WASHINGTON REAL ESTATE INVESTMENT TRUST
Form 10-Q
April 29, 2019

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

FORM 10-Q

---

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For quarterly period ended March 31, 2019
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
COMMISSION FILE NO. 1-6622
WASHINGTON REAL ESTATE
INVESTMENT TRUST
(Exact name of registrant as specified in its charter)

MARYLAND	53-0261100
(State of incorporation)	(IRS Employer Identification Number)

1775 EYE STREET, NW, SUITE 1000, WASHINGTON, DC 20006
(Address of principal executive office) (Zip code)
Registrant’s telephone number, including area code: (202) 774-3200

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

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

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

---

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. YES x NO o
Indicate by checkmark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES x NO o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definition of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o
		Emerging growth company	o

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. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).   YES o   NO x
As of April 25, 2019, 80,033,588 common shares were outstanding.

WASHINGTON REAL ESTATE INVESTMENT TRUST
INDEX

		Page
Part I: Financial Information		
Item 1.	Consolidated Financial Statements (Unaudited)	
	Consolidated Balance Sheets	5
	Condensed Consolidated Statements of Operations	6
	Condensed Consolidated Statements of Comprehensive (Loss) Income	7
	Consolidated Statements of Equity	8
	Consolidated Statements of Cash Flows	9
	Notes to Consolidated Financial Statements	11
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	24
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	34
Item 4.	Controls and Procedures	35
Part II: Other Information		
Item 1.	Legal Proceedings	36
Item 1A.	Risk Factors	36
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	36
Item 3.	Defaults upon Senior Securities	36
Item 4.	Mine Safety Disclosures	36
Item 5.	Other Information	36
Item 6.	Exhibits	37
	Signatures	38

PART I
FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

The information furnished in the accompanying unaudited Consolidated Balance Sheets, Condensed Consolidated Statements of Operations, Condensed Consolidated Statements of Comprehensive (Loss) Income, Consolidated Statements of Equity and Consolidated Statements of Cash Flows reflects all adjustments, consisting of normal recurring items, which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods. The accompanying financial statements and notes thereto should be read in conjunction with the financial statements and notes for the three years ended December 31, 2018 included in Washington Real Estate Investment Trust’s 2018 Annual Report on Form 10-K.

WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	March 31, 2019 (Unaudited)	December 31, 2018
Assets		
Land	$612,692	$614,659
Income producing property	2,276,385	2,271,926
	2,889,077	2,886,585
Accumulated depreciation and amortization	(781,302)	(770,535)
Net income producing property	2,107,775	2,116,050
Properties under development or held for future development	97,288	87,231
Total real estate held for investment, net	2,205,063	2,203,281
Cash and cash equivalents	12,025	6,016
Restricted cash	1,368	1,624
Rents and other receivables	73,293	73,861
Prepaid expenses and other assets	116,718	132,322
Total assets	$2,408,467	$2,417,104
Liabilities		
Notes payable, net	$995,750	$995,397
Mortgage notes payable, net	58,805	59,792
Line of credit	228,000	188,000
Accounts payable and other liabilities	67,279	59,567
Dividend payable	—	24,022
Advance rents	10,418	11,736
Tenant security deposits	10,019	10,112
Total liabilities	1,370,271	1,348,626
Equity		
Shareholders’ equity		
Preferred shares; $0.01 par value; 10,000 shares authorized; no shares issued or outstanding	—	—
Shares of beneficial interest, $0.01 par value; 100,000 shares authorized; 80,029 and 79,910 shares issued and outstanding, as of March 31, 2019 and December 31, 2018, respectively	800	799
Additional paid in capital	1,529,916	1,526,574
Distributions in excess of net income	(498,537)	(469,085)
Accumulated other comprehensive income	5,670	9,839
Total shareholders’ equity	1,037,849	1,068,127
Noncontrolling interests in subsidiaries	347	351
Total equity	1,038,196	1,068,478
Total liabilities and equity	$2,408,467	$2,417,104

See accompanying notes to the consolidated financial statements.

WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

	Three Months Ended March 31,	
	2019	2018
Revenue		
Real estate rental revenue	$83,174	$84,881
Expenses		
Real estate expenses	29,210	29,901
Depreciation and amortization	29,547	29,969
General and administrative expenses	7,429	5,821
Lease origination expenses	378	—
Real estate impairment	8,374	1,886
	74,938	67,577
Real estate operating income	8,236	17,304
Other (expense) income		
Interest expense	(12,641)	(12,827)
Loss on extinguishment of debt	—	(1,178)
	(12,641)	(14,005)
Net (loss) income	(4,405)	3,299
Less: Net income attributable to noncontrolling interests in subsidiaries	—	—
Net (loss) income attributable to the controlling interests	$(4,405)	$3,299
Basic net (loss) income attributable to the controlling interests per common share	$(0.06)	$0.04
Diluted net (loss) income attributable to the controlling interests per common share	$(0.06)	$0.04
Weighted average shares outstanding – basic	79,881	78,483
Weighted average shares outstanding – diluted	79,881	78,547

See accompanying notes to the consolidated financial statements.

6

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

	Three Months Ended March 31,	
	2019	2018
Net (loss) income	$(4,405)	$3,299
Other comprehensive (loss) income:		
Unrealized (loss) gain on interest rate hedges	(4,169)	4,065
Comprehensive (loss) income	(8,574)	7,364
Less: Comprehensive income attributable to noncontrolling interests	—	—
Comprehensive (loss) income attributable to the controlling interests	$(8,574)	$7,364

See accompanying notes to the consolidated financial statements.

WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
(IN THOUSANDS)
(UNAUDITED)

	Shares Issued and Out-standing	Shares of Beneficial Interest at Par Value	Additional Paid in Capital	Distributions in Excess of Net Income	Accumulated Other Comprehensive Income	Total Shareholders' Equity	Noncontrolling Interests in Subsidiaries	Total Equity
Balance at 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 2)	—	—	—	(906)	—	(906)	—	(906)
Net loss attributable to the controlling interests	—	—	—	(4,405)	—	(4,405)	—	(4,405)
Unrealized loss on interest rate hedges	—	—	—	—	(4,169)	(4,169)	—	(4,169)
Distributions to noncontrolling interests	—	—	—	—	—	—	(4)	(4)
Dividends	—	—	—	(24,141)	—	(24,141)	—	(24,141)
Shares issued under dividend reinvestment program	43	—	1,097	—	—	1,097	—	1,097
Share grants, net of forfeitures and tax withholdings	76	1	2,245	—	—	2,246	—	2,246
Balance at March 31, 2019	80,029	$ 800	$ 1,529,916	$ (498,537)	$ 5,670	$ 1,037,849	$ 347	$ 1,038,196

	Shares Issued and Out-standing	Shares of Beneficial Interest at Par Value	Additional Paid in Capital	Distributions in Excess of Net Income	Accumulated Other Comprehensive Income	Total Shareholders' Equity	Noncontrolling Interests in Subsidiaries	Total Equity
Balance, December 31, 2017	78,510	$ 785	$ 1,483,980	$ (399,213)	$ 9,419	$ 1,094,971	$ 365	$ 1,095,336
Net income attributable to the controlling interests	—	—	—	3,299	—	3,299	—	3,299
Unrealized gain on interest rate hedges	—	—	—	—	4,065	4,065	—	4,065
Distributions to noncontrolling interests	—	—	—	—	—	—	(3)	(3)
Dividends	—	—	—	(23,719)	—	(23,719)	—	(23,719)
Shares issued under dividend reinvestment	37	—	717	—	—	717	—	717

program								
Share grants, net of forfeitures and tax withholdings	89	1	1,068	—	—	1,069	—	1,069
Balance, March 31, 2018	78,636	$ 786	$ 1,485,765	$ (419,633)	$ 13,484	$ 1,080,402	$ 362	$ 1,080,764

See accompanying notes to the consolidated financial statements.

WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES

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

	Three Months Ended March 31,	
	2019	2018
Cash flows from operating activities		
Net (loss) income	$(4,405)	$3,299
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	29,547	29,969
Credit losses on lease related receivables	—	176
Real estate impairment	8,374	1,886
Share-based compensation expense	2,826	1,541
Amortization of debt premiums, discounts and related financing costs	536	446
Loss on extinguishment of debt	—	1,178
Changes in operating other assets	(2,035)	(1,374)
Changes in operating other liabilities	(7,265)	(475)
Net cash provided by operating activities	27,578	36,646
Cash flows from investing activities		
Real estate acquisitions, net	—	(106,400)
Net cash received for sale of real estate	—	78,483
Capital improvements to real estate	(7,281)	(7,845)
Development in progress	(6,091)	(4,754)
Non-real estate capital improvements	(67)	(172)
Net cash used in investing activities	(13,439)	(40,688)
Cash flows from financing activities		
Line of credit borrowings, net	40,000	94,000
Dividends paid	(48,165)	(47,300)
Principal payments – mortgage notes payable	(610)	(136,309)
Repayments of unsecured term loan debt	—	(150,000)
Proceeds from term loan	—	250,000
Payment of financing costs	(252)	(5,411)
Distributions to noncontrolling interests	(4)	(3)
Proceeds from dividend reinvestment program	1,097	717
Payment of tax withholdings for restricted share awards	(452)	(296)
Net cash (used in) provided by financing activities	(8,386)	5,398
Net increase in cash, cash equivalents and restricted cash	5,753	1,356
Cash, cash equivalents and restricted cash at beginning of period	7,640	12,623
Cash, cash equivalents and restricted cash at end of period	$13,393	$13,979

WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES

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

	Three Months Ended March 31,	
	2019	2018
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of amounts capitalized	$6,848	$7,416
Change in accrued capital improvements and development costs	8,119	2,675
Reconciliation of cash, cash equivalents and restricted cash:		
Cash and cash equivalents	$12,025	$11,510
Restricted cash	1,368	2,469
Cash, cash equivalents and restricted cash	$13,393	$13,979

See accompanying notes to the consolidated financial statements.

WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2019
(UNAUDITED)

NOTE 1: NATURE OF BUSINESS

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

Federal Income Taxes

We believe that we qualify as a real estate investment trust (“REIT”) under Sections 856-860 of the Internal Revenue Code of 1986, as amended (the "Code"), and intend to continue to qualify as such. We have considered the provisions of the Tax Cuts and Jobs Act (the "TCJA"), which was signed into law on December 22, 2017 and which generally took effect for taxable years beginning on or after January 1, 2018, and the TCJA does not have a material impact on our ability to continue to qualify as a REIT. To maintain our status as a REIT, we are, among other things, required to distribute 90% of our REIT taxable income (which is, generally, our ordinary taxable income, with certain modifications), excluding any net capital gains and any deductions for dividends paid to our shareholders on an annual basis. When selling a property, we generally have the option of (a) reinvesting the sales proceeds of property sold, in a way that allows us to defer recognition of some or all taxable gain realized on the sale, (b) distributing gains to the shareholders with no tax to us or (c) treating net long-term capital gains as having been distributed to our shareholders, paying the tax on the gain deemed distributed and allocating the tax paid as a credit to our shareholders.

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 March 31, 2019 and December 31, 2018, our TRSs had a deferred tax asset of $1.4 million that was fully reserved. As of both March 31, 2019 and December 31, 2018, we had deferred state and local tax liabilities of $0.6 million. These deferred tax liabilities are primarily related to temporary differences in the timing of the recognition of revenue, depreciation and amortization.

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

Significant Accounting Policies

We have prepared our consolidated financial statements using the accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2018, except as noted in note 3 related to our adoption of ASU 2016-02, Leases (Topic 842) as of January 1, 2019.

Pronouncements Adopted

Standard/Description	Effective Date and Adoption Considerations	Effect on Financial Statements or Other significant Matters
ASU 2016-02, Leases (Topic 842) (“ASU 2016-02”). This standard amends existing lease accounting standards for both lessees and lessors. Lessees 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. Lessors Lease contracts currently classified as operating leases are accounted for similarly to as under existing guidance. However, lessors are required to account for each lease and non-lease component, such as common area maintenance or tenant service revenues, of a contract separately. In July 2018, the Financial Accounting Standards Board (“FASB”) issued 2018-11, Leases (Topic 842) - Targeted Improvements (“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. 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.	We adopted the new standard as of January 1, 2019.	We adopted ASU 2016-02 as of January 1, 2019 using the modified retrospective approach and by applying the transitional practical expedients noted below. Under the modified retrospective approach, we recognized a cumulative effect adjustment of $0.9 million to retained earnings as of January 1, 2019 (see note 3 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. Under ASU 2018-11, the FASB offered optional transition relief, if elected as a package, and applied consistently by an entity to all of its leases. Accordingly, upon adoption we elected, as a package, the practical expedients for all leases as follows: (1) we will not reassess whether any expired or existing contracts are or contain leases, (2) we will not reassess the lease classification for any expired or existing leases, and (3) we will not reassess initial direct costs for any existing leases.

Pronouncements Not Yet Adopted

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

Principles of Consolidation and Basis of Presentation

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

We have prepared the accompanying unaudited financial statements pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to those rules and regulations, although we believe that the disclosures made are adequate to make the information presented not misleading. In addition, in the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the results for the periods presented have been included. These unaudited financial statements should be read in conjunction with the financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2018.

Within these notes to the financial statements, we refer to the three months ended March 31, 2019 and March 31, 2018 as the "2019 Quarter" and the "2018 Quarter," respectively.

Restricted Cash

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

Use of Estimates in the Financial Statements

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

NOTE 3: REAL ESTATE

Leasing as a lessor

Revenue Recognition

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

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

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

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

Accounts Receivable

Lease related receivables, which include contractual amounts accrued and unpaid from tenants and accrued straight-line rents receivable, are reduced for credit losses. Such amounts are recognized as a reduction to real estate rental revenues. We evaluate the collectability of lease receivables monthly using several factors including a lessee’s creditworthiness. We recognize the credit loss on lease related receivables when, in the opinion of management, collection of substantially all lease payments is not probable. While collectability is determined not probable, any lease income 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 is not probable as of January 1, 2019.

Future Minimum Rental Income

As of March 31, 2019, non-cancelable commercial operating leases provide for future minimum rental income as follows (in thousands). Apartment leases are not included as the terms are generally for one year or less.

2019	$192,841
2020	181,544
2021	159,607

2022	139,518
2023	114,521
Thereafter	343,439
	$1,131,470

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

2019	$ 191,252
2020	175,925
2021	153,395
2022	133,359
2023	108,564
Thereafter	304,876
	$ 1,067,371

Leasing as a Lessee

2000 M Street, an office property in Washington, DC, is subject to an operating ground lease with a remaining term of 52 years. Rental payments under this lease are subject to percentage rent variable payments, which are not included as part of our measurement of straight-line rental expense. We recognized variable rental payments of $0.2 million during each of the 2019 and 2018 Quarters.

Upon adoption of ASU 2016-02, we recognized a right of use asset (included in Income producing property) and lease liability (included in Accounts payable and other liabilities) of $4.2 million. We used a discount rate of approximately 5.9%, which was derived from our assessment of securitized rates for similar assets and credit quality. We recognized $0.1 million of right-of-use and lease liability amortization during the 2019 Quarter. 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 schedule obligations for future minimum payments on our operating ground lease at March 31, 2019 and a reconciliation of those cash flows to the operating lease liability at March 31, 2019 (in thousands):

2019	$ 195
2020	260
2021	260
2022	260
2023	260
2024	260
Thereafter	11,895
	13,390
Imputed interest	(9,233)
Lease liability	$ 4,157

Acquisitions

We did not execute any acquisitions during the 2019 Quarter. Properties and land for development acquired during the year ended December 31, 2018 were as follows:

Acquisition Date	Property	Type	# of units (unaudited)	Rentable Square Feet (unaudited)	Contract Purchase Price (in thousands)
January 18, 2018	Arlington Tower	Office	N/A	391,000	$ 250,000

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

Development/Redevelopment

We have properties under development/redevelopment and held for current or future development as of March 31, 2019.

In the multifamily segment, we have The Trove, a multifamily development adjacent to The Wellington, and own land held for future multifamily development adjacent to Riverside Apartments. As of March 31, 2019, we had invested $71.3 million and $23.3 million, including the costs of acquiring the land, in The Trove and the development adjacent to Riverside Apartments, respectively.

In the retail segment, we had a redevelopment project to add rentable space at Spring Valley Village. As of March 31, 2019, we had invested $6.6 million in the redevelopment. We substantially completed major construction activities on this project during the fourth quarter of 2018 and placed into service assets totaling $4.3 million.

Properties Sold and Held for Sale

We intend to hold our properties for investment with a view to long-term appreciation, to engage in the business of acquiring, developing and owning our properties, and to make occasional sales of the properties that no longer meet our long-term strategy or return objectives and where market conditions for sale are favorable. The proceeds from the sales may be reinvested into other properties, used to fund development operations or to support other corporate needs, or distributed to our shareholders. We had no properties classified as held for sale requiring discontinuation of depreciation during the 2019 Quarter. Operating revenues, other operating expenses and interest continue to be recognized until the date of sale.

We did not sell or classify as held for sale any properties during the 2019 Quarter. We sold our interests in the following properties in 2018:

Disposition Date	Property Name	Segment	Rentable Square Feet/ Number of Units	Contract Sales Price (in thousands)	Gain on Sale (in thousands)
January 19, 2018	Braddock Metro Center	Office	356,000	$ 93,000	$ —
June 28, 2018	2445 M Street	Office	292,000	101,600	2,495
		Total 2018	648,000	$ 194,600	$ 2,495

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

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

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

On April 22, 2019, we executed a purchase and sale agreement to sell Quantico Corporate Center for a contract sale price of $33.0 million. We anticipate settlement in the second quarter of 2019. However, there can be no assurances that this proposed sale will be consummated. Upon execution of the purchase and sale agreement and receipt of a non-refundable deposit, we determined that the property met the criteria for classification as held for sale as of that date.

NOTE 4: UNSECURED LINE OF CREDIT PAYABLE

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

The Revolving Credit Facility bears interest at a rate of either one month LIBOR plus a margin ranging from 0.775% to 1.55% or the base rate plus a margin ranging from 0.0% to 0.55% (in each case depending upon Washington REIT's credit rating). The base rate is the highest of the administrative agent's prime rate, the federal funds rate plus 0.50% and the 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 Washington REIT's credit rating) on the $700.0 million committed revolving loan capacity, without regard to usage. As of March 31, 2019, the interest rate on the Revolving Credit Facility is one month LIBOR plus 1.00%, the one month LIBOR is 2.49% and the facility fee is 0.20%.

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

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

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

The amount of the Revolving Credit Facility's unsecured line of credit unused and available at March 31, 2019 is as follows (in thousands):

Committed capacity	$700,000
Borrowings outstanding	(228,000)
Unused and available	$472,000

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

Balance at December 31, 2018	$188,000
Borrowings	71,000
Repayments	(31,000)
Balance at March 31, 2019	$228,000

NOTE 5: DERIVATIVE INSTRUMENTS

On September 15, 2015, we entered into two interest rate swap arrangements with a total notional amount of $150.0 million to swap the floating interest rate under the $150.0 million 2015 Term Loan (see note 4) to an all-in fixed interest rate of 2.72% starting on October 15, 2015 and extending until the maturity of the 2015 Term Loan on March 15, 2021.

On July 22, 2016, we entered into two forward interest rate swap arrangements with a total notional amount of $150.0 million to swap the floating interest rate under the $150.0 million 2016 Term Loan (see note 4) to an all-in fixed interest rate of 2.86% starting on March 31, 2017 and extending until the maturity of the 2016 Term Loan on July 21, 2023.

On March 29, 2018, we entered into the $250.0 million 2018 Term Loan (see note 4) maturing on July 21, 2023, which increased and replaced the 2016 Term Loan. The interest rate swap arrangements that had effectively fixed the 2016 Term Loan now effectively fix the interest rate on a $150.0 million portion of the 2018 Term Loan at 2.31%. On March 29, 2018, we entered into four interest rate swap arrangements with a total notional amount of $100.0 million to effectively fix the interest rate on the remaining $100.0 million of the 2018 Term Loan at 3.71%, that commenced on June 29, 2018 and extending until the maturity of the 2018 Term Loan on July 21, 2023. The $250.0 million 2018 Term Loan has an all-in fixed interest rate of 2.87% .

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

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

				Fair Value Derivative Assets (Liabilities)	
Derivative Instrument	Aggregate Notional Amount	Effective Date	Maturity Date	March 31, 2019	December 31, 2018
Interest rate swaps	$150,000	October 15, 2015	March 15, 2021	$1,779	$ 2,720
Interest rate swaps	150,000	March 31, 2017	July 21, 2023	5,808	7,918
Interest rate swaps	100,000	June 29, 2018	July 21, 2023	(1,917)	(799)
	$400,000			$5,670	$ 9,839

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

	Three Months Ended March 31,	
	2019	2018
Unrealized (loss) gain on interest rate hedges	$(4,169)	$4,065

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on our variable-rate debt. During the next twelve months, we estimate that an additional $2.7 million will be reclassified as a decrease to interest expense.

We have agreements with each of our derivative counterparties that contain a provision whereby we could be declared in default on our derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to our default on the indebtedness. As of March 31, 2019, the fair value of derivative assets, including accrued interest, was $7.6 million, and the fair value of the derivative liabilities, including accrued interest, was $1.9 million. As of March 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 6: 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 March 31, 2019 and December 31, 2018 that are recorded at fair value on a recurring basis are the assets held in the Supplemental Executive Retirement Plan ("SERP"), which primarily consist of investments in mutual funds, and the interest rate swaps (see note 5).

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

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

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

	March 31, 2019				December 31, 2018			
	Fair Value	Level 1	Level 2	Level 3	Fair Value	Level 1	Level 2	Level 3
Assets:								
SERP	$1,476	$ —	$1,476	$ —	$1,364	$ —	$1,364	$ —
Interest rate swaps	7,587	—	7,587	—	10,638	—	10,638	—
Liabilities:								
Interest rate swaps	$(1,917)	$ —	$(1,917)	$ —	$(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 March 31, 2019 may differ significantly from the amounts presented. The valuations of cash and cash equivalents and restricted cash fall into Level 1 in the fair value hierarchy and the valuations of debt instruments fall into Level 3 in the fair value hierarchy.

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

March 31, 2019

			December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	$12,025	$ 12,025	$6,016	$ 6,016
Restricted cash	1,368	1,368	1,624	1,624
Mortgage notes payable, net	58,805	59,973	59,792	60,398
Line of credit	228,000	228,000	188,000	188,000
Notes payable, net	995,750	1,018,430	995,397	1,015,210

NOTE 7: STOCK BASED COMPENSATION

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

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

Total Compensation Expense

Total compensation expense recognized in the consolidated financial statements for all outstanding share based awards was $2.8 million and $1.5 million for the 2019 Quarter and 2018 Quarter, respectively.

Restricted Share Awards

The total fair values of restricted share awards vested was $1.3 million and $0.7 million for the 2019 Quarter and 2018 Quarter, respectively.

The total unvested restricted share awards at March 31, 2019 was 447,908 shares, which had a weighted average grant date fair value of $28.00 per share. As of March 31, 2019, the total compensation cost related to unvested restricted share awards was $10.3 million, which we expect to recognize over a weighted average period of 28 months.

NOTE 8: 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 computations of basic and diluted earnings per share for the three months ended March 31, 2019 and 2018 were as follows (in thousands, except per share data):

	Three Months Ended March 31,	
	2019	2018
Numerator:		
Net (loss) income	$(4,405)	$3,299
Net income attributable to noncontrolling interests in subsidiaries	—	—
Allocation of earnings to unvested restricted share awards	(134)	(144)
Adjusted net (loss) income attributable to the controlling interests	$(4,539)	$3,155
Denominator:		
Weighted average shares outstanding – basic	79,881	78,483
Effect of dilutive securities:		
Operating partnership units	—	12
Employee restricted share awards	—	52
Weighted average shares outstanding – diluted	79,881	78,547
Basic net (loss) income attributable to the controlling interests per common share	$(0.06)	$0.04
Diluted net (loss) income attributable to the controlling interests per common share	$(0.06)	$0.04
Dividends declared per common share	$0.30	$0.30

NOTE 9: SEGMENT INFORMATION

We have three reportable segments: office, multifamily and retail. Office properties provide office space for various types of businesses and professions. Multifamily properties provide rental housing for individuals and families throughout the greater Washington metro region. Retail properties are typically grocery store-anchored neighborhood centers that include other small shop tenants or regional power centers with several junior box tenants.

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

The following tables present revenues, net operating income, capital expenditures and total assets for the three months ended March 31, 2019 and 2018 from these segments, and reconcile net operating income of reportable segments to net (loss) income attributable to the controlling interests as reported (in thousands):

	Three Months Ended March 31, 2019				
	Office	Retail	Multifamily	Corporate and Other	Consolidated
Real estate rental revenue	$42,293	$16,546	$ 24,335	$ —	$ 83,174
Real estate expenses	15,224	4,516	9,470	—	29,210
Net operating income	$27,069	$12,030	$ 14,865	$ —	$ 53,964
Depreciation and amortization					(29,547)
General and administrative expenses					(7,429)
Lease origination expenses					(378)
Interest expense					(12,641)
Real estate impairment					(8,374)
Net loss					(4,405)
Less: Net income attributable to noncontrolling interests in subsidiaries					—
Net loss attributable to the controlling interests					$ (4,405)
Capital expenditures	$4,923	$555	$ 1,803	$ 67	$ 7,348
Total assets	$1,238,795	$336,229	$ 796,525	$ 36,918	$ 2,408,467

	Three Months Ended March 31, 2018				
	Office	Retail	Multifamily	Corporate and Other	Consolidated
Real estate rental revenue	$45,547	$15,671	$ 23,663	$ —	$ 84,881
Real estate expenses	16,302	4,160	9,439	—	29,901
Net operating income	$29,245	$11,511	$ 14,224	$ —	$ 54,980
Depreciation and amortization					(29,969)
General and administrative expenses					(5,821)
Interest expense					(12,827)
Real estate impairment					(1,886)
Loss on extinguishment of debt					(1,178)
Net income					3,299
Less: Net income attributable to noncontrolling interests in subsidiaries					—
Net income attributable to the controlling interests					$ 3,299
Capital expenditures	$4,945	$475	$ 2,425	$ 172	$ 8,017
Total assets	$1,361,880	$344,904	$ 769,643	$ 41,868	$ 2,518,295

NOTE 10: SHAREHOLDERS' EQUITY

On May 4, 2018, we entered into eight separate equity distribution agreements (collectively, the “Equity Distribution Agreements”) with each of Wells Fargo Securities, LLC, BNY Mellon Capital Markets, LLC, Capital One Securities, Inc., Citigroup Global Markets Inc., Goldman Sachs & Co. LLC, J.P. Morgan Securities LLC, KeyBanc Capital Markets Inc. and SunTrust Robinson Humphrey, Inc. relating to the issuance of up to $250.0 million of our common shares from time to time. Issuances of our common shares are made at market prices prevailing at the time of issuance. We may use net proceeds from the issuance of common shares under this program for general corporate purposes, including, without limitation, working capital, the acquisition, renovation, expansion, improvement, development or redevelopment of income producing properties or the repayment of debt. During each of the 2019 and 2018 Quarters, we issued 0 common shares under the 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. During the 2018 Quarter, we issued 37,079 common shares under this program at a weighted average price of $28.16 per share, raising $0.7 million in net proceeds. During the 2019 Quarter, we issued 42,842 common shares under this program at a weighted average price of $25.84 per share, raising $1.1 million in net proceeds.

NOTE 11: SUBSEQUENT EVENT

On April 2, 2019, we entered into an agreement of sale to acquire a portfolio of seven multifamily properties, with an aggregate total of 2,113 units, for a contract purchase price of approximately $461.0 million. We expect to settle on the acquisitions, potentially in multiple closings, during the second quarter of 2019. We currently plan to fund the acquisitions through the disposition of select office or retail properties.

In connection with the potential acquisitions, we have obtained a financing commitment to provide an unsecured bridge loan facility in the original principal amount of $450.0 million (the “Bridge Facility”) to fund the potential acquisitions, pursuant to a commitment letter, dated April 2, 2019, from members of our bank group. The Bridge Facility will provide interim funding prior to completing the expected asset sales. As of April 29, 2019, the commitments for the Bridge Facility have not been funded.

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

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

We refer to the three months ended March 31, 2019 and March 31, 2018 as the "2019 Quarter" and the "2018 Quarter," respectively.

Forward-Looking Statements

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

General

Introductory Matters

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

- Overview. Discussion of our business outlook, operating results, investment activity, financing activity and capital requirements to provide context for the remainder of MD&A.
- Results of Operations. Discussion of our financial results comparing the 2019 Quarter to the 2018 Quarter.
- Liquidity and Capital Resources. Discussion of our financial condition and analysis of changes in our capital structure and cash flows.

- Funds From Operations. Calculation of NAREIT Funds From Operations (“NAREIT FFO”), a non-GAAP supplemental measure to net income.
- Critical Accounting Policies and Estimates. Descriptions of accounting policies that reflect significant judgments and estimates used in the preparation of our consolidated financial statements.

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

- Net operating income (“NOI”), calculated as set forth below under the caption "Results of Operations - Net Operating Income." NOI is a non-GAAP supplemental measure to net income.
- Funds From Operations (“NAREIT FFO”), calculated as set forth below under the caption “Funds from Operations.” NAREIT FFO is a non-GAAP supplemental measure to net income.

- Ending occupancy, calculated as occupied square footage as a percentage of total square footage as of the last day of that period.
- Leased percentage, calculated as the percentage of available physical net rentable area leased for our office and retail segments and percentage of apartments leased for our multifamily segment.
- Leasing activity, including new leases, renewals and expirations.

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

Overview

Our revenues are derived primarily from the ownership and operation of income producing properties in the greater Washington metro region. As of March 31, 2019, we owned a diversified portfolio of 48 properties, totaling approximately 6.1 million square feet of commercial space and 4,268 multifamily units, and land held for development. These 48 properties consisted of 19 office properties, 16 retail centers and 13 multifamily properties.

Operating Results

Net (loss) income attributable to the controlling interests, NOI and NAREIT FFO for the three months ended March 31, 2019 and 2018 were as follows (in thousands):

	Three Months Ended March 31,			
	2019	2018	$ Change	% Change
Net (loss) income attributable to the controlling interests	$(4,405)	$3,299	$(7,704)	(233.5)%
NOI [1]	$53,964	$54,980	$(1,016)	(1.8)%
NAREIT FFO [2]	$33,516	$35,154	$(1,638)	(4.7)%

[1] See page 27 of the MD&A for a reconciliation of NOI to net income.
[2] See page 33 of the MD&A for a reconciliation of NAREIT FFO to net income.

The lower net income attributable to the controlling interests is primarily due to higher real estate impairment ($6.5 million), higher general and administrative expenses ($1.6 million) and lower NOI ($1.0 million) during the 2019 Quarter, partially offset by loss on extinguishment of debt ($1.2 million) during the 2018 Quarter and lower depreciation and amortization ($0.4 million) during the 2019 Quarter.

The lower NOI is primarily due to property sales during 2018 ($2.9 million), partially offset by higher NOI from same-store properties ($1.4 million) and from Arlington Tower ($0.4 million), which was acquired during 2018. The higher same-store NOI is explained in further detail beginning on page 27 (Results of Operations - 2019 Quarter Compared to 2018 Quarter). Same-store ending occupancy decreased to 92.8% as of March 31, 2019, from 93.2% as

of March 31, 2018, primarily due to lower occupancy in the office segment.

The lower NAREIT FFO is primarily attributable to the higher general and administrative expenses ($1.6 million) and lower NOI ($1.0 million) during the 2019 Quarter, partially offset by the loss on extinguishment of debt ($1.2 million) during the 2018 Quarter.

Investment and Financing Activity

We did not execute any acquisitions or dispositions during the 2019 Quarter.

Subsequent to the 2019 Quarter, on April 2, 2019, we entered into an agreement of sale to acquire a portfolio of seven multifamily properties, with an aggregate total of 2,113 units, for a contract purchase price of approximately $461.0 million. We expect to settle on the acquisitions, potentially in multiple closings, during the second quarter of 2019. We currently plan to fund the acquisitions through the disposition of select office or retail properties.

Also subsequent to the 2019 Quarter, in connection with the potential acquisitions, we have obtained a financing commitment to provide an unsecured bridge loan facility in the original principal amount of $450.0 million (the "Bridge Facility") to fund the potential acquisitions, pursuant to a commitment letter, dated April 2, 2019, from members of our bank group. The Bridge Facility will provide interim funding prior to completing the expected asset sales. As of April 29, 2019, the commitments for the Bridge Facility have not been funded.

As of March 31, 2019, the interest rate on the Revolving Credit Facility was one month LIBOR plus 1.00% and the facility fee was 0.20%. As of April 25, 2019, our Revolving Credit Facility has a borrowing capacity of $452.0 million.

Capital Requirements

We have no debt maturities in 2019. We expect to have additional capital requirements as set forth on page 30 (Liquidity and Capital Resources - Capital Requirements).

Results of Operations

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

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

2019 Quarter Compared to 2018 Quarter

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

	Same-Store				Non-Same-Store						All Properties			
					Acquisitions [1]		Development/ Re-development [2]		Held for Sale or Sold [3]					
	2019	2018	$ Change	% Change	2019	2018	2019	2018	2019	2018	2019	2018	$ Change	% Change
Real estate rental revenue	$77,691	$75,408	$2,283	3.0%	$5,483	$4,634	$—	$—	$—	$4,839	$83,174	$84,881	$(1,707)	(2.0)%
Real estate expenses	27,858	27,000	858	3.2%	1,352	927	—	21	—	1,953	29,210	29,901	(691)	(2.3)%
NOI	$49,833	$48,408	$1,425	2.9%	$4,131	$3,707	$—	$(21)	$—	$2,886	$53,964	$54,980	$(1,016)	(1.8)%
Reconciliation to net income attributable to the controlling interests:														
Depreciation and amortization											(29,547)	(29,969)	422	(1.4)%
General and administrative expenses											(7,429)	(5,821)	(1,608)	27.6%
Lease origination expenses											(378)	—	(378)	
Real estate impairment											(8,374)	(1,886)	(6,488)	344.0%
Interest expense											(12,641)	(12,827)	186	(1.5)%
Loss on extinguishment of debt											—	(1,178)	1,178	(100.0)%
Net (loss) income											(4,405)	3,299	(7,704)	(233.5)%
Less: Net income attributable to noncontrolling interests											—	—	—	—%
Net (loss) income attributable to the controlling interests											$(4,405)	$3,299	$(7,704)	(233.5)%

[1] Acquisitions:
2018 Office – Arlington Tower

[2] Development/redevelopment:
Multifamily development property – land adjacent to Riverside Apartments

[3] Sold:
2018 Office – Braddock Metro Center and 2445 M Street

Real Estate Rental Revenue

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

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

	Three Months Ended March 31,			
	2019	2018	$ Change	% Change
Office	$36,810	$36,074	$ 736	2.0 %
Multifamily	24,335	23,663	672	2.8 %
Retail	16,546	15,671	875	5.6 %
Total same-store real estate rental revenue	$77,691	$75,408	$ 2,283	3.0 %

- Office: Increase primarily due to higher recoveries of operating expenses and lease termination fees. New leases at Army Navy Building, 1140 Connecticut Avenue, Monument II and 1901 Pennsylvania Avenue were offset by lease expirations at Watergate 600 and 2000 M Street.
- Multifamily: Increase primarily due to higher rental rates across the portfolio.
- Retail: Increase primarily due to new leases at Spring Valley Shopping Center and Gateway Overlook and higher percentage rent.

Real estate rental revenue from acquisitions increased due to the acquisition of Arlington Tower ($0.4 million) in the first quarter of 2018.

Real estate rental revenue from held for sale and sold properties decreased due to the sale of 2445 M Street ($2.7 million) during the second quarter of 2018 and Braddock Metro Center ($0.2 million) during the first quarter of 2018.

Ending occupancy represents occupied square footage indicated as a percentage of total square footage as of the last day of that period. Ending occupancy by segment for the 2019 Quarter and 2018 Quarter was as follows:

	March 31, 2019			March 31, 2018			Increase (decrease)		
Segment	Same-Store	Non-Same-Store	Total	Same-Store	Non-Same-Store	Total	Same-Store	Non-Same-Store	Total
Office	90.4%	81.9 %	89.6%	92.3%	94.4 %	92.8%	(1.9)%	(12.5)%	(3.2)%
Multifamily	95.6%	N/A	95.6%	95.4%	N/A	95.4%	0.2 %	N/A	0.2 %
Retail	91.9%	N/A	91.9%	91.1%	N/A	91.1%	0.8 %	N/A	0.8 %
Total	92.8%	81.9 %	92.3%	93.2%	94.4 %	93.3%	(0.4)%	(12.5)%	(1.0)%

- Office: The decrease in same-store ending occupancy was primarily due to lower ending occupancy at Watergate 600, 1600 Wilson Boulevard and 2000 M Street, partially offset by higher ending occupancy at Army Navy Building.
- Multifamily: The increase in same-store ending occupancy was primarily due to higher ending occupancy at The Paramount, Bennett Park, The Ashby at McLean and Roosevelt Towers, partially offset by lower ending occupancy at The Kenmore.
- Retail: The increase in same-store ending occupancy was primarily due to higher ending occupancy at Randolph Shopping Center and Chevy Chase Metro, partially offset by lower ending occupancy at Concord Centre and Gateway Overlook.

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

	Square Feet (in thousands)	Average Rental Rate (per square foot)	% Rental Rate Increase (Decrease)	Leasing Costs [1] (per square foot)	Free Rent (weighted average months)	Retention Rate
Office	176	$ 54.66	17.2 %	$124.98	5.7	35.7 %
Retail	88	19.92	9.1 %	13.98	0.6	56.9 %
Total	264	42.68	15.8 %	87.72	4.9	40.6 %

[1] Consists of tenant improvements and leasing commissions.

Real Estate Expenses

Real estate expenses as a percentage of revenue for the 2019 Quarter and 2018 Quarter were 35.1% and 35.2%, respectively.

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

	Three Months Ended March 31,			
	2019	2018	$ Change	% Change
Office	$13,872	$13,422	$ 450	3.4 %
Multifamily	9,470	9,418	52	0.6 %
Retail	4,516	4,160	356	8.6 %
Total same-store real estate expenses	$27,858	$27,000	$ 858	3.2 %

- Office: Increase primarily due to higher real estate tax ($0.2 million), administrative ($0.2 million) and repairs and maintenance ($0.1 million) expenses.
-

Multifamily: Increase primarily due to higher utilities ($0.1 million) and administrative ($0.1 million) expenses, partially offset by lower real estate tax ($0.1 million) expenses.

- Retail: Increase primarily due to higher snow removal ($0.1 million) and real estate tax ($0.1 million) expenses, with the remainder of the variance spread across several categories.

Other Income and Expenses

Depreciation and Amortization: Decrease primarily due to disposition of 2445 M Street.

General and administrative expenses: Increase primarily due to higher share-based compensation ($1.3 million) and severance expenses ($0.6 million) related to a corporate restructuring.

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

Real estate impairment: The real estate impairment charge of $8.4 million during the 2019 Quarter reduced the carrying value of Quantico Corporate Center to its estimated fair value (see note 3 to the consolidated financial statements). During the 2018 Quarter, 2445 M Street met the criteria for classification as held for sale. We consequently recorded an impairment charge of $1.9 million in order to reduce the carrying value of the property to its estimated fair value, less estimated selling costs.

Interest Expense: Interest expense by debt type for the three months ended March 31, 2019 and 2018 was as follows (in thousands):

	Three Months Ended March 31,			
Debt Type	2019	2018	$ Change	% Change
Notes payable	$10,132	$9,438	$ 694	7.4 %
Mortgage notes payable	666	1,135	(469)	(41.3)%
Line of credit	2,556	2,626	(70)	(2.7)%
Capitalized interest	(713)	(372)	(341)	91.7 %
Total	$12,641	$12,827	$ (186)	(1.5)%

- Notes payable: Increase primarily due to executing the $250.0 million term loan in March 2018, which increased and replaced a $150 million term loan.
- Mortgage notes payable: Decrease primarily due to repayment of the mortgage note secured by Kenmore Apartments in August 2018.
- Line of credit: Decrease primarily due to lower weighted average borrowings of $210.3 million during the 2019 Quarter, as compared to $310.6 million during the 2018 Quarter. The impact of the lower weighted average borrowings was partially offset by a higher weighted average interest rate of 3.6% during the 2019 Quarter, as compared to 2.6% during the 2018 Quarter.
- Capitalized interest: Increase primarily due to higher spending related to the Trove, the multifamily development adjacent to The Wellington.

Loss on extinguishment of debt: We recognized a $1.2 million non-cash loss on extinguishment of debt during the 2018 Quarter related to the write-off of unamortized loan origination costs associated with the refinancing of an existing $150.0 million seven-year unsecured term loan with a $250.0 million five-year unsecured term loan and the execution of an amended, extended and expanded $700.0 million unsecured revolving credit facility.

Liquidity and Capital Resources

Capital Requirements

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

- Funding dividends and distributions to our shareholders;
- Approximately $80 - $85 million to invest in our existing portfolio of operating assets, including approximately $25 - $30 million to fund tenant-related capital requirements and leasing commissions;
- Approximately $62.5 - $67.5 million to invest in our development and redevelopment projects; and
- Funding for potential property acquisitions throughout 2019, offset by proceeds from potential property dispositions.

Subsequent to the 2019 Quarter, on April 2, 2019, we entered into an agreement of sale to acquire a portfolio of seven multifamily properties, with an aggregate total of 2,113 units, for a contract purchase price of approximately $461.0 million. We expect to settle on the acquisitions, potentially in multiple closings, during the second quarter of 2019. We currently plan to fund the acquisitions through the disposition of select office or retail properties.

Also subsequent to the 2019 Quarter, in connection with the potential acquisitions, we have obtained a financing commitment to provide an unsecured bridge loan facility in the original principal amount of $450.0 million (the “Bridge Facility”) to fund the potential acquisitions, pursuant to a commitment letter, dated April 2, 2019, from members of our bank group. The Bridge Facility will provide interim funding prior to completing the expected asset sales. As of April 29, 2019, the commitments for the Bridge Facility have not been funded.

Debt Financing

We generally use secured or unsecured, corporate-level debt, including unsecured notes, our $700.0 million unsecured revolving credit facility (the “Revolving Credit Facility”), bank term loans and mortgages, to meet our borrowing needs. Long-term, we generally use fixed rate debt instruments in order to match the returns from our real estate assets. If we issue unsecured debt in the future, we would seek to “ladder” the maturities of our debt to mitigate exposure to interest rate risk in any particular future year. We also utilize variable rate debt for short-term financing purposes. At times, our mix of variable and fixed rate debt may not suit our needs. At those times, we may use derivative financial instruments including interest rate swaps and caps, forward interest rate options or interest rate options in order to assist us in managing our debt mix. We may hedge our variable rate debt to give it an effective fixed interest rate and hedge fixed rate debt to give it an effective variable interest rate.

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

Year	Future Maturities of Debt				
	Secured Debt	Unsecured Debt	Credit Facility	Total Debt	Average Interest Rate
2019	$—	$—	$—	$—	
2020	—	250,000	—	250,000	5.1%
2021	—	150,000 [2]	—	150,000	2.7%
2022	44,517	300,000		344,517	4.0%
2023	—	250,000 [3]	228,000 [1]	478,000	3.2%
2024	—	—	—	—	
Thereafter	—	50,000	—	50,000	7.4%
Scheduled principal payments	$44,517	$1,000,000	$228,000	$1,272,517	3.9%
Scheduled amortization payments	12,243	—	—	12,243	4.8%
Net discounts/premiums	2,308	(1,091)	—	1,217	
Loan costs, net of amortization	(263)	(3,159)	—	(3,422)	
Total maturities	$58,805	$995,750	$228,000	$1,282,555	3.9%

[1] Maturity date for credit facility of March 2023 assumes election of option for two additional 6-month periods.
[2] Washington REIT uses interest rate derivatives to effectively fix the $150.0 million term loan's variable interest rate at 2.72%.
[3] Washington REIT uses interest rate derivatives to effectively fix the $250.0 million term loan's variable interest rate at 2.87%.

The weighted average maturity for our debt is 3.4 years. If principal amounts due at maturity cannot be refinanced, extended or paid with proceeds of other capital transactions, such as new equity capital, our cash flow may be insufficient to repay all maturing debt. Prevailing interest rates or other factors at the time of a refinancing, such as possible reluctance of lenders to make commercial real estate loans, may result in higher interest rates and increased interest expense or inhibit our ability to finance our obligations.

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

Debt Covenants

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

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

Our mortgage notes contain covenants with which we must comply.

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

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

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

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

As of March 31, 2019, we were in compliance with the covenants related to our mortgage notes, Revolving Credit Facility and unsecured notes.

Common Equity

We have authorized for issuance 100.0 million common shares, of which 80.0 million shares were outstanding at March 31, 2019.

On May 4, 2018, we entered into eight separate equity distribution agreements (collectively, the “Equity Distribution Agreements”) with each of Wells Fargo Securities, LLC, BNY Mellon Capital Markets, LLC, Capital One Securities, Inc., Citigroup Global Markets Inc., Goldman Sachs & Co. LLC, J.P. Morgan Securities LLC, KeyBanc Capital Markets Inc. and SunTrust Robinson Humphrey, Inc. relating to the issuance of up to $250.0 million of our common shares from time to time. Issuances of our common shares are made at market prices prevailing at the time of issuance. We may use net proceeds from the issuance of common shares under this program for general corporate purposes, including, without limitation, working capital, the acquisition, renovation, expansion, improvement, development or redevelopment of income producing properties or the repayment of debt. During the 2019 Quarter, we issued 0 common shares under the Equity Distribution Agreements.

The 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. During the 2019 Quarter, we did not issue common shares under 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.

Our issuances and net proceeds on the dividend reinvestment program during the 2019 Quarter was as follows (in thousands; except per share data):

	Three Months Ended March 31, 2019
Issuance of common shares	43
Weighted average price per share	$ 25.84
Net proceeds	$ 1,097

Preferred Equity

Washington REIT’s board of trustees can, at its discretion, authorize the issuance of up to 10.0 million preferred shares. The ability to issue preferred equity provides Washington REIT an additional financing tool that may be used to raise capital for future acquisitions or other business purposes. As of March 31, 2019, no preferred shares were issued or outstanding.

Historical Cash Flows

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

	Three Months Ended March 31,		Change	
	2019	2018	$	%
Net cash provided by operating activities	$27,578	$36,646	$(9,068)	(24.7)%
Net cash used in investing activities	(13,439)	(40,688)	27,249	67.0 %
Net cash (used in) provided by financing activities	(8,386)	5,398	(13,784)	(255.4)%

Net cash provided by operating activities decreased primarily due to the sale of 2445 M Street in June 2018.

Net cash used by investing activities decreased primarily due to the acquisition of Arlington Tower during the 2018 Quarter.

Net cash used in financing activities increased primarily due to lower net borrowings on the Revolving Credit Facility in the 2019 Quarter.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements as of March 31, 2019 that are reasonably likely to have a current or future material effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Funds From Operations

NAREIT FFO is a widely used measure of operating performance for real estate companies. We provide NAREIT FFO as a supplemental measure to net income calculated in accordance with GAAP. Although NAREIT FFO is a widely used measure of operating performance for REITs, NAREIT FFO does not represent net income calculated in accordance with GAAP. As such, it should not be considered an alternative to net income as an indication of our operating performance. In addition, NAREIT FFO does not represent cash generated from operating activities in accordance with GAAP, nor does it represent cash available to pay distributions and should not be considered as an alternative to cash flow from operating activities, determined in accordance with GAAP, as a measure of our liquidity. In its 2018 NAREIT FFO White Paper Restatement, the National Association of Real Estate Investment Trusts, Inc. ("NAREIT") defines NAREIT FFO as net income (computed in accordance with GAAP) excluding gains (or losses) associated with sales of properties; impairments of depreciable real estate, and real estate depreciation and amortization. We consider NAREIT FFO to be a standard supplemental measure for REITs because it facilitates an understanding of the operating performance of our properties without giving effect to real estate depreciation and amortization, which historically assumes that the value of real estate assets diminishes predictably over time. Since real estate values have instead historically risen or fallen with market conditions, we believe that NAREIT FFO more accurately provides investors an indication of our ability to incur and service debt, make capital expenditures and fund other needs. Our NAREIT FFO may not be comparable to FFO reported by other REITs. These other REITs may not define the term in accordance with the current NAREIT definition or may interpret the current NAREIT definition differently.

The following table provides the calculation of our NAREIT FFO and a reconciliation of NAREIT FFO to net income for the three months ended March 31, 2019 and 2018 (in thousands):

	Three Months Ended March 31,	
	2019	2018
Net (loss) income	$(4,405)	$3,299
Adjustments:		
Depreciation and amortization	29,547	29,969
Real estate impairment	8,374	1,886
NAREIT FFO	$33,516	$35,154

Critical Accounting Policies and Estimates

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

our Annual Report on Form 10-K for the year ended December 31, 2018 filed with the SEC on February 19, 2019.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The principal material financial market risk to which we are exposed is interest rate risk. Our exposure to market risk for changes in interest rates relates primarily to refinancing long-term fixed rate obligations, the opportunity cost of fixed rate obligations in a falling interest rate environment and our variable rate line of credit.

The table below presents principal, interest and related weighted average fair value interest rates by year of maturity, with respect to debt outstanding on March 31, 2019 (in thousands).

	2019	2020	2021	2022	2023	Thereafter	Total	Fair Value
Unsecured fixed rate debt [1]								
Principal	$—	$250,000	$150,000	$300,000	$250,000	$50,000	$1,000,000	$1,018,430
Interest payments	$34,476	$39,102	$23,665	$22,644	$7,807	$16,313	$144,007	
Interest rate on debt maturities	— %	5.1 %	2.7 %	4.0 %	2.9 %	7.4 %	4.0 %	
Unsecured variable rate debt [2]								
Principal	$—	$—	$—	$—	$228,000	$—	$228,000	$228,000
Variable interest rate on debt maturities	— %	— %	— %	— %	3.5 %	— %	3.5 %	
Mortgages								
Principal amortization [3] (30 year schedule)	$1,890	$2,659	$2,829	$46,984	$2,398	$—	$56,760	$59,973
Interest payments	$2,390	$3,046	$2,876	$649	$78	$—	$9,039	
Weighted average interest rate on principal amortization	4.7 %	4.7 %	4.7 %	3.8 %	4.9 %	— %	4.0 %	

[1] Includes $150.0 million and $250.0 million term loans with floating interest rates. The interest rates on the $150.0 million and $250.0 million term loans are effectively fixed by interest rate swap agreements at 2.72% and 2.87%, respectively.
[2] Maturity date on the unsecured credit facility of 2023 assumes the election of two additional six-month options.
[3] Excludes net discounts of $2.3 million and net unamortized debt issuance costs of $0.3 million at March 31, 2019.

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

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

Notional Amount	Fixed Rate	Floating Index Rate	Effective Date	Expiration Date	Fair Value as of: March 31, 2019	December 31, 2018
$75,000	1.619%	One-Month LIBOR	10/15/2015	3/15/2021	$895	$ 1,367
75,000	1.626%	One-Month LIBOR	10/15/2015	3/15/2021	884	1,353
100,000	1.205%	One-Month LIBOR	3/31/2017	7/21/2023	3,867	5,270
50,000	1.208%	One-Month LIBOR	3/31/2017	7/21/2023	1,941	2,648
25,000	2.610%	One-Month LIBOR	6/29/2018	7/21/2023	(482)	(202)
25,000	2.610%	One-Month LIBOR	6/29/2018	7/21/2023	(477)	(200)
25,000	2.610%	One-Month LIBOR	6/29/2018	7/21/2023	(481)	(199)
25,000	2.610%	One-Month LIBOR	6/29/2018	7/21/2023	(477)	(198)
$400,000					$5,670	$ 9,839

34

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

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

ITEM 4: CONTROLS AND PROCEDURES

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

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

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

PART II
OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

None.

ITEM 1A: RISK FACTORS

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

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

A summary of our repurchases of shares of our common stock for the three months ended March 31, 2019 was as follows:

Period	Total Number of Shares Purchased [1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased
January 1 - January 31, 2019	—	$ —	N/A	N/A
February 1 - February 28, 2019	—	—	N/A	N/A
March 1 - March 31, 2019	15,176	27.25	N/A	N/A
Total	15,176	27.25	N/A	N/A

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

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4: MINE SAFETY DISCLOSURES

None.

ITEM 5: OTHER INFORMATION

None.

ITEM 6: EXHIBITS

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File Number	Exhibit	Filing Date	
10.1	Second Amendment to Washington Real Estate Investment Trust Short-Term Incentive Plan					X
10.2	Separation Agreement and General Release between Thomas Q. Bakke and Washington Real Estate Investment Trust					X
10.3	Amendment No. 1 to Separation Agreement and General Release between Thomas Q. Bakke and Washington Real Estate Investment Trust					X
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended (“the Exchange Act”)					X
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act					X
31.3	Certification of the Chief Accounting Officer pursuant to Rule 13a-14(a) of the Exchange Act					X
32	Certification of the Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101	The following materials from our Quarterly Report on Form 10–Q for the quarter ended March 31, 2019 formatted in eXtensible Business Reporting Language (“XBRL”): (i) the Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Comprehensive Income (Loss), (iv) Consolidated Statements of Equity, (v) the Consolidated Statements of Cash Flows, and (vi) notes to these consolidated financial statements					X

SIGNATURES

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

WASHINGTON REAL ESTATE INVESTMENT TRUST

/s/ Paul T. McDermott
Paul T. McDermott
President and Chief Executive Officer

/s/ Stephen E. Riffee
Stephen E. Riffee
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

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

DATE: April 29, 2019