\$ (1,046)
July 23, 2019	Shopping Center Portfolio <sup>(2)</sup>	Retail	333,023
August 21, 2019	Frederick Crossing and Frederick County Square	Retail	9,507
August 27, 2019	Centre at Hagerstown	Retail	(3,506)
December 19, 2019	1776 G Street	Office	61,007
		<b>Total 2019</b>	<b>\$ 398,985</b>
<hr/>			
January 19, 2018	Braddock Metro Center	Office	\$ —
June 28, 2018	2445 M Street	Office	2,495
		<b>Total 2018</b>	<b>\$ 2,495</b>
<hr/>			
October 23, 2017	Walker House Apartments	Multifamily	\$ 23,838
		<b>Total 2017</b>	<b>\$ 23,838</b>

<sup>(1)</sup> Consists of 925 and 1000 Corporate Drive.

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

Seven of the eight retail properties sold during 2019 were identified for deferred exchanges under Section 1031 of the Code (see note 3). We acquired eight multifamily replacement properties (see note 3) during 2019. The taxable gains for 1776 G Street, a portion of the Shopping Center Portfolio proceeds not reinvested in the deferred exchange, and Walker House Apartments were distributed to shareholders through quarterly dividends in their respective year of sale.

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 December 31, 2019 and 2018, our TRSs had a deferred tax asset of \$1.4 million that was fully reserved. As of both December 31, 2019 and 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, amortization and depreciation.

Beginning in 2018, ordinary taxable income per share is equal to the Section 199A dividend that was created by the TCJA. The following is a breakdown of the taxable percentage of our dividends for the years ended December 31, 2019, 2018 and 2017 (unaudited):

	2019	2018	2017
Ordinary income/Section 199A dividends	80 %	29 %	76 %
Return of capital	20 %	71 %	— %
Qualified dividends	— %	— %	2 %
Unrecaptured Section 1250 gain	— %	— %	8 %
Capital gain	— %	— %	14 %

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

*Principles of Consolidation and Basis of Presentation*

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

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

*Use of Estimates in the Financial Statements*

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

Standards 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>. This standard amends existing lease accounting standards for both lessees and lessors.</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 to prior 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 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 distributions in excess of net income 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>We elected not to bifurcate lease contracts into lease and non-lease components, since: (1) the timing and pattern of revenue is not materially different and the non-lease components are not the primary component of the lease, and (2) the lease component, if accounted for separately, would be classified as an operating 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.</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 did not reassess whether any expired or existing contracts are or contain leases, (2) we did not reassess the lease classification for any expired or existing leases, and (3) we did not reassess initial direct costs for any existing leases under ASC 840.</p>

*New Accounting Standards Issued But Not Yet Effective*

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. This standard does not apply to receivables arising from operating leases accounted for in accordance with Topic 842.	We adopted the new standard as of January 1, 2020.	The adoption of the new standard did not have a material impact 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.	We adopted the new standard as of January 1, 2020.	The adoption of the new standard did not have a material impact on our consolidated financial statements.

*Revenue Recognition*

We lease multifamily properties under operating leases with terms of generally one year or less. We lease commercial 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 gains on sales of real estate when we have executed a contract for sale of the asset, transferred controlling financial interest in the asset to the buyer and determined that it is probable that we will collect substantially all of the consideration for the asset. Our real estate sale transactions typically meet these criteria at closing.

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 monthly parking revenues as earned. We recognize transient parking revenue when our performance obligation is met.

*Rents and Other Receivables*

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. Rents and other receivables on the consolidated balance sheet is net of allowance for doubtful accounts of \$2.4 million as of December 31, 2018.

### Debt Issuance Costs

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

### Deferred Leasing Costs

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

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

### Real Estate and Depreciation

We depreciate buildings on a straight-line basis over estimated useful lives ranging from 28 to 50 years. We capitalize all capital improvements associated with replacements, improvements or major repairs to real property that extend its useful life and depreciate them using the straight-line method over their estimated useful lives ranging from 3 to 30 years. We also capitalize costs incurred in connection with our development projects, including interest incurred on borrowing obligations and other internal costs during periods in which qualifying expenditures have been made and activities necessary to get the development projects ready for their intended use are in progress. Capitalization of these costs begins when the activities and related expenditures commence and ceases when the project is substantially complete and ready for its intended use, at which time the project is placed into service and depreciation commences. In addition, we capitalize tenant leasehold improvements when certain criteria are met, including when we supervise construction and will own the improvements. We depreciate all tenant improvements over the shorter of the useful life of the improvements or the term of the related tenant lease.

Real estate depreciation expense from continuing operations was \$101.7 million, \$82.9 million and \$81.0 million during the years ended December 31, 2019, 2018 and 2017, respectively.

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

Interest expense from continuing operations and interest capitalized to real estate assets related to development and major renovation activities for the three years ended December 31, 2019 were as follows (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Total interest incurred	\$ 56,948	\$ 52,592	\$ 47,757
Capitalized interest	(3,214)	(2,091)	(964)
Interest expense, net of capitalized interest	\$ 53,734	\$ 50,501	\$ 46,793

We recognize impairment losses on long-lived assets used in operations, development assets or land held for future development, if indicators of impairment are present and the net undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. Estimates of undiscounted cash flows are based on forward-looking assumptions, including annual and residual cash flows and our estimated holding period for each property. Such assumptions involve a high degree of judgment and could be affected by future economic and market conditions. When determining if a property has indicators of impairment, we evaluate the property's occupancy, our expected holding period for the property, strategic decisions regarding the property's future operations or development and other market factors. If such carrying amount is in excess of the estimated undiscounted cash flows from the operation and disposal of the property, we would recognize an impairment loss equivalent to an amount required to adjust the carrying amount to its estimated fair value, calculated in accordance with current GAAP fair value provisions. Assets held for sale are recorded at the lower of cost or fair value less costs to sell.

### *Acquisitions*

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

We determine the fair values of acquired buildings on an “as-if-vacant” basis considering a variety of factors, including the replacement cost of the property, estimated rental and absorption rates, estimated future cash flows and valuation assumptions consistent with current market conditions. We determine the fair value of land acquired based on comparisons to similar properties that have been recently marketed for sale or sold.

The fair value of in-place leases consists of the following components – (a) the estimated cost to us to replace the leases, including foregone rents during the period of finding a new tenant and foregone recovery of tenant pass-throughs (referred to as “absorption cost”); (b) the estimated cost of tenant improvements, and other direct costs associated with obtaining a new tenant (referred to as “tenant origination cost”); (c) estimated leasing commissions associated with obtaining a new tenant (referred to as “leasing commissions”); (d) the above/at/below market cash flow of the leases, determined by comparing the projected cash flows of the leases in place, including consideration of renewal options, to projected cash flows of comparable market-rate leases (referred to as “net lease intangible”); and (e) the value, if any, of customer relationships, determined based on our evaluation of the specific characteristics of each tenant’s lease and our overall relationship with the tenant (referred to as “customer relationship value”). We have attributed no value to customer relationships as of December 31, 2019 and 2018.

We discount the amounts used to calculate net lease intangibles using an interest rate which reflects the risks associated with the leases acquired. We classify tenant origination costs as income producing property on our consolidated balance sheets and amortize the tenant origination costs as depreciation expense on a straight-line basis over the remaining life of the underlying leases. We classify leasing commissions and absorption costs as other assets and amortize leasing commissions and absorption costs as amortization expense on a straight-line basis over the remaining life of the underlying leases. We classify net lease intangible assets as other assets and amortize them on a straight-line basis as a decrease to real estate rental revenue over the remaining term of the underlying leases. We classify net lease intangible liabilities as other liabilities and amortize them on a straight-line basis as an increase to real estate rental revenue over the remaining term of the underlying leases. If any of the fair value of below market lease intangibles includes fair value associated with a renewal option, such amounts are not amortized until the renewal option is executed, else the related value is expensed at that time. Should a tenant terminate its lease prior to the expiration date, we accelerate the amortization of the unamortized portion of the tenant origination cost, leasing commissions, absorption costs and net lease intangible associated with that lease, over its new, shorter term.

### *Software Developed for Internal Use*

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

### *Held for Sale and 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.

#### *Segments*

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

#### *Cash and Cash Equivalents*

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

#### *Restricted Cash*

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

#### *Earnings Per Common Share*

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

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

#### *Stock Based Compensation*

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

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

#### *Accounting for Uncertainty in Income Taxes*

We can recognize a tax benefit only if it is "more likely than not" that a particular tax position will be sustained upon examination or audit. To the extent that the "more likely than not" standard has been satisfied, the benefit associated with a tax position is measured as the largest amount that is greater than 50% likely of being recognized upon settlement. As of December 31, 2019 and 2018, we did not have any unrecognized tax benefits. We do not believe that there will be any material changes to our uncertain tax positions over the next twelve months.

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

Tax returns filed for 2015 through 2019 tax years are subject to examination by taxing authorities. We classify interest and penalties related to uncertain tax positions, if any, in our financial statements as a component of general and administrative expense.

#### *Derivatives*

We borrow funds at a combination of fixed and variable rates. Borrowings under our revolving credit facility and term loans bear interest at variable rates. Our interest rate risk management objectives are to minimize interest rate fluctuation on long-term indebtedness and limit the impact of interest rate changes on earnings and cash flows. To achieve these objectives, from time to time, we may enter into interest rate hedge contracts such as collars, swaps, caps and treasury lock agreements in order to mitigate our interest rate risk with respect to various debt instruments. We generally do not hold or issue these derivative contracts for trading or speculative purposes. The interest rate swaps we enter into are recorded at fair value on a recurring basis. We assess effectiveness of our cash flow hedges both at inception and on an ongoing basis. The effective portion of changes in fair value of the interest rate swaps associated with our cash flow hedges is recorded in accumulated other comprehensive income (loss). Our cash flow hedges become ineffective if critical terms of the hedging instrument and the debt instrument such as notional amounts, settlement dates, reset dates, calculation period and LIBOR do not perfectly match. In addition, we evaluate the default risk of the counterparty by monitoring the creditworthiness of the counterparty. When ineffectiveness of a cash flow hedge exists, the ineffective portion of changes in fair value of the interest rate swaps associated with our cash flow hedges is recognized in earnings in the period affected.

#### **NOTE 3: REAL ESTATE**

As of December 31, 2019 and 2018, our real estate investment portfolio classified as income producing property that is held and used, at cost, consists of properties as follows (in thousands):

	December 31,	
	2019	2018
Multifamily	\$ 1,469,011	\$ 919,285
Office	1,329,722	1,507,986
Other <sup>(1)</sup>	160,489	154,650
	<u>\$ 2,959,222</u>	<u>\$ 2,581,921</u>

<sup>(1)</sup> Consists of the retail properties not classified as discontinued operations: Takoma Park, Westminster, Concord Centre, Chevy Chase Metro Plaza, 800 S. Washington Street, Randolph Shopping Center, Montrose Shopping Center and Spring Valley Village.

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

As of December 31, 2019, no property accounted for more than approximately 10% of total assets. No single property or tenant accounted for more than 10% of the real estate rental revenue.

We have properties under development/redevelopment and held for current or future development. The cost of our real estate portfolio under development or held for future development as of December 31, 2019 and 2018 is as follows (in thousands):

	December 31,	
	2019	2018
Multifamily	\$ 123,071	\$ 83,945
Office	478	478
Other	644	2,808
	<u>\$ 124,193</u>	<u>\$ 87,231</u>

As of December 31, 2019, we have invested \$110.4 million, including the cost of acquired land, in The Trove, a multifamily development adjacent to The Wellington. We substantially completed major construction activities for The Trove garage levels



1-5 during the third quarter of 2019 and placed into service assets totaling \$12.3 million. We expect to place the remainder of Trove development cost into service during 2020. We have also invested \$25.6 million, including the cost of acquired land, in a multifamily development adjacent to Riverside Apartments. In addition, there are several other projects with minor development activity in the multifamily and office segments.

#### Acquisitions

Our current strategy is to recycle legacy assets that lack the income growth potential we seek and to invest in high-quality assets with compelling value-add returns through redevelopment opportunities in our existing portfolio and acquisitions that meet our stringent investment criteria. We focus on properties inside the Washington metro region's Beltway, near major transportation nodes and in areas with strong employment drivers and superior growth demographics.

Properties and land for development acquired during the three years ended December 31, 2019 were as follows:

Acquisition Date	Property	Type	# of units (unaudited)	Rentable Square Feet (unaudited)	Contract Purchase Price (in thousands)
April 30, 2019	Assembly Portfolio - Virginia <sup>(1)</sup>	Multifamily	1,685	N/A	\$ 379,100
June 27, 2019	Assembly Portfolio - Maryland <sup>(2)</sup>	Multifamily	428	N/A	82,070
July 23, 2019	Cascade at Landmark	Multifamily	277	N/A	69,750
			<u>2,390</u>		<u>\$ 530,920</u>
January 18, 2018	Arlington Tower	Office	N/A	391,000	\$ 250,000
April 4, 2017	Watergate 600	Office	N/A	293,000	\$ 135,000

<sup>(1)</sup> Consists of Assembly Alexandria, Assembly Manassas, Assembly Dulles, Assembly Leesburg, and Assembly Herndon.

<sup>(2)</sup> 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 a 1031 exchange facilitator (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 third quarter of 2019. We consolidated the assets and liabilities of the Assembly Portfolio and Cascade at Landmark because we determined that WashREIT was the primary beneficiary of these properties.

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

The revenue and earnings of our acquisitions during their year of acquisition for the three years ended December 31, 2019 are as follows (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Real estate rental revenue	\$ 27,641	\$ 22,389	\$ 14,518
Net (loss) income	(10,167)	3,623	2,226

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

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

	2019	2018	2017
Land	\$ 92,391	\$ 63,970	\$ 45,981
Buildings and improvements	423,663	142,900	66,241
Tenant origination costs	—	13,625	12,084
Leasing commissions/absorption costs	15,474	27,465	23,161
Net lease intangible assets	—	3,142	498
Net lease intangible liabilities	—	(545)	(9,585)
Deferred tax liability	—	—	(560)
Total	<u>\$ 531,528</u>	<u>\$ 250,557</u>	<u>\$ 137,820</u>

As of December 31, 2019, the weighted remaining average life of the absorption costs was two months.

The difference in the total cost of the 2019 acquisitions of \$531.5 million and the cash paid for the acquisitions per the consolidated statements of cash flows of \$528.6 million is primarily due to credits received at settlement totaling \$2.9 million.

The difference in the total contract purchase price of \$250.0 million for the 2018 acquisition and cash paid for the acquisition per the consolidated statements of cash flows of \$106.4 million is primarily due to a mortgage note assumed and repaid at settlement (\$135.5 million), an acquisition deposit made during 2017 (\$6.3 million), and a net credit to the buyer for certain expenditures (\$2.4 million), partially offset by capitalized acquisition related costs (\$0.6 million).

The difference in the total contract price of \$135.0 million for the 2017 acquisition and cash paid for the acquisition per the consolidated statements of cash flows of \$138.4 million is primarily due to capitalized acquisition-related costs (\$2.8 million) and a net credit to the buyer for certain expenditures (\$1.0 million), partially offset by the issuance of 12,124 operating partnership units ("Operating Partnership Units") as part of the consideration (\$0.4 million). The Operating Partnership Units are units in WashREIT Watergate 600 OP LP, a consolidated subsidiary of WashREIT. These Operating Partnership Units may be redeemed for either cash equal to the fair market value of a share of WashREIT common stock at the time of redemption (based on a 20-day average price) or, at the option of WashREIT, one registered or unregistered share of WashREIT common stock. In connection with the 2017 acquisition, we granted registration rights to the two contributors of the Watergate 600 property relating to the resale of any shares issued upon exchange of Operating Partnership Units pursuant to a shelf registration statement that we had an obligation to make available to the contributors approximately one year after the issuance of the Operating Partnership Units. This shelf registration statement was filed on March 8, 2018.

Balances, net of accumulated depreciation or amortization, as appropriate, of the components of the fair value of in-place leases at December 31, 2019 and 2018 were as follows (in thousands):

	December 31,					
	2019			2018		
	Gross Carrying Value	Accumulated Amortization	Net	Gross Carrying Value	Accumulated Amortization	Net
Tenant origination costs	\$ 50,155	\$ 33,364	\$ 16,791	\$ 57,897	\$ 36,570	\$ 21,327
Leasing commissions/absorption costs	122,348	92,401	29,947	114,354	77,194	37,160
Net lease intangible assets	15,183	11,964	3,219	16,353	11,947	4,406
Net lease intangible liabilities	29,836	20,854	8,982	31,124	20,016	11,108
Below-market ground lease intangible asset	12,080	2,282	9,798	12,080	2,093	9,987

Amortization of these combined components during the three years ended December 31, 2019, 2018 and 2017 was as follows (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Depreciation and amortization expense	\$ 27,123	\$ 22,361	\$ 13,996
Real estate rental revenue increase, net	(924)	(1,225)	(776)
	<u>\$ 26,199</u>	<u>\$ 21,136</u>	<u>\$ 13,220</u>

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

	Depreciation and amortization expense	Real estate rental revenue, net increase	Total
2020	\$ 9,975	\$ (406)	\$ 9,569
2021	8,576	(547)	8,029
2022	8,078	(736)	7,342
2023	6,032	(974)	5,058
2024	5,264	(862)	4,402
Thereafter	18,611	(2,238)	16,373

#### Properties Sold and Held for Sale

We intend to hold our properties for investment with a view to long-term appreciation, to engage in the business of acquiring, developing and owning our properties, and to make occasional sales of the properties that no longer meet our long-term strategy or return objectives and where market conditions for sale are favorable. The proceeds from the sales may be reinvested into other properties, used to fund development operations or to support other corporate needs, or distributed to our shareholders. Depreciation on these properties is discontinued when classified as held for sale, but operating revenues, other operating expenses and interest continue to be recognized through the date of sale.

We classified as held for sale or sold our interests in the following properties during the three years ended December 31, 2019:

Disposition Date	Property	Type	# of units (unaudited)	Rentable Square Feet (unaudited)	Contract Sale Price (in thousands)	(Loss) Gain on Sale (in thousands)
June 26, 2019	Quantico Corporate Center <sup>(1)</sup>	Office	N/A	272,000	\$ 33,000	\$ (1,046)
July 23, 2019	Shopping Center Portfolio <sup>(2)</sup>	Retail	N/A	800,000	485,250	333,023
August 21, 2019	Frederick Crossing and Frederick County Square	Retail	N/A	520,000	57,500	9,507
August 27, 2019	Centre at Hagerstown	Retail	N/A	330,000	23,500	(3,506)
December 19, 2019	1776 G Street	Office	N/A	262,000	129,500	61,007
N/A	John Marshall II	Office	N/A	223,000	63,350	N/A
<b>Total 2019</b>				<b>2,407,000</b>	<b>\$ 792,100</b>	<b>\$ 398,985</b>
January 19, 2018	Braddock Metro Center	Office	N/A	356,000	\$ 93,000	\$ —
June 28, 2018	2445 M Street	Office	N/A	292,000	101,600	2,495
<b>Total 2018</b>				<b>648,000</b>	<b>\$ 194,600</b>	<b>\$ 2,495</b>
October 23, 2017	Walker House Apartments	Multifamily	212	N/A	\$ 32,200	\$ 23,838
<b>Total 2017</b>					<b>\$ 32,200</b>	<b>\$ 23,838</b>

<sup>(1)</sup> Consists of 925 and 1000 Corporate Drive.

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

We have fully transferred control of the assets associated with these disposed properties and do not have continuing involvement in the operations of these properties.

During the second quarter of 2019, we sold Quantico Corporate Center, an office property in Stafford, Virginia, consisting of two office buildings totaling 272,000 square feet, for a contract sale price of \$33.0 million, recognizing a loss on sale of real estate of \$1.0 million. Prior to the sale, 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 were 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.

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 received 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 (a property in the Shopping Center Portfolio), incurring a loss on extinguishment of debt of approximately \$0.8 million, which we recognized in the third quarter of 2019.

In the third 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 sale 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 and the Power Center Portfolio. The disposition of the Retail Portfolio represents a strategic shift that had a major effect on our financial results and we have accordingly reported the Retail Portfolio as discontinued operations. The Retail Portfolio represents assets generating a majority of the revenue from our retail properties and we have determined that our retail line of business is no longer a reportable segment (see note 14).

In October 2019, we renewed and extended our lease with the World Bank at 1776 G Street NW, an office property in Washington, DC, through December 31, 2025. In December 2019, we sold the property to the World Bank for a contract sale price of \$129.5 million, recognizing a gain on sale of real estate of \$61.0 million.

In December 2019, we executed a purchase and sale agreement to sell John Marshall II for a contract sale price of \$63.4 million. We anticipate settlement in the first quarter of 2020, however, there can be no assurances that this proposed sale will be consummated. Upon execution of the purchase and sale agreement, the property met the criteria for classification as held for sale.

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

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

### 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):

	2019	2018	2017
Real estate rental revenue	\$ 28,200	\$ 45,160	\$ 44,797
Real estate expenses	(6,803)	(10,638)	(10,251)
Depreciation and amortization	(4,926)	(9,402)	(10,626)
Interest expense	(313)	(643)	(740)
Loss on extinguishment of debt	(764)	—	—
Gain on sale of real estate	339,024	—	—
<b>Income from discontinued operations</b>	<b>\$ 354,418</b>	<b>\$ 24,477</b>	<b>\$ 23,180</b>
Basic net income per share	\$ 4.39	\$ 0.31	\$ 0.30
Diluted net income per share	\$ 4.39	\$ 0.31	\$ 0.30

Capital expenditures	\$ 809	\$ 2,138	\$ 1,601
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All assets related to the Retail Portfolio were sold as of December 31, 2019. As of December 31, 2018, assets related to the Retail Portfolio were as follows (in thousands):

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

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

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

**NOTE 4: LEASE ACCOUNTING***Leasing as a Lessor*

## Future Minimum Rental Income

As of December 31, 2019, non-cancelable commercial operating leases provide for future minimum rental income from continuing operations as follows (in thousands):

2020	\$	139,053
2021		133,907
2022		120,491
2023		102,877
2024		91,253
Thereafter		301,974
	\$	<u>889,555</u>

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

*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 51 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 straight-line rental expense of \$0.3 million and variable rental payments of \$0.9 million during each of the three years ended December 31, 2019.

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 \$0.3 million of right-of-use asset and lease liability amortization during 2019. 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 December 31, 2019 and a reconciliation of those cash flows to the operating lease liability as of December 31, 2019 (in thousands):

2020	\$	260
2021		260
2022		260
2023		260
2024		260
Thereafter		11,895
		<u>13,195</u>
Imputed interest		(9,225)
Lease liability	\$	<u>3,970</u>

**NOTE 5: MORTGAGE NOTE PAYABLE**

As of December 31, 2019 and 2018, we had outstanding mortgage notes payable, collateralized by a building and related land from our portfolio, as follows (in thousands):

Properties	Assumption/Issuance Date <sup>(1)</sup>	Effective Interest Rate <sup>(2)</sup>	December 31,		Payoff Date
			2019	2018	
Yale West <sup>(3)</sup>	2/21/2014	3.75 %	\$ 45,654	\$ 46,155	1/31/2020
Premiums and discounts, net			1,470	2,187	
Debt issuance costs, net			(50)	(65)	
			<u>\$ 47,074</u>	<u>\$ 48,277</u>	

<sup>(1)</sup> This mortgage was assumed with the acquisition of the collateralized property. We record mortgages assumed in an acquisition at fair value.

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

<sup>(3)</sup> The maturity date of the mortgage note was January 1, 2052, but was prepaid in January 2020. We incurred a gain on extinguishment of debt of \$0.5 million in association with this prepayment.

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

Total cost basis of the above mortgaged properties was \$77.4 million and \$76.9 million at December 31, 2019 and 2018, respectively.

**NOTE 6: UNSECURED LINES 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, and expands our prior \$600.0 million unsecured revolving credit facility that was set to expire in June 2019. The Credit Agreement has an accordion feature that allows us to increase the facility up to \$1.5 billion in the aggregate, to the extent the lenders agree to provide additional revolving loan commitments or term loans.

The 2015 Term Loan has a 5.5 year term and currently has an interest rate of one month LIBOR plus 110 basis points, based on WashREIT's current unsecured debt ratings. We entered into two interest rate swaps to effectively fix the interest rate at 2.7% (see note 8).

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% 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 unused and available at December 31, 2019 was as follows (in thousands):

Committed capacity	\$ 700,000
Borrowings outstanding	(56,000)
Unused and available	<u>\$ 644,000</u>

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

Balance at December 31, 2018	\$	188,000
Borrowings		687,000
Repayments		(819,000)
Balance at December 31, 2019	\$	56,000

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% 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 0.5% and the LIBOR market index rate plus 1.0%. In addition, the Revolving Credit Facility requires the payment of a facility fee ranging from 0.10% to 0.30% (depending on WashREIT's credit rating) on the \$700 million committed capacity, without regard to usage. As of December 31, 2019, the interest rate on the facility was LIBOR plus 1.00%, the one month LIBOR was 1.70% and the facility fee was 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.

For the three years ended December 31, 2019, we recognized interest expense (excluding facility fees) and facility fees as follows (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Interest expense (excluding facility fees)	\$ 6,554	\$ 6,843	\$ 3,857
Facility fees	1,400	1,371	1,217

The Revolving Credit Facility contains and the prior unsecured credit facility that it replaced contained certain financial and non-financial covenants, all of which we have met as of December 31, 2019 and 2018. Included in these covenants are limits on our total indebtedness, secured and unsecured indebtedness and required debt service payments.

Information related to revolving credit facilities for the three years ended December 31, 2019 as follows (in thousands, except percentage amounts):

	Year Ended December 31,		
	2019	2018	2017
Total revolving credit facilities at December 31	\$ 700,000	\$ 700,000	\$ 600,000
Borrowings outstanding at December 31	56,000	188,000	166,000
Weighted average daily borrowings during the year	196,074	230,934	179,633
Maximum daily borrowings during the year	300,000	429,000	252,000
Weighted average interest rate during the year	3.34%	2.96%	2.15%
Weighted average interest rate on borrowings outstanding at December 31	2.73%	3.52%	2.54%

The covenants under our Revolving Credit Facility require us to insure our properties against loss or damage in amounts customarily maintained by similar businesses or as they may be required by applicable law. The covenants for the notes require us to keep all of our insurable properties insured against loss or damage at least equal to their then full insurable value. We have an insurance policy that has no terrorism exclusion, except for non-certified nuclear, chemical and biological acts of terrorism. Our financial condition and results of operations are subject to the risks associated with acts of terrorism and the potential for uninsured losses as the result of any such acts. Effective November 26, 2002, under this existing coverage, any losses caused by certified acts of terrorism would be partially reimbursed by the United States under a formula established by federal law. Under this formula, the United States pays 85% of covered terrorism losses exceeding the statutorily established deductible paid by the insurance provider, and insurers pay 10% until aggregate insured losses from all insurers reach \$100 billion in a calendar year. If the aggregate amount of insured losses under this program exceeds \$100 billion during the applicable period for all insured and insurers combined, then each insurance provider will not be liable for payment of any amount which exceeds the aggregate amount of \$100 billion. On December 20, 2019, The Terrorism Risk Insurance Program Reauthorization Act of 2019 was signed into law, extending the program through December 31, 2027.



**NOTE 7: NOTES PAYABLE**

Our unsecured notes and term loans outstanding as of December 31, 2019 and 2018 are as follows (in thousands):

	Coupon/Stated Rate	Effective Rate <sup>(1)</sup>	December 31,		Payoff Date/ Maturity Date <sup>(2)</sup>
			2019	2018	
10 Year Unsecured Notes	4.95 %	5.05%	250,000	\$ 250,000	10/1/2020
2015 Term Loan	1 Month LIBOR + 110 basis points	2.72%	150,000	150,000	3/15/2021
10 Year Unsecured Notes	3.95 %	4.02%	300,000	300,000	10/15/2022
2018 Term Loan <sup>(3)</sup>	1 Month LIBOR + 110 basis points	2.87%	250,000	250,000	7/21/2023
30 Year Unsecured Notes	7.25 %	7.36%	50,000	50,000	2/25/2028
Total principal			1,000,000	1,000,000	
Premiums and discounts, net			(797)	(1,189)	
Deferred issuance costs, net			(2,481)	(3,414)	
Total			\$ 996,722	995,397	

<sup>(1)</sup> For fixed rate notes, the effective rate represents the yield on issuance date, including the effects of discounts on the notes. For variable rate notes, the effective rate represents the rate as fixed by interest rate derivatives (see note 8).

<sup>(2)</sup> No principal amounts are due prior to maturity.

<sup>(3)</sup> The 2018 Term Loan increased and replaced the 2016 Term Loan (see note 6).

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 was 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 third quarter of 2019, 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).

The required principal payments on the unsecured notes and term loans as of December 31, 2019 are as follows (in thousands):

2020	\$ 250,000
2021	150,000
2022	300,000
2023	250,000
2024	—
Thereafter	50,000
	<u>\$ 1,000,000</u>

Interest on these notes is payable semi-annually, except for the term loans, for which interest is payable monthly. These notes contain certain financial and non-financial covenants, all of which we have met as of December 31, 2019. Included in these covenants is the requirement to maintain a minimum level of unencumbered assets, as well as limits on our total indebtedness, secured indebtedness and required debt service payments.

## NOTE 8: DERIVATIVE INSTRUMENTS

On September 15, 2015, we entered into two interest rate swap arrangements with a total notional amount of \$150.0 million to swap the floating interest rate under the 2015 Term Loan (see note 7) to an all-in fixed interest rate of 2.72% starting on October 15, 2015 and extending until the maturity of the 2015 Term Loan on March 15, 2021.

On July 22, 2016, we entered into two forward interest rate swap arrangements with a total notional amount of \$150.0 million to swap the floating interest rate under the 2016 Term Loan (see note 7) to an all-in fixed interest rate of 2.86%, starting on March 31, 2017 and extending until the scheduled 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 7) 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% (see note 6 and note 7).

In November 2019, we entered into four interest rate swap arrangements with a total notional amount of \$200.0 million to reduce our exposure to adverse fluctuations in interest rates on the future debt to replace our \$250.0 million of 4.95% 10-year unsecured notes maturing in 2020 (see note 7).

The interest rate swaps qualify as cash flow hedges and are recorded at fair value in accordance with GAAP, based on discounted cash flow methodologies and observable inputs. We record the effective portion of changes in fair value of the cash flow hedges in other comprehensive income. The resulting unrealized loss on the effective portions of the cash flow hedges was the only activity in other comprehensive income (loss) during the periods presented in our consolidated financial statements. We assess the effectiveness of our cash flow hedges both at inception and on an ongoing basis. The cash flow hedges were effective for 2019 and 2018 and hedge ineffectiveness did not impact earnings in 2019 and 2018.

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

Derivative Instrument	Aggregate Notional Amount	Effective Date	Maturity Date	Fair Value	
				Derivative Assets (Liabilities)	
				December 31,	
				2019	2018
Interest rate swaps	\$ 150,000	October 15, 2015	March 15, 2021	\$ (62)	\$ 2,720
Interest rate swaps	150,000	March 31, 2017	July 21, 2023	1,825	7,918
Interest rate swaps	100,000	June 29, 2018	July 21, 2023	(3,664)	(799)
Interest rate swaps	200,000	April 1, 2020	April 1, 2030	3,724	—
	<u>\$ 600,000</u>			<u>\$ 1,823</u>	<u>\$ 9,839</u>

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

	Year Ending December 31,		
	2019	2018	2017
Unrealized (loss) gain on interest rate hedges	\$ (8,016)	\$ 420	\$ 1,808

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 \$0.1 million will be reclassified as an increase to interest expense.

We have agreements with each of our derivative counterparties that contain a provision whereby we could be declared in default on our derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to our default on the indebtedness. As of December 31, 2019, the fair value of the derivative assets, including accrued interest, was \$5.5 million, and the fair value of the derivative liabilities, including accrued interest, was \$3.7 million. As of December 31, 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 agreement. We believe that we minimize our credit risk on these transactions by dealing with major, creditworthy financial institutions. We monitor the credit ratings of counterparties and our exposure to any single entity, thus minimizing our credit risk concentration.

#### **NOTE 9: FAIR VALUE DISCLOSURES**

##### *Assets and Liabilities Measured at Fair Value*

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

Level 1: Quoted prices in active markets for identical assets

Level 2: Significant other observable inputs

Level 3: Significant unobservable inputs

The only assets or liabilities we had at December 31, 2019 and 2018 that are recorded at fair value on a recurring basis are the assets held in the Supplemental Executive Retirement Plan ("SERP"), which primarily consists of investments in mutual funds, and the interest rate swaps (see note 8).

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

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

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

	December 31, 2019				December 31, 2018			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>								
SERP	\$ 1,792	\$ —	\$ 1,792	\$ —	\$ 1,364	\$ —	\$ 1,364	\$ —
Interest rate swaps	5,549	—	5,549	—	10,638	—	10,638	—
<b>Liabilities:</b>								
Interest rate swaps	(3,726)	—	(3,726)	—	(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 December 31, 2019 may differ significantly from the amounts presented.

Below is a summary of significant methodologies used in estimating fair values and a schedule of fair values at December 31, 2019.

#### *Cash and Cash Equivalents and Restricted Cash*

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

#### *Debt*

Mortgage notes payable consist of instruments in which certain of our real estate assets are used for collateral. We estimate the fair value of the mortgage notes payable by discounting the contractual cash flows at a rate equal to the relevant treasury rates (with respect to the timing of each cash flow) plus credit spreads estimated through independent comparisons to real estate assets or loans with similar characteristics. Line of credit payable consist of bank facilities which we use for various purposes including working capital, acquisition funding and capital improvements. The line of credit advances and term loans with floating interest rates are priced at a specified rate plus a spread. We estimate the market value based on a comparison of the spreads of the advances to market given the adjustable base rate. We estimate the fair value of the notes payable by discounting the contractual cash flows at a rate equal to the relevant treasury rates (with respect to the timing of each cash flow) plus credit spreads derived using the relevant securities' market prices. We classify these fair value measurements as Level 3 as we use significant unobservable inputs and management judgment due to the absence of quoted market prices.

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

	December 31,			
	2019		2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	\$ 12,939	\$ 12,939	\$ 6,016	\$ 6,016
Restricted cash	1,812	1,812	1,624	1,624
Mortgage notes payable	47,074	47,899	48,277	48,368
Line of credit payable	56,000	56,000	188,000	188,000
Notes payable	996,722	1,022,937	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 third quarter of 2019 (see note 3). As of December 31, 2018, the carrying value and estimated fair value of the mortgage note secured by Olney Village Center were \$11.5 million and \$12.0 million, respectively.

#### **NOTE 10: STOCK BASED COMPENSATION**

WashREIT maintains short-term and long-term incentive plans that allow for stock-based awards to officers and non-officer employees. Stock based awards are provided to officers and non-officer employees, as well as trustees, under the Washington Real Estate Investment Trust 2016 Omnibus Incentive Plan which allows for awards in the form of restricted shares, restricted share units, options, and other awards up to an aggregate of 2,400,000 shares over the ten year period in which the plan will be in effect. Restricted share units are converted into shares of our stock upon full vesting through the issuance of new shares. There were no options issued or outstanding as of December 31, 2019 and 2018.

#### *Short-Term Incentive Plan ("STIP")*

Under the STIP, executive officers earn awards, payable 50% in cash and 50% in restricted shares, based on a percentage of salary and an achievement rating subject to the discretion of the Compensation Committee of the board of trustees in consideration of various performance conditions and other subjective factors during a one-year performance period. With respect to the 50% of the STIP award payable in restricted shares, the restricted shares will vest over a three-year period commencing on the January 1 following the end of the one-year performance period. Prior to the adoption of the 2016 Omnibus Incentive Plan, stock based

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

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

Bonuses payable under the short-term incentive plans for non-executive officers and staff are payable 100% in cash.

#### *Long-Term Incentive Plan ("LTIP")*

Under the LTIP, executive officers earn awards payable, 75% in unrestricted shares and 25% in restricted shares, based on a percentage of salary and the achievement of certain market conditions. For performance periods beginning prior to January 1, 2018, LTIP performance was evaluated based 50% on absolute total shareholder return ("TSR") and 50% on relative TSR over a three-year evaluation period with a new three-year period initiating under the existing plan each year. During the first quarter of 2018, we amended the LTIP for executive officers to eliminate the absolute TSR component and only utilize relative TSR in the measurement of market condition performance. Under the amended LTIP, relative TSR is evaluated 50% relative to a defined population of peer companies and 50% relative to the FTSE NAREIT Diversified Index. The amendment became effective for three-year performance periods commencing on or after January 1, 2018. The officers' total award opportunities under the LTIP stated as a percentage of base salary ranges from 80% to 150% at target level. The unrestricted shares vest immediately at the end of the three-year performance period, and the restricted shares vest over a one-year period commencing on the January 1 following the end of the three-year performance period.

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

We use a binomial model which employs the Monte Carlo method as of the grant date to determine the fair value of the officer LTIP awards. For three-year performance periods commencing on or after January 1, 2018, the market condition performance measurement is based on total shareholder return relative to a defined population of peer companies (50% weighting) and relative to the FTSE NAREIT Diversified Index (50% weighting). The model evaluates the awards for changing total shareholder return over the term of the vesting, relative to the peer companies and relative to the FTSE NAREIT Diversified Index, and uses random simulations that are based on past stock characteristics as well as dividend growth and other factors for WashREIT and each of the peer companies. For three-year performance periods commencing prior to January 1, 2018, the market condition performance measurement was based on total shareholder return on an absolute basis (50% weighting) and relative to a defined population of peer companies (50% weighting).

The assumptions used to value the officer LTIP awards were as follows:

	2019 Awards	2018 Awards	2017 Awards
Expected volatility <sup>(1)</sup>	18.1%	17.9%	18.5% - 18.7%
Risk-free interest rate <sup>(2)</sup>	2.4%	2.4%	1.5%
Expected term <sup>(3)</sup>	3 and 4 years	3 and 4 years	3 and 4 years
Share price at grant date	\$23.00	\$26.06	\$30.84 - \$32.69

<sup>(1)</sup> Expected volatility based upon historical volatility of our daily closing share price.

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

<sup>(3)</sup> Expected term based on the market condition performance period.

The calculated grant date fair value as a percentage of base salary for the officers for the three-year performance period that commenced in 2019 ranged from approximately 35% to 68% for the 50% of the LTIP based on TSR relative to a defined population of peer companies and from 39% to 74% for the 50% of the LTIP based on TSR relative to the FTSE NAREIT Diversified Index.

The calculated grant date fair value as a percentage of base salary for the officers for the three-year performance period that commenced in 2018 ranged from approximately 31% to 60% for the 50% of the LTIP based on TSR relative to a defined population of peer companies and from 35% to 68% for the 50% of the LTIP based on TSR relative to the FTSE NAREIT Diversified Index.

The calculated grant date fair value as a percentage of base salary for the officers for the three-year performance period that commenced in 2017 ranged from approximately 37% to 67% for the 50% of the LTIP based on relative TSR and from 13% to 31% for the 50% of the LTIP based on absolute TSR.

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

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

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.

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

#### *Trustee Awards*

We award share based compensation to our trustees in the form of restricted shares which vest immediately and are restricted from sale for the period of the trustees' service. The value of share-based compensation for each trustee was \$100,000 for each of three years ended December 31, 2019.

#### *Total Compensation Expense*

Total compensation expense recognized in the consolidated financial statements for each of the three years ended December 31, 2019 for all share based awards was \$7.7 million, \$6.7 million and \$4.8 million, respectively, net of capitalized stock-based compensation expense of \$0.2 million, \$0.3 million and \$0.2 million, respectively.

*Restricted Share Awards with Performance and Service Conditions*

The activity for the three years ended December 31, 2019 related to our restricted share awards, excluding those subject to market conditions, was as follows:

	Shares	Wtd Avg Grant Fair Value
Unvested at December 31, 2016	107,699	\$ 26.47
Granted	330,639	32.46
Vested during year	(194,569)	30.50
Forfeited	(7,075)	27.43
Unvested at December 31, 2017	236,694	27.96
Granted	304,087	25.98
Vested during year	(224,150)	27.40
Forfeited	(5,621)	29.43
Unvested at December 31, 2018	311,010	29.07
Granted	213,782	26.26
Vested during year	(236,013)	27.43
Forfeited	(19,396)	26.60
Unvested at December 31, 2019	269,383	28.45

The total fair value of share grants vested for each of the three years ended December 31, 2019 was \$6.5 million, \$6.1 million and \$5.9 million, respectively.

As of December 31, 2019, the total compensation cost related to non-vested share awards not yet recognized was \$5.9 million, which we expect to recognize over a weighted average period of 22 months.

*Restricted and Unrestricted Shares with Market Conditions*

Stock based awards with market conditions under the LTIP were granted in 2019, 2018 and 2017 with fair market values, as determined using a Monte Carlo simulation, as follows (in thousands):

	Grant Date Fair Value					
	2019 Awards		2018 Awards		2017 Awards	
	Restricted	Unrestricted	Restricted	Unrestricted	Restricted	Unrestricted
Relative Peer TSR	\$ 184	\$ 552	\$ 203	\$ 608	\$ 222	\$ 666
Absolute/Index TSR <sup>(1)</sup>	201	602	230	690	100	299

The unamortized value of these awards with market conditions as of December 31, 2019 was as follows (in thousands):

	2019 Awards		2018 Awards		2017 Awards	
	Restricted	Unrestricted	Restricted	Unrestricted	Restricted	Unrestricted
	Relative Peer TSR	\$ 138	\$ 368	\$ 85	\$ 171	\$ 44
Absolute/Index TSR <sup>(1)</sup>	151	401	96	194	20	—

<sup>(1)</sup> The performance conditions for the 2019 and 2018 awards were evaluated based on 50% on TSR relative to a defined population of peer companies and 50% on TSR relative to the FTSE NAREIT Diversified Index. The performance condition for the 2017 awards was evaluated based 50% on absolute TSR and 50% on relative TSR.

**NOTE 11: OTHER BENEFIT PLANS**

We have a Retirement Savings Plan (the “401(k) Plan”), which permits all eligible employees to defer a portion of their compensation in accordance with the Code. Under the 401(k) Plan, we may make discretionary contributions on behalf of eligible employees. For each of the three years ended December 31, 2019, we made contributions to the 401(k) plan of \$0.5 million, \$0.5 million and \$0.4 million, respectively.

We have adopted non-qualified deferred compensation plans for the officers and members of the board of trustees. The plans allow for a deferral of a percentage of annual cash compensation and trustee fees. The plans are unfunded and payments are to be made out of the general assets of WashREIT. The deferred compensation liability was \$0.9 million and \$1.1 million at December 31, 2019 and 2018, respectively.

In November 2005, the board of trustees approved the establishment of a SERP for the benefit of officers. This is a defined contribution plan under which, upon a participant's termination of employment from WashREIT for any reason other than discharge for cause, the participant will be entitled to receive a benefit equal to the participant's accrued benefit times the participant's vested interest. We account for this plan in accordance with ASC 710-10 and ASC 320-10, whereby the investments are reported at fair value, and unrealized holding gains and losses are included in earnings. At December 31, 2019 and 2018, the accrued benefit liability was \$1.8 million and \$1.4 million, respectively. For each of the three years ended December 31, 2019, we recognized current service cost of \$0.2 million, \$0.3 million and \$0.3 million, respectively.

**NOTE 12: EARNINGS PER COMMON SHARE**

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

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



The computation of basic and diluted earnings per share for the three years ended December 31, 2019 was as follows (in thousands; except per share data):

	Year Ended December 31,		
	2019	2018	2017
<b>Numerator:</b>			
Income (loss) from continuing operations	\$ 29,132	\$ 1,153	\$ (3,568)
Net loss attributable to noncontrolling interests	—	—	56
Allocation of losses (earnings) from continuing operations to unvested restricted share awards	(125)	(526)	(362)
Adjusted income (loss) from continuing operations attributable to the controlling interests	29,007	627	(3,874)
Income from discontinued operations, including gain on sale of real estate	354,418	24,477	23,180
Net loss attributable to noncontrolling interests	—	—	—
Allocation of earnings from discontinued operations to unvested restricted share awards	(1,837)	—	—
Adjusted income from discontinued operations	352,581	24,477	23,180
Adjusted net income attributable to the controlling interests	<u>\$ 381,588</u>	<u>\$ 25,104</u>	<u>\$ 19,306</u>
<b>Denominator:</b>			
Weighted average shares outstanding – basic	80,257	78,960	76,820
Effect of dilutive securities:			
Operating partnership units	12	12	—
Employee restricted share awards	66	70	—
Weighted average shares outstanding – diluted	<u>80,335</u>	<u>79,042</u>	<u>76,820</u>
<b>Earnings per common share, basic:</b>			
Continuing operations	\$ 0.36	\$ 0.01	\$ (0.05)
Discontinued operations	4.39	0.31	0.30
Basic net income attributable to the controlling interests per common share	<u>\$ 4.75</u>	<u>\$ 0.32</u>	<u>\$ 0.25</u>
<b>Earnings per common share, diluted:</b>			
Continuing operations	\$ 0.36	\$ 0.01	\$ (0.05)
Discontinued operations	4.39	0.31	0.30
Diluted net income attributable to the controlling interests per common share	<u>\$ 4.75</u>	<u>\$ 0.32</u>	<u>\$ 0.25</u>
<b>Dividends declared per common share</b>	\$ 1.20	\$ 1.20	\$ 1.20

### **NOTE 13: COMMITMENTS AND CONTINGENCIES**

#### *Development Commitments*

At December 31, 2019, we had no committed contracts outstanding with third parties in connection with our development and redevelopment projects.

#### *Litigation*

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

**NOTE 14: SEGMENT INFORMATION**

We evaluate real estate performance and allocate resources by property type and have 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 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 2019, we executed the sales of eight retail properties (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. This strategic shift simplified our portfolio to two reportable segments (office and multifamily) and reduced our exposure to future retail lease expirations. 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.

Real estate rental revenue as a percentage of the total for each of the reportable operating segments for the three years ended December 31, 2019 was as follows:

	Year Ended December 31,		
	2019	2018	2017
Multifamily	41 %	33 %	34 %
Office	53 %	61 %	60 %
Corporate and other	6 %	6 %	6 %

The percentage of income producing real estate assets classified as held and used, at cost, for each of the reportable operating segments as of December 31, 2019 and 2018 was as follows:

	December 31,	
	2019	2018
Multifamily	50 %	36 %
Office	45 %	58 %
Corporate and other	5 %	6 %

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

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

The following tables present revenues, net operating income, capital expenditures and total assets for the three years ended December 31, 2019 from these segments, and reconciles net operating income of reportable segments to net income attributable to the controlling interests as reported (in thousands):

	Year Ended December 31, 2019			
	Office	Multifamily	Corporate and Other <sup>(1)</sup>	Consolidated
Real estate rental revenue	\$ 164,059	\$ 126,131	\$ 18,990	\$ 309,180
Real estate expenses	60,923	49,135	5,522	115,580
Net operating income	\$ 103,136	\$ 76,996	\$ 13,468	\$ 193,600
Depreciation and amortization				(136,253)
General and administrative				(24,370)
Lease origination expenses				(1,698)
Interest expense				(53,734)
Real estate impairment				(8,374)
Gain on sale of real estate				59,961
Discontinued operations:				
Income from properties sold or held for sale				16,158
Gain on sale of real estate				339,024
Loss on extinguishment of debt				(764)
Net income				383,550
Less: Net loss attributable to noncontrolling interests				—
Net income attributable to the controlling interests				\$ 383,550
Capital expenditures	\$ 38,634	\$ 25,779	\$ 4,534	\$ 68,947
Total assets	\$ 1,134,147	\$ 1,340,634	\$ 153,547	\$ 2,628,328

	Year Ended December 31, 2018			
	Office	Multifamily	Corporate and Other <sup>(1)</sup>	Consolidated
Real estate rental revenue	\$ 178,474	\$ 95,194	\$ 18,062	\$ 291,730
Real estate expenses	63,321	37,235	5,036	105,592
Net operating income	\$ 115,153	\$ 57,959	\$ 13,026	\$ 186,138
Depreciation and amortization				(111,826)
General and administrative				(22,089)
Real estate impairment				(1,886)
Interest expense				(50,501)
Gain on sale of real estate				2,495
Loss on extinguishment of debt				(1,178)
Discontinued operations:				
Income from properties sold or held for sale				24,477
Net income				25,630
Less: Net loss attributable to noncontrolling interests				—
Net income attributable to the controlling interests				\$ 25,630
Capital expenditures	\$ 42,019	\$ 25,117	\$ 4,897	\$ 72,033
Total assets	\$ 1,248,673	\$ 792,170	\$ 376,261	\$ 2,417,104

	Year Ended December 31, 2017			
	Office	Multifamily	Corporate and Other <sup>(1)</sup>	Consolidated
Real estate rental revenue	\$ 167,438	\$ 95,250	\$ 17,593	\$ 280,281
Real estate expenses	62,824	37,640	4,936	105,400
Net operating income	\$ 104,614	\$ 57,610	\$ 12,657	\$ 174,881
Depreciation and amortization				(101,430)
General and administrative				(22,580)
Casualty gain				(33,152)
Interest expense				(46,793)
Other income				507
Gain on sale of real estate				24,915
Income tax benefit				84
Discontinued operations:				
Income from properties sold or held for sale				23,180
Net income				19,612
Less: Net loss attributable to noncontrolling interests				56
Net income attributable to the controlling interests				\$ 19,668
Capital expenditures	\$ 30,407	\$ 27,980	\$ 5,994	\$ 64,381
Total assets	\$ 1,203,187	\$ 767,279	\$ 388,960	\$ 2,359,426

<sup>(1)</sup> Includes the retail properties not classified as discontinued operations: Takoma Park, Westminster, Concord Centre, 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 15: SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)**

Unaudited financial data by quarter in each of the years ended December 31, 2019 and 2018 were as follows (in thousands, except for per share data):

	Quarter <sup>(1), (2)</sup>			
	First	Second	Third	Fourth
<b>2019</b>				
Real estate rental revenue	\$ 71,434	\$ 76,820	\$ 80,259	\$ 80,667
(Loss) income from continuing operations	\$ (10,443)	\$ (6,191)	\$ (8,432)	\$ 54,198
Net (loss) income	\$ (4,405)	\$ 987	\$ 332,770	\$ 54,198
Net (loss) income attributable to the controlling interests	\$ (4,405)	\$ 987	\$ 332,770	\$ 54,198
(Loss) income from continuing operations per share				
Basic	\$ (0.13)	\$ (0.08)	\$ (0.10)	\$ 0.66
Diluted	\$ (0.13)	\$ (0.08)	\$ (0.10)	\$ 0.66
Net income per share				
Basic	\$ (0.06)	\$ 0.01	\$ 4.14	\$ 0.66
Diluted	\$ (0.06)	\$ 0.01	\$ 4.14	\$ 0.66
<b>2018</b>				
Real estate rental revenue	\$ 73,645	\$ 75,344	\$ 71,001	\$ 71,740
(Loss) income from continuing operations	\$ (2,559)	\$ 4,563	\$ (547)	\$ (304)
Net income	\$ 3,299	\$ 10,750	\$ 5,893	\$ 5,688
Net income attributable to the controlling interests	\$ 3,299	\$ 10,750	\$ 5,893	\$ 5,688
Income (loss) from continuing operations per share				
Basic	\$ (0.03)	\$ 0.06	\$ (0.01)	\$ —
Diluted	\$ (0.03)	\$ 0.06	\$ (0.01)	\$ —
Net income per share				
Basic	\$ 0.04	\$ 0.14	\$ 0.07	\$ 0.07
Diluted	\$ 0.04	\$ 0.13	\$ 0.07	\$ 0.07

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

<sup>(2)</sup> The second quarter of 2019 includes a loss on sale of real estate of \$1.0 million. The third and fourth quarters of 2019 include gains on sale of real estate of \$339.0 million and \$61.0 million, respectively. The second quarter of 2018 includes a gain on sale of real estate of \$2.5 million. The first quarter of 2019 and first quarter of 2018 include real estate impairments of \$8.4 million and \$1.9 million, respectively.

**NOTE 16: SHAREHOLDERS' EQUITY**

On May 4, 2018, we entered into eight separate equity distribution agreements (collectively, the "2018 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 under our at-the-market program. 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 business purposes, including, without limitation, working capital, the acquisition, renovation, expansion, improvement, development or redevelopment of income producing properties or the repayment of debt. Our issuances and net proceeds on the 2018 Equity Distribution Agreements for the years ended December 31, 2019 and 2018 were as follows (in thousands; except per share data):

	Year Ended December 31,	
	2019	2018
Issuance of common shares	1,859	1,165
Weighted average price per share	\$ 30.00	\$ 31.18
Net proceeds	\$ 54,916	\$ 35,472

The 2018 Equity Distribution Agreements replaced our previous equity distribution agreements with Wells Fargo Securities, LLC, BNY Mellon Capital Markets, LLC, Citigroup Global Markets Inc. and RBC Capital Markets LLC, dated June 23, 2015. We did not issue any common shares on the previous equity distribution agreements during 2018. For the year ended December 31, 2017, we issued 3.6 million common shares at a weighted average price per share of \$32.06 for net proceeds of \$113.2 million on the previous equity distribution agreements.

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

Our issuances and net proceeds on the dividend reinvestment program for the three years ended December 31, 2019 were as follows (in thousands; except per share data):

	Year Ended December 31,		
	2019	2018	2017
Issuance of common shares	173	81	80
Weighted average price per share	\$ 27.58	\$ 29.18	\$ 32.25
Net proceeds	\$ 4,755	\$ 1,973	\$ 2,576

**NOTE 17: DEFERRED COSTS**

As of December 31, 2019 and 2018, deferred leasing costs and deferred leasing incentives were included in prepaid expenses and other assets as follows (in thousands):

	December 31,					
	2019			2018		
	Gross Carrying Value	Accumulated Amortization	Net	Gross Carrying Value	Accumulated Amortization	Net
Deferred leasing costs	\$ 60,900	\$ 29,580	\$ 31,320	\$ 63,659	\$ 31,438	\$ 32,221
Deferred leasing incentives	18,926	11,133	7,793	22,801	12,311	10,490

Amortization, including write-offs, of deferred leasing costs and deferred leasing incentives for the three years ended December 31, 2019 were as follows (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Deferred leasing costs amortization	\$ 6,599	\$ 5,881	\$ 5,784
Deferred leasing incentives amortization	2,862	2,811	3,009

**SCHEDULE II**

**VALUATION AND QUALIFYING ACCOUNTS  
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017  
(IN THOUSANDS)**

	<b>Balance at Beginning of Year</b>	<b>Additions Charged to Expenses</b>	<b>Net Recoveries</b>	<b>Balance at End of Year</b>
Valuation allowance for deferred tax assets				
2019	\$ 1,419	\$ —	\$ (17)	\$ 1,402
2018	\$ 1,413	\$ 6	\$ —	\$ 1,419
2017	\$ 2,882	\$ —	\$ (1,469)	\$ 1,413



**SCHEDULE III**

Properties	Location	Initial Cost (b)		Net Improvements (Retirement) since Acquisition	Gross Amounts at Which Carried at December 31, 2019			Accumulated Depreciation at December 31, 2019	Year of Construction	Date of Acquisition	Net Rentable Square Feet	Units	Depreciation Life (d)
		Land	Buildings and Improvements		Land	Buildings and Improvements	Total (c)						
<b>Multifamily Properties</b>													
3801 Connecticut Avenue	Washington, DC	\$ 420,000	\$ 2,678,000	\$ 19,357,000	\$ 420,000	\$ 22,035,000	\$ 22,455,000	\$ 13,543,000	1951	Jan 1963	178,000	307	30 years
Roosevelt Towers	Virginia	336,000	1,996,000	13,659,000	336,000	15,655,000	15,991,000	11,418,000	1964	May 1965	170,000	191	40 years
Park Adams	Virginia	287,000	1,654,000	13,636,000	287,000	15,290,000	15,577,000	11,178,000	1959	Jan 1969	173,000	200	35 years
The Ashby at McLean (f)	Virginia	4,356,000	17,102,000	27,319,000	4,356,000	44,421,000	48,777,000	29,047,000	1982	Aug 1996	274,000	256	30 years
Bethesda Hill Apartments	Maryland	3,900,000	13,412,000	16,545,000	3,900,000	29,957,000	33,857,000	21,017,000	1986	Nov 1997	225,000	195	30 years
Bennett Park	Virginia	2,861,000	917,000	81,896,000	4,774,000	80,900,000	85,674,000	40,308,000	2007	Feb 2001	215,000	224	28 years
The Clayborne	Virginia	269,000	—	31,374,000	699,000	30,944,000	31,643,000	16,971,000	2008	Jun 2003	60,000	74	26 years
The Kenmore	Washington, DC	28,222,000	33,955,000	18,109,000	28,222,000	52,064,000	80,286,000	17,415,000	1948	Sep 2008	268,000	374	30 years
The Maxwell	Virginia	12,787,000	—	38,145,000	12,848,000	38,084,000	50,932,000	11,018,000	2014	Jun 2011	116,000	163	30 years
The Paramount (f)	Virginia	8,568,000	38,716,000	3,101,000	8,568,000	41,817,000	50,385,000	11,261,000	1984	Oct 2013	141,000	135	30 years
Yale West (a)	Washington, DC	14,684,000	62,069,000	1,688,000	14,684,000	63,757,000	78,441,000	13,442,000	2011	Feb 2014	173,000	216	30 years
The Wellington	Virginia	30,548,000	116,563,000	16,178,000	30,548,000	132,741,000	163,289,000	21,947,000	1960	Jul 2015	600,000	711	30 years
The Trove (c)	Virginia	15,000,000	—	93,941,000	2,250,000	106,692,000	108,942,000	146,000	n/a	Jul 2015	—	n/a	n/a
Riverside Apartments	Virginia	38,924,000	184,854,000	35,517,000	38,924,000	220,371,000	259,295,000	30,363,000	1971	May 2016	1,001,000	1,222	30 years
Riverside Apartments land parcel (e)	Virginia	15,968,000	—	9,674,000	—	25,642,000	25,642,000	—	n/a	May 2016	—	n/a	n/a
Assembly Alexandria	Virginia	23,942,000	93,672,000	1,931,000	23,942,000	95,603,000	119,545,000	2,595,000	1990	Jun 2019	437,000	532	30 years
Assembly Manassas	Virginia	13,586,000	68,802,000	617,000	13,586,000	69,419,000	83,005,000	2,015,000	1986	Jun 2019	390,000	408	30 years
Assembly Dulles	Virginia	12,476,000	66,852,000	535,000	12,476,000	67,387,000	79,863,000	1,913,000	2000	Jun 2019	361,000	328	30 years
Assembly Leesburg	Virginia	4,113,000	21,286,000	102,000	4,113,000	21,388,000	25,501,000	691,000	1986	Jun 2019	124,000	134	30 years
Assembly Herndon	Virginia	11,225,000	51,534,000	690,000	11,225,000	52,224,000	63,449,000	1,618,000	1991	Jun 2019	221,000	283	30 years
Assembly Germantown	Maryland	7,609,000	34,431,000	179,000	7,609,000	34,610,000	42,219,000	891,000	1990	Jun 2019	211,000	218	30 years
Assembly Watkins Mill	Maryland	7,151,000	30,851,000	210,000	7,151,000	31,061,000	38,212,000	756,000	1975	Jun 2019	193,000	210	30 years
Cascade at Landmark	Virginia	12,289,000	56,235,000	578,000	12,289,000	56,813,000	69,102,000	1,141,000	1988	Sep 2019	273,000	277	30 years
		<b>\$ 269,521,000</b>	<b>\$ 897,579,000</b>	<b>\$ 424,981,000</b>	<b>\$ 243,207,000</b>	<b>\$ 1,348,875,000</b>	<b>\$ 1,592,082,000</b>	<b>\$ 260,694,000</b>			<b>5,804,000</b>	<b>6,658</b>	
<b>Office Buildings</b>													
1901 Pennsylvania Avenue	Washington, DC	\$ 892,000	\$ 3,481,000	\$ 20,595,000	\$ 892,000	\$ 24,076,000	\$ 24,968,000	\$ 18,613,000	1960	May 1977	101,000		28 years
515 King Street	Virginia	4,102,000	3,931,000	9,264,000	4,102,000	13,195,000	17,297,000	7,112,000	1966	Jul 1992	75,000		50 years
1220 19th Street	Washington, DC	7,803,000	11,366,000	16,634,000	7,803,000	28,000,000	35,803,000	18,859,000	1976	Nov 1995	103,000		30 years
1600 Wilson Boulevard	Virginia	6,661,000	16,742,000	31,274,000	6,661,000	48,016,000	54,677,000	29,563,000	1973	Oct 1997	170,000		30 years
Silverline Center (f)	Virginia	12,049,000	71,825,000	102,283,000	12,049,000	174,108,000	186,157,000	104,536,000	1972	Nov 1997	549,000		30 years
Courthouse Square	Virginia	—	17,096,000	10,172,000	—	27,268,000	27,268,000	17,615,000	1979	Oct 2000	120,000		30 years
Monument II	Virginia	10,244,000	65,205,000	12,332,000	10,244,000	77,537,000	87,781,000	35,474,000	2000	Mar 2007	209,000		30 years
2000 M Street	Washington, DC	—	61,101,000	41,735,000	—	102,836,000	102,836,000	40,369,000	1971	Dec 2007	232,000		30 years
1140 Connecticut Avenue	Washington, DC	25,226,000	50,495,000	18,799,000	25,226,000	69,294,000	94,520,000	24,486,000	1966	Jan 2011	184,000		30 years
1227 25th Street	Washington, DC	17,505,000	21,319,000	11,454,000	17,505,000	32,773,000	50,278,000	11,315,000	1988	Mar 2011	135,000		30 years
John Marshall II	Virginia	13,490,000	53,024,000	9,534,000	13,490,000	62,558,000	76,048,000	19,020,000	1996	Sep 2011	223,000		30 years
Fairgate at Ballston	Virginia	17,750,000	29,885,000	7,203,000	17,750,000	37,088,000	54,838,000	12,571,000	1988	Jun 2012	145,000		30 years
Army Navy Building	Washington, DC	30,796,000	39,315,000	13,201,000	30,796,000	52,516,000	83,312,000	13,078,000	1912	Mar 2014	108,000		30 years

Properties	Location	Initial Cost (b)			Gross Amounts at Which Carried at December 31, 2019			Accumulated Depreciation at December 31, 2019	Year of Construction	Date of Acquisition	Net Rentable Square Feet	Units	Depreciation Life (d)
		Land	Buildings and Improvements	Net Improvements (Retirement) since Acquisition	Land	Buildings and Improvements	Total (c)						
1775 Eye Street, NW	Washington, DC	48,086,000	51,074,000	16,328,000	48,086,000	67,402,000	115,488,000	17,232,000	1964	May 2014	189,000		30 years
Watergate 600	Washington, DC	45,981,000	78,325,000	39,225,000	45,981,000	117,550,000	163,531,000	13,419,000	1972	Apr 2017	293,000		30 years
Arlington Tower	Virginia	63,970,000	156,525,000	10,951,000	63,970,000	167,476,000	231,446,000	14,437,000	1980	Jan 2018	391,000		30 years
		<b>\$ 304,555,000</b>	<b>\$ 730,709,000</b>	<b>\$ 370,984,000</b>	<b>\$ 304,555,000</b>	<b>\$ 1,101,693,000</b>	<b>\$ 1,406,248,000</b>	<b>\$ 397,699,000</b>					<b>3,227,000</b>

Properties	Location	Initial Cost (b)			Gross Amounts at Which Carried at December 31, 2019			Accumulated Depreciation at December 31, 2019	Year of Construction	Date of Acquisition	Net Rentable Square Feet	Units	Depreciation Life (d)
		Land	Buildings and Improvements	Net Improvements (Retirement) since Acquisition	Land	Buildings and Improvements	Total (c)						
<b>Retail Centers</b>													
Takoma Park (f)	Maryland	\$ 415,000	\$ 1,084,000	\$ 289,000	\$ 366,000	\$ 1,423,000	\$ 1,789,000	\$ 1,205,000	1962	Jul 1963	51,000		50 years
Westminster	Maryland	519,000	1,775,000	9,988,000	519,000	11,763,000	12,282,000	8,614,000	1969	Sep 1972	150,000		37 years
Concord Centre	Virginia	413,000	850,000	7,415,000	413,000	8,265,000	8,678,000	4,036,000	1960	Dec 1973	75,000		33 years
Chevy Chase Metro Plaza	Washington, DC	1,549,000	4,304,000	8,377,000	1,549,000	12,681,000	14,230,000	8,287,000	1975	Sep 1985	49,000		50 years
800 S. Washington Street	Virginia	2,904,000	5,489,000	6,168,000	2,904,000	11,657,000	14,561,000	6,196,000	1955	Jun 1998	46,000		30 years
Randolph Shopping Center	Maryland	4,928,000	13,025,000	1,200,000	4,928,000	14,225,000	19,153,000	6,846,000	1972	May 2006	83,000		30 years
Montrose Shopping Center (f)	Maryland	11,612,000	22,410,000	2,604,000	11,020,000	25,606,000	36,626,000	11,856,000	1970	May 2006	149,000		30 years
Spring Valley Village	Washington, DC	10,836,000	32,238,000	10,740,000	10,836,000	42,978,000	53,814,000	7,197,000	1941	Oct 2014	92,000		30 years
		<b>\$ 33,176,000</b>	<b>\$ 81,175,000</b>	<b>\$ 46,781,000</b>	<b>\$ 32,535,000</b>	<b>\$ 128,598,000</b>	<b>\$ 161,133,000</b>	<b>\$ 54,237,000</b>			<b>695,000</b>		
<b>Total</b>		<b>\$ 607,252,000</b>	<b>\$ 1,709,463,000</b>	<b>\$ 842,746,000</b>	<b>\$ 580,297,000</b>	<b>\$ 2,579,166,000</b>	<b>\$ 3,159,463,000</b>	<b>\$ 712,630,000</b>			<b>9,726,000</b>	<b>6,658</b>	

- a) At December 31, 2019, our properties were encumbered by non-recourse mortgage amounts of \$45.7 million on Yale West. Mortgage amounts exclude premiums and debt loan costs.
- b) The purchase cost of real estate investments has been divided between land and buildings and improvements on the basis of management's determination of the fair values.
- c) At December 31, 2019, total land, buildings and improvements are carried at \$1,917.8 million for federal income tax purposes.
- d) The useful life shown is for the main structure. Buildings and improvements are depreciated over various useful lives ranging from 3 to 50 years.
- e) As of December 31, 2019, WashREIT had under development multifamily properties, The Trove and Riverside Apartments land parcel. The value not yet placed into service at December 31, 2019 was \$96.7 million and \$25.6 million, respectively.
- f) As of December 31, 2019, WashREIT had investments in various development, redevelopment and renovation projects, including The Ashby at McLean, Montrose Shopping Center, Silverline Center, Takoma Park and The Paramount. The total value of these projects, which has not yet been placed in service, is \$1.9 million at December 31, 2019.

**WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES**  
**SUMMARY OF REAL ESTATE INVESTMENTS AND ACCUMULATED DEPRECIATION**  
**(IN THOUSANDS)**

The following is a reconciliation of real estate assets and accumulated depreciation for the three years ended December 31, 2019 (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Real estate assets			
Balance, beginning of period	\$ 2,973,816	\$ 2,831,683	\$ 2,725,635
Additions:			
Property acquisitions <sup>(1)</sup>	516,054	220,495	124,306
Improvements <sup>(1)</sup>	140,109	103,404	84,560
Deductions:			
Impairment write-down	(24,432)	(2,177)	(81,982)
Write-off of disposed assets	(7,430)	(2,132)	(2,655)
Property sales	(438,654)	(177,457)	(18,181)
Balance, end of period	<u>\$ 3,159,463</u>	<u>\$ 2,973,816</u>	<u>\$ 2,831,683</u>
Accumulated depreciation			
Balance, beginning of period	\$ 770,535	\$ 690,417	\$ 657,425
Additions:			
Depreciation	107,938	98,141	94,558
Deductions:			
Impairment write-down	(16,058)	(291)	(48,830)
Write-off of disposed assets	(2,173)	(1,859)	(1,708)
Property sales	(147,612)	(15,873)	(11,028)
Balance, end of period	<u>\$ 712,630</u>	<u>\$ 770,535</u>	<u>\$ 690,417</u>

<sup>(1)</sup> Includes non-cash accruals for capital items.

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

- (1) Form S-3 No. 333-224135 of Washington Real Estate Investment Trust,
- (2) Form S-3 No. 333-223527 of Washington Real Estate Investment Trust,
- (3) Form S-8 No. 333-145327 pertaining to the 2007 Omnibus Long-Term Incentive Plan of Washington Real Estate Investment Trust, and
- (4) Form S-8 No. 333-211418 pertaining to the 2016 Omnibus Incentive Plan of Washington Real Estate Investment Trust;

of our reports dated February 18, 2020, with respect to the consolidated financial statements of Washington Real Estate Investment Trust and Subsidiaries and the effectiveness of internal control over financial reporting of Washington Real Estate Investment Trust and Subsidiaries included in this Amendment No. 1 to the Annual Report (Form 10-K/A) of Washington Real Estate Investment Trust for the year ended December 31, 2019.

/s/ Ernst & Young LLP

Tysons, Virginia

March 6, 2020

CERTIFICATION

I, Paul T. McDermott, certify that:

1. I have reviewed this Amendment No. 1 to the Annual Report on Form 10-K of Washington Real Estate Investment Trust;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

DATE: March 6, 2020

/s/ Paul T. McDermott

Paul T. McDermott  
Chief Executive Officer

CERTIFICATION

I, Stephen E. Riffie, certify that:

1. I have reviewed this Amendment No. 1 to the Annual Report on Form 10-K of Washington Real Estate Investment Trust;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

DATE: March 6, 2020

/s/ Stephen E. Riffie

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

## CERTIFICATION

I, W. Drew Hammond, certify that:

1. I have reviewed this Amendment No. 1 to the Annual Report on Form 10-K of Washington Real Estate Investment Trust;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

DATE: March 6, 2020

/s/ W. Drew Hammond

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

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

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

- (a) the Amendment No. 1 to the Annual Report on Form 10-K for the year ended December 31, 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.

Dated: March 6, 2020

/s/ Paul T. McDermott

Paul T. McDermott  
Chief Executive Officer

Dated: March 6, 2020

/s/ Stephen E. Riffce

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

Dated: March 6, 2020

/s/ W. Drew Hammond

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