WASHINGTON REAL ESTATE INVESTMENT TRUST
Form 10-K
March 02, 2015

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

FORM 10-K

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

For fiscal year ended December 31, 2014

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	Name of exchange on which registered
Shares of Beneficial Interest	New York Stock Exchange

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

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

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

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

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	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 June 30, 2014, the aggregate market value of such shares held by non-affiliates of the registrant was $1,718,681,391 (based on the closing price of the stock on June 30, 2014).

As of February 24, 2015, 68,125,938 common shares were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our definitive Proxy Statement relating to the 2015 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission, are incorporated by reference in Part III, Items 10-14 of this Annual Report on Form 10-K as indicated herein.

WASHINGTON REAL ESTATE INVESTMENT TRUST
2014 FORM 10-K ANNUAL REPORT
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PART I

ITEM 1: BUSINESS

Washington REIT Overview

Washington Real Estate Investment Trust ("Washington REIT") is a self-administered equity real estate investment trust ("REIT") successor to a trust organized in 1960. Our business consists of the ownership and operation of income-producing real property in the greater Washington metro region. We own a diversified portfolio of office buildings, multifamily buildings and retail centers. During 2013 we implemented a plan to sell our entire medical office segment, and completed the final phase of this plan early in 2014.

Our geographic focus is based on two principles:

1. Real estate is a local business that is more effectively selected and managed by owners located, and with expertise, in the region.
2. Geographic markets deserving of focus must be among the nation's best markets with a strong primary industry foundation and diversified enough to withstand downturns in their primary industry.

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

Our current strategy is focused on properties inside the Washington metro region's Beltway, near major transportation nodes and in areas with strong employment drivers and superior growth demographics. We will seek to continue to upgrade our portfolio as opportunities arise, funding acquisitions with a combination of cash, equity, debt and proceeds from property sales.

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

Washington Metro Region Economy

The Washington metro region experienced modest job growth during 2014, as job growth in the private sector was partially offset by job losses in the federal government. Current estimates by Delta Associates / Transwestern Commercial Services ("Delta"), a national full service real estate firm that provides market research and evaluation services for commercial property, indicate that the Washington metro region gained 17,600 jobs during the 12 month period ending October 2014. The region's unemployment rate was 4.7% at October 2014, down from 5.7% in the prior year. Though job growth in 2014 lagged behind other large metro regions, the Washington metro region's unemployment rate remains one of the lowest in the nation.

Delta expects the Washington metro region's modest job growth to continue in 2015.

Washington Metro Region Real Estate Markets

The Washington metro region's slow growth is reflected in the real estate market performance in each of our segments. Market statistics and information for the Washington metro region from Delta are set forth below:

Office Segment

	2014		2013	
Increase (decrease) in average effective rents	1.3	%	(2.9	)%
Direct vacancy rate at year end	11.1	%	10.8	%
Net absorption (in millions of square feet) [1]	0.4		1.8	
Office space under construction at year end (in millions of square feet)	4.1		6.4	

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

These statistics reflect slow growth in the office market due to a harsh winter in the first quarter of 2014 and the effects of Federal government austerity. In addition, growth in the private sector was hampered by densification (the reduction in square feet leased per worker). However, the Washington metro region continues to have one of the lowest direct vacancy rates among large markets in the United States, well below the national average of 13.4%. Delta projects gradual improvement in office vacancy during 2015.

Retail Segment

	2014		2013	
Increase in rental rates at grocery-anchored centers	2.3	%	2.2	%
Vacancy at grocery-anchored centers at year end	4.6	%	4.7	%

The retail real estate market in the Washington metro region continues to show steady, but modest, improvement. While slightly improved from the prior year, vacancy at grocery-anchored centers remains above pre-recession levels. Delta projects some growth in 2015 due to low unemployment and rising household incomes.

Multifamily Segment

	2014		2013	
Increase (decrease) in net effective rents (all investment grade)	1.2	%	(1.8	)%
Increase (decrease) in net effective rents (Class A)	1.0	%	(3.0	)%
Stabilized vacancy rate (all investment grade)	4.6	%	4.9	%
Stabilized vacancy rate (Class A)	5.6	%	4.7	%
New Class A and B apartment deliveries (# of units)	14,286		10,671	

The multifamily real estate market remained steady despite the large influx of new supply, though the higher Class A stabilized vacancy rate reflects the increased competition. Class A and B apartment deliveries are projected to increase to 16,416 units in 2015. Due this new supply, Delta projects vacancy to increase and rental rates to decrease during 2015.

Our Portfolio

As of December 31, 2014, we owned a diversified portfolio of 56 properties, totaling approximately 7.4 million square feet of commercial space and 3,053 residential units, and land held for development. These 56 properties consist of 25 office properties, 17 retail centers and 14 multifamily properties. The percentage of total real estate rental revenue by segment for 2014, 2013 and 2012, and the percent leased as of December 31, 2014, were as follows:

Percent Leased		% of Total Real Estate Rental Revenue[1]					
December 31, 2014[2]		2014		2013		2012	
89%	Office	57	%	58	%	58	%
95%	Retail	21	%	21	%	21	%
96%	Multifamily [3]	22	%	21	%	21	%
		100	%	100	%	100	%

(1) Data excludes discontinued operations.

(2) Calculated as the percentage of physical net rentable area leased, except for multifamily, which is calculated as the percentage of units leased.

(3) We substantially completed major construction activities at The Maxwell by the end of 2014. However, as of December 31, 2014, only two of six residential floors were available for occupancy. Therefore, we will not include The Maxwell's units in our leasing and occupancy calculations until the first quarter of 2015.

On a combined basis, our commercial portfolio (i.e., our office and retail properties) was 91% leased at December 31, 2014, 92% leased at December 31, 2013 and 88% leased at December 31, 2012.

The commercial lease expirations at properties classified as continuing operations for the next five years and thereafter are as follows:

	# of Leases	Square Feet	Gross Annual Rent (in thousands)	Percentage of Total Gross Annual Rent	
2015	138	605,340	$18,667	8	%
2016	134	623,107	20,642	9	%
2017	132	782,288	27,462	12	%
2018	119	796,378	21,531	10	%
2019	120	787,741	30,405	14	%
2020 and thereafter	312	2,904,413	102,712	47	%
Total	955	6,499,267	$221,419	100	%

Total real estate rental revenue from continuing operations was $288.6 million for 2014, $263.0 million for 2013 and $254.8 million for 2012. During the three year period ended December 31, 2014, we acquired three office properties, two multifamily properties and one retail property, and substantially completed major construction activities at one multifamily development project. During that same period, we sold our entire medical office segment, four office properties and a parcel of land at a retail property.

According to Delta, the professional/business services and government sectors constituted over one third of payroll jobs in the Washington metro area at the end of 2014. Due to our geographic concentration in the Washington metro area, a significant amount of our tenants have historically been concentrated in the professional/business services and government sectors, although the exact amount will vary from time to time. As a result of this concentration, we are susceptible to business trends (both positive and negative) that affect the outlook for these sectors. In particular, a significant reduction in federal government spending could seriously impact these sectors.

No single tenant accounted for more than 5.0% of real estate rental revenue in 2014, 2013 or 2012. All federal government tenants in the aggregate accounted for less than 1.0% of our 2014 real estate rental revenue. Federal government tenants include the Department of Defense, Social Security Administration, Federal Bureau of Investigation and Office of Personnel Management.

Our ten largest tenants, in terms of real estate rental revenue for 2014, are as follows:

1. World Bank
2. Advisory Board Company
3. Booz Allen Hamilton, Inc.
4. Patton Boggs LLP
5. Engility Corporation
6. Epstein, Becker & Green, P.C.
7. ManTech International Corporation
8. George Washington University
9. General Services Administration
10. TJX Companies

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

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

We make capital improvements to our properties on an ongoing basis for the purpose of maintaining and increasing their value and income. Major improvements and/or renovations to the properties during the three years ended

December 31, 2014 are discussed in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, under the heading "Capital Improvements and Development Costs."

Further description of the property groups is contained in Item 2, Properties, Note 13, Segment Information and in Schedule III. Reference is also made to Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

On February 23, 2015, we had 181 employees including 103 persons engaged in property management functions and 78 persons engaged in corporate, financial, leasing, asset management and other functions.

REIT Tax Status

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

Tax Treatment of Recent Disposition Activity

We sold the following properties during the three years ended December 31, 2014:

Property	Type	Rentable Square Feet	Contract Sales Price (in thousands)	Gain on Sale (in thousands)
Medical Office Portfolio Transactions III & IV [1]	Medical Office	427,000	$ 193,561	$ 105,985
5740 Columbia Road	Retail	3,000	1,600	570
	Total 2014	430,000	$ 195,161	$ 106,555
Atrium Building	Office	79,000	$ 15,750	$ 3,195
Medical Office Portfolio Transactions I & II [1]	Medical Office / Office	1,093,000	307,189	18,949
	Total 2013	1,172,000	$ 322,939	$ 22,144
1700 Research Boulevard	Office	101,000	$ 14,250	$ 3,724
Plumtree Medical Center	Medical Office	33,000	8,750	1,400
	Total 2012	134,000	$ 23,000	$ 5,124

(1) Transactions I and II of the Medical Office Portfolio purchase and sale agreement consisted of medical office properties (2440 M Street, 15001 Shady Grove Road, 15505 Shady Grove Road, 19500 at Riverside Park (formerly Lansdowne Medical Office Building), 9707 Medical Center Drive, CentreMed I and II, 8301 Arlington Boulevard, Sterling Medical Office Building, Shady Grove Medical Village II, Alexandria Professional Center, Ashburn Farm Office Park I, Ashburn Farm Office Park II, Ashburn Farm Office Park III, Woodholme Medical Office Building), two office properties (6565 Arlington Boulevard and Woodholme Center) and undeveloped land (4661 Kenmore Ave). Transactions III and IV consisted of Woodburn Medical Park I and II and Prosperity Medical Center I, II and III.

All disclosed gains on sale are calculated in accordance with U.S. generally accepted accounting principles ("GAAP"). We reinvested a portion of the Medical Office Portfolio sales proceeds in replacement properties through deferred tax exchanges.

We distributed all of our ordinary taxable income for the years ended December 31, 2014, 2013 and 2012 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 (“TRS's”). Our TRS's are subject to corporate federal and state income tax on their taxable income at regular statutory rates (see note 1 to the consolidated financial statements for further disclosure).

Availability of Reports

Copies of this Annual Report on Form 10-K, as well as our Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to such reports are available, free of charge, on the Internet on our website www.washreit.com. All required

reports are made available on the website as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission. The reference to our website address does not constitute incorporation by reference of the information contained in the website and such information should not be considered part of this document.

ITEM 1A: RISK FACTORS

Set forth below are the risks that we believe are material to our shareholders. We refer to the shares of beneficial interest in Washington REIT as our "common shares," and the investors who own shares as our "shareholders." This section includes or refers to certain forward-looking statements. You should refer to the explanation of the qualifications and limitations on such forward-looking statements beginning on page 50.

Risks Related to our Business and Operations

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

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

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

Any of these acts could adversely affect our cash flow and ability to pay dividends.

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

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

regulatory changes in our region, we may experience a negative impact to our profitability and may be limited in our ability to meet our financial obligations when due and/or make distributions to our shareholders.

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

As a REIT operating exclusively in the Washington metro region, a significant portion of our properties is occupied by tenants that are directly or indirectly serving the United States Government as federal contractors or otherwise. A significant reduction in federal government spending, particularly a sudden decrease due to a sequestration process, such as recently occurred, could adversely affect the ability of these tenants to fulfill lease obligations or decrease the likelihood that they will renew their leases with us. Further, economic conditions in the Washington metro region are significantly dependent upon the level of federal

government spending in the region as a whole. In the event of a significant reduction in federal government spending, there could be negative economic changes in our region which could adversely impact the ability of our tenants to perform their financial obligations under our leases or the likelihood of their lease renewals. As a result, if such a reduction in federal government spending were to occur, we could experience an adverse effect on our financial condition, results of operations, cash flows and ability to make distributions to our shareholders.

We face risks associated with property development/redevelopment.

During the fourth quarter of 2014, we substantially completed major construction activities at The Maxwell, a mid-rise multifamily property in Arlington, Virginia. We currently have an active redevelopment project to renovate Silverline Center (formerly 7900 Westpark Drive), an office building in Tysons, Virginia. We decided to delay commencement of construction of a high-rise multifamily property at 1225 First Street in Alexandria, Virginia due to market conditions and concerns of oversupply.
Developing or redeveloping properties presents a number of risks for us, including risks that:

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

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

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

We face risks associated with property acquisitions.

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

- we may have difficulty finding properties that are consistent with our strategies and that meet our standards;
- we may have difficult negotiating with new or existing tenants;
- we may be unable to finance acquisitions on favorable terms or at all;

- the acquired properties may fail to perform as we expected in analyzing our investments;
- the occupancy levels, lease-up timing and rental rates may not meet our expectations;
- the actual returns realized on acquired properties may not exceed our cost of capital;
- even if we enter into an acquisition agreement for a property, we may be unable to complete that acquisition after making a non-refundable deposit and incurring certain other acquisition-related costs;
- we may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into our existing operations;
- competition from other real estate investors may significantly increase the purchase price;
- our estimates of capital expenditures required for an acquired property, including the costs of repositioning or redeveloping, may be inaccurate;
- we may be unable to acquire a desired property because of competition from other real estate investors, including publicly traded real estate investment trusts, institutional investment funds and private investors;

- even if we enter into an acquisition agreement for a property, it is subject to customary conditions to closing, including completion of due diligence investigations which may have findings that are unacceptable;
- we could experience a decline in value of the acquired assets after acquisition; and
- the timing of property acquisitions may lag the timing of property dispositions, leading to periods of time where projects' proceeds are not invested as profitably as we desire.

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

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

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

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

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

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

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

Real estate investments can be difficult to sell and convert to cash quickly, especially if market conditions are not favorable. Such illiquidity could limit our ability to quickly change our portfolio of properties in response to changes in economic or other conditions. Moreover, under certain circumstances, the Internal Revenue Code (“Code”) imposes penalties on a REIT that sells property held for less than two years and/or sells more than a specified number of properties in a given year. In addition, for properties that we acquire by issuing units in an operating partnership, we may be restricted by agreements with the sellers of the properties for a certain period of time from entering into transactions (such as the sale or refinancing of the acquired property) that will result in a taxable gain to the sellers without the sellers’ consents. Due to these factors, we may be unable to sell a property at an advantageous time which could negatively impact our profitability.

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

As of December 31, 2014, the percentage of leased square footage of our commercial properties classified as continuing operations will expire as follows:

2015	8%
2016	9%
2017	12%
2018	10%
2019	14%
2020 and thereafter	47%
Total	100%

Multifamily properties are leased under operating leases with terms of generally one year or less. For the years ended December 31, 2014, 2013 and 2012, the multifamily tenant retention rate was 60%, 43% and 61%, respectively.

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

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

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

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

We invest in joint ventures in which we are not the exclusive investor or the only decision maker. Investments in such entities may involve risks not present when a third party is not involved, including the possibility that the other parties to these investments might become bankrupt or fail to fund their share of required capital contributions, and we may be forced to make contributions to maintain the value of the property. Our partners in these entities may have economic, tax or other business interests or goals which are inconsistent with our business interests or goals, and may be in a position to take actions contrary to our policies or objectives. Such investments may also lead to impasses, for example, as to whether to sell a property, because neither we nor the other parties to these investments may have full control over the entity. In addition, we may in certain circumstances be liable for the actions of the other parties to these investments. Each of these factors could have an adverse effect on our financial condition, results of operations, cash flows and ability to make distributions to our shareholders. In some instances, joint venture partners may have competing interests that could create conflicts of interest. These conflicts may include compliance with the REIT requirements, and our REIT status could be jeopardized if any of our joint ventures does not operate in compliance with the REIT requirements. To the extent our joint venture partners do not meet their obligations to us or they take action inconsistent with our interests in the joint venture, we may be adversely affected.

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

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

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

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

- direct obligations issued by the U.S. Treasury;
- obligations issued or guaranteed by the U.S. government or its agencies;
- taxable municipal securities;
- obligations (including certificates of deposit) of banks and thrifts;

- commercial paper and other instruments consisting of short-term U.S. dollar denominated obligations issued by corporations and banks;
- repurchase agreements collateralized by corporate and asset-backed obligations;
- registered and unregistered money market funds; and
- other highly-rated short-term securities.

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

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

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

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

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

We carry insurance coverage on our properties of types and in amounts that we believe are in line with coverage customarily obtained by owners of similar properties. We believe all of our properties are adequately insured. The property insurance that we maintain for our properties has historically been on an “all risk” basis, which is in full force and effect until renewal in August 2015. There are other types of losses, such as from wars or catastrophic events, for which we cannot obtain insurance at all or at a reasonable cost.

We have an insurance policy that has no terrorism exclusion, except for non-certified nuclear, chemical and biological acts of terrorism. Our financial condition and results of operations are subject to the risks associated with acts of terrorism and the potential for uninsured losses as the result of any such acts. Effective November 26, 2002, under this existing coverage, any losses caused by certified acts of terrorism would be partially reimbursed by the United States under a formula established by federal law. Under this formula, the United States pays 85% of covered terrorism losses exceeding the statutorily established deductible paid by the insurance provider, and insurers pay 10% until aggregate insured losses from all insurers reach $100 billion in a calendar year. If the aggregate amount of insured losses under this program exceeds $100 billion during the applicable period for all insured and insurers combined, then each insurance provider will not be liable for payment of any amount which exceeds the aggregate amount of $100 billion. On January 12, 2015, The Terrorism Risk Insurance Program Reauthorization Act of 2015 was signed into law and extends the program through December 31, 2020. We continue to monitor the state of the insurance market in general, and the scope and costs of coverage for acts of terrorism in particular, but we cannot anticipate

what amount of coverage will be available on commercially reasonable terms in future policy years.

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

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

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

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

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

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

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

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

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

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

damage associated with exposure to asbestos fibers.

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

The costs associated with these issues could be substantial and, in extreme cases, could exceed the value of the contaminated property. The presence of hazardous or toxic substances or petroleum products or the failure to properly remediate contamination may adversely affect our ability to borrow against, sell or rent an affected property. In addition, applicable environmental laws

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may create liens on contaminated sites in favor of the government for damages and costs it incurs in connection with a contamination. Moreover, if contamination is discovered on our properties, environmental laws may impose restrictions on the manner in which property may be used or businesses may be operated, and these restrictions may result in substantial expenditures or liabilities.

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

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

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

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

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

We face risks associated with security breaches or disruptions, whether through cyber-attacks or cyber intrusions over the Internet, malware, computer viruses, attachments to emails, or persons inside our organization. The risk of a security breach or disruption, particularly through cyber-attacks or cyber intrusion, including by computer hackers, foreign governments, and cyber terrorists, has generally increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. In the normal course of business we and our service providers (including service providers engaged in providing property management, leasing, accounting and/or payroll services) collect and retain certain personal information provided by our tenants, employees and vendors. We also rely extensively on computer systems to process transactions and manage our business. While we and our service providers employ a variety of data security measures to protect confidential information on our systems and periodically review and improve our data security measures, we cannot assure that we or our service providers will be able to prevent unauthorized access to this personal information. There can be no assurance that our efforts to maintain the security and integrity of the information we and our service providers collect and our and their computer systems will be effective or that attempted security breaches or disruptions would not be successful or damaging. Even the most well protected information, networks, systems and facilities remain potentially vulnerable because the

techniques used in such attempted security breaches evolve and generally are not recognized until launched against a target, and in some cases are designed not be detected and, in fact, may not be detected. Accordingly, we and our service providers may be unable to anticipate these techniques or to implement adequate security barriers or other preventative measures, and thus it is impossible for us and our service providers to entirely mitigate this risk. A security breach or other significant disruption involving computer networks and related systems could adversely impact our financial condition, cash flows and the market price of our common shares.

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

Natural disasters and severe weather such as earthquakes, hurricanes or floods may result in significant damage to our properties. The extent of our casualty losses and loss in operating income in connection with such events is a function of the severity of the event and the total amount of exposure in the affected area. Because our properties are concentrated in one region, a single catastrophe or destructive weather event affecting a region may have a significant negative effect on our financial condition and results of operations. As a result, our operating and financial results may vary significantly from one period to the next. We are

also exposed to risks associated with inclement winter weather, including increased need for maintenance and repair of our buildings. In addition, climate change, to the extent it causes changes in weather patterns, could have effects on our business by increasing the cost of property insurance, energy and/or snow removal at our properties. As a result, the consequences of natural disasters, severe weather and climate change could increase our costs and reduce our cash flow.

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

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

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

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

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

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

Risks Related to Financing

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

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

We are subject to the risks normally associated with debt, including the risk that our cash flow may be insufficient to meet required payments of principal and interest. We anticipate that only a small portion of the principal of our debt will be repaid prior to maturity. Therefore, we are likely to need to refinance a significant portion of our outstanding debt as it matures. There is a risk

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

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

On February 24, 2015, our total consolidated debt was approximately $1.2 billion. Consolidated debt to consolidated market capitalization ratio, which measures total consolidated debt as a percentage of the aggregate of total consolidated debt plus the market value of outstanding equity securities, is often used by analysts to assess leverage for equity REITs such as us. Our market value is calculated using the price per share of our common shares. Using the closing share price of $28.33 per share of our common shares on February 24, 2015, multiplied by the number of our common shares, our consolidated debt to total consolidated market capitalization ratio was approximately 39% as of February 24, 2015.

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

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

- require us to dedicate a substantial portion of cash flow from operations to the payment of principal, and interest on, indebtedness, thereby reducing the funds available for other purposes;
- make it more difficult for us to borrow additional funds as needed or on favorable terms, which could, among other things, adversely affect our ability to meet operational needs;
- restrict us from making strategic acquisitions, developing properties or exploiting business opportunities;
- force us to dispose of one or more of our properties, possibly on unfavorable terms (including the possible application of the 100% tax on income from prohibited transactions or in violation of certain covenants to which we may be subject);
- subject us to increased sensitivity to interest rate increases;
- make us more vulnerable to economic downturns, adverse industry conditions or catastrophic external events;
- limit our ability to withstand competitive pressures;
- limit our ability to refinance our indebtedness at maturity or the refinancing terms may be less favorable than the terms of our original indebtedness;
- reduce our flexibility in planning for or responding to changing business, industry and economic conditions; and/or
- place us at a competitive disadvantage to competitors that have relatively less debt than we have.

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Our Organizational Structure

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

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

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

Additionally, we are subject to the “business combination” and “unsolicited takeover” provisions of the MGCL. These provisions may delay, defer, or prevent a transaction or a change in control that may involve a premium price for holders of our shares or otherwise be in their best interests. Our bylaws currently provide that the foregoing provision regarding "control share acquisitions" will not apply to Washington REIT. However, our board of trustees could, in the future, modify our bylaws such that the foregoing provision regarding "control share acquisitions" would be applicable to Washington REIT.

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

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

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

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

of our company that might involve a premium price for shares of our stock or otherwise be in the best interest of our shareholders.

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

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

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

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

Risks Related to Our Common Shares

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

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

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

Our Board of Trustees considers, among other factors, trends in our levels of funds from operations, together with associated recurring capital improvements, tenant improvements, leasing commissions and incentives, and adjustments to straight-line rents to reflect cash rents received. This level has trended lower in recent years due to the recent economic downturn and uncertainty with the business and leasing environment in the Washington metro region. We reduced our dividend rate in 2012, and if such trend were to continue for a sustained period of time, our board of trustees could determine to further reduce our dividend rate. If we do not maintain or increase the dividend rate on our common shares in the future, it could have an adverse effect on the market price of our common shares.

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

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

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

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

- level of institutional interest in us;
- perceived attractiveness of investment in us, in comparison to other REITs;
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attractiveness of securities of REITs in comparison to other asset classes taking into account, among other things, that a substantial portion of REITs' dividends are taxed as ordinary income;

- our financial condition and performance;
- the market's perception of our growth potential and potential future cash dividends;
- investor confidence in the stock and bond markets generally;
- national economic conditions and general stock and bond market conditions;
- government action or regulation, including changes in tax law;
- increases in market interest rates, which may lead investors to expect a higher annual yield from our distributions in relation to the price of our shares;
- changes in federal tax laws;
- changes in our credit ratings; and
- any negative change in the level of our dividend or the partial payment thereof in common shares.

Risks Related to our Status as a REIT

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

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

- maintaining ownership of specified minimum levels of real estate related assets;
- generating specified minimum levels of real estate related income;
- maintaining certain diversity of ownership requirements with respect to our shares; and
- distributing at least 90% of our taxable income on an annual basis.

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

Only limited judicial and administrative interpretations of the REIT rules exist. In addition, qualification as a REIT involves the determination of various factual matters and circumstances not entirely within our control. Future legislation, new regulations, administrative interpretations or court decisions may significantly change the tax laws or the application of the tax laws with respect to qualification as a REIT for federal income tax purposes or the federal income tax consequences of such qualification.
If we fail to qualify as a REIT, we could face serious tax consequences that could substantially reduce our funds available for payment of dividends for each of the years involved because:

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

This treatment would reduce net earnings available for investment or distribution to shareholders because of the additional tax liability for the year (or years) involved. In addition, if we fail to qualify as a REIT, we would no longer be required to pay dividends. To the extent that distributions to shareholders had been made based on our qualifying as a REIT, we might be required to borrow funds or to liquidate certain of our investments to pay the applicable tax. As a result of these factors, our failure to qualify as a REIT could have a material adverse impact on our results of operations, financial condition and liquidity. If we fail to qualify as a REIT but are eligible for certain relief provisions, then we may retain our status as a REIT but may be required to pay a penalty tax, which could be substantial.

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

To qualify as a REIT, we must ensure that we meet the REIT gross income tests annually. In addition, we must ensure that, at the end of each calendar quarter, at least 75% of the value of our total assets consists of cash, cash items, government securities and qualified REIT real estate assets, including certain mortgage loans. The remainder of our investment in securities (other than government securities and qualified REIT real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of

the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than government securities and qualified real estate assets) can consist of the securities of any one issuer, and no more than 25% of the value of our total securities can be represented by securities of one or more TRS's. If we fail to comply with these asset requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences.

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

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

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

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

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

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

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

The REIT provisions of the Code may limit our ability to hedge our assets and operations. Under these provisions, income that we generate from transactions intended to hedge our interest rate risk generally will be excluded from gross income for purposes of the 75% and 95% gross income tests applicable to REITs if the instrument hedges interest rate or foreign currency risk on liabilities used to carry or acquire real estate assets or certain other types of foreign currency risk, and such instrument is properly identified. Income from hedging transactions that does not meet these requirements will generally constitute non-qualifying income for purposes of both the REIT 75% and 95% gross income tests. As a result of these rules, we may have to limit our use of hedging techniques that might otherwise be advantageous or implement those hedges through a TRS. This could increase the cost of our hedging activities because our TRS would be subject to tax on gains or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear. In addition, losses in our TRS will generally not provide any tax benefit, except for being carried forward against future taxable income in the TRS.

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

The maximum tax rate applicable to income from "qualified dividends" payable to U.S. shareholders that are individuals, trusts and estates is 20%. Dividends payable by REITs, however, generally are not eligible for the reduced rates and will continue to be subject to tax at rates applicable to ordinary income. Although this does not adversely affect the taxation of REITs or dividends payable by REITs, the more favorable rates applicable to regular corporate qualified dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the shares of non-REIT corporations that pay dividends, which could adversely affect the value of the stock of REITs, including shares of our common stock.

The tax imposed on REITs engaging in prohibited transactions may limit our ability to engage in transactions that would be treated as sales for federal income tax purposes.

A REIT's net income from prohibited transactions is subject to a 100% penalty tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, held primarily for sale to customers in the ordinary course of business. Although we do not intend to hold any properties that would be characterized as held for sale to customers in the ordinary course of our business, unless a sale or disposition qualifies under certain statutory safe harbors, such characterization is a factual

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determination and no guarantee can be given that the IRS would agree with our characterization of our properties or that we will be able to make use of the otherwise available safe harbors.

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

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

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

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

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

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

Even if we qualify for taxation as a REIT, we may be subject to certain federal, state and local taxes on our income, property or net worth, including taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, and state or local income, property and transfer taxes. In addition, we could, in certain circumstances, be required to pay an excise or penalty tax (which could be significant in amount) in order to utilize one or more relief provisions under the Code to maintain our qualification as a REIT. Any of these taxes would decrease cash available for the payment of our debt obligations and distributions to shareholders. Our TRS's generally will be subject to U.S. federal corporate income tax on their net taxable income.

There is a risk of changes in the tax law applicable to REITs.

The Internal Revenue Service, the United States Treasury Department and Congress frequently review federal income tax legislation, regulations and other guidance. We cannot predict whether, when or to what extent new federal tax laws, regulations, interpretations or rulings will be adopted. Any legislative action may prospectively or retroactively modify our tax treatment and, therefore, may adversely affect taxation of us and/or our investors.

ITEM 1B: UNRESOLVED STAFF COMMENTS

None.

ITEM 2: PROPERTIES

The schedule on the following pages lists our real estate investment portfolio as of December 31, 2014, which consisted of 56 properties and land held for development.

As of December 31, 2014, the percent leased is (i) for commercial properties, the percentage of net rentable area for which fully executed leases exist and may include signed leases for space not yet occupied by the tenant, and (ii) for multifamily properties, the percentage of units leased.

Cost information is included in Schedule III to our financial statements included in this Annual Report on Form 10-K.

Schedule of Properties

Properties	Location	Year Acquired	Year Constructed/Renovated	Net Rentable Square Feet [(1)]	Percent Leased, as of December 31, 2014	
Office Buildings						
1901 Pennsylvania Avenue	Washington, D.C.	1977	1960	101,000	97	%
51 Monroe Street	Rockville, MD	1979	1975	221,000	99	%
515 King Street	Alexandria, VA	1992	1966	75,000	92	%
6110 Executive Boulevard	Rockville, MD	1995	1971	201,000	87	%
1220 19thStreet	Washington, D.C.	1995	1976	103,000	94	%
1600 Wilson Boulevard	Arlington, VA	1997	1973	166,000	82	%
Silverline Center (formerly 7900 Westpark Drive)	Tysons, VA	1997	1972/1986/1999/ 2014	526,000	60	%
600 Jefferson Plaza	Rockville, MD	1999	1985	113,000	90	%
Wayne Plaza	Silver Spring, MD	2000	1970	99,000	83	%
Courthouse Square	Alexandria, VA	2000	1979	116,000	95	%
One Central Plaza	Rockville, MD	2001	1974	267,000	96	%
1776 G Street	Washington, D.C.	2003	1979	263,000	100	%
West Gude Drive	Rockville, MD	2006	1984/1986/1988	276,000	84	%
Monument II	Herndon, VA	2007	2000	208,000	86	%
2000 M Street	Washington, D.C.	2007	1971	230,000	100	%
2445 M Street	Washington, D.C.	2008	1986	290,000	100	%
925 Corporate Drive	Stafford, VA	2010	2007	133,000	93	%
1000 Corporate Drive	Stafford, VA	2010	2009	136,000	89	%
1140 Connecticut Avenue	Washington, D.C.	2011	1966	183,000	94	%
1227 25th Street	Washington, D.C.	2011	1988	135,000	95	%
Braddock Metro Center	Alexandria, VA	2011	1985	353,000	97	%
John Marshall II	Tysons, VA	2011	1996/2010	223,000	100	%
Fairgate at Ballston	Arlington, VA	2012	1988	142,000	83	%
Army Navy Club Building	Washington, DC	2014	1912/1987	108,000	97	%
1775 Eye Street, NW	Washington, DC	2014	1964	185,000	65	%
Subtotal				4,853,000	89	%

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Properties	Location	Year Acquired	Year Constructed/Renovated	# of Units	Net Rentable Square Feet (1)	Percent Leased, as of December 31, 2014	
Retail Centers							
Takoma Park	Takoma Park, MD	1963	1962		51,000	100	%
Westminster	Westminster, MD	1972	1969		150,000	96	%
Concord Centre	Springfield, VA	1973	1960		76,000	82	%
Wheaton Park	Wheaton, MD	1977	1967		74,000	100	%
Bradlee Shopping Center	Alexandria, VA	1984	1955		171,000	99	%
Chevy Chase Metro Plaza	Washington, D.C.	1985	1975		49,000	100	%
Montgomery Village Center	Gaithersburg, MD	1992	1969		197,000	78	%
Shoppes of Foxchase	Alexandria, VA	1994	1960/2006		134,000	97	%
Frederick County Square	Frederick, MD	1995	1973		227,000	97	%
800 S. Washington Street	Alexandria, VA	1998/2003	1955/1959		47,000	98	%
Centre at Hagerstown	Hagerstown, MD	2002	2000		332,000	98	%
Frederick Crossing	Frederick, MD	2005	1999/2003		295,000	99	%
Randolph Shopping Center	Rockville, MD	2006	1972		82,000	64	%
Montrose Shopping Center	Rockville, MD	2006	1970		145,000	96	%
Gateway Overlook	Columbia, MD	2010	2007		220,000	100	%
Olney Village Center	Olney, MD	2011	1979/2003		199,000	98	%
Spring Valley Retail Center	Washington, DC	2014	1941/1950		75,000	93	%
Subtotal					2,524,000	95	%
Multifamily Buildings							
3801 Connecticut Avenue	Washington, D.C.	1963	1951	307	179,000	97	%
Roosevelt Towers	Falls Church, VA	1965	1964	191	170,000	97	%
Country Club Towers	Arlington, VA	1969	1965	227	159,000	97	%
Park Adams	Arlington, VA	1969	1959	200	173,000	98	%
Munson Hill Towers	Falls Church, VA	1970	1963	279	258,000	97	%
The Ashby at McLean	McLean, VA	1996	1982	256	274,000	97	%
Walker House Apartments	Gaithersburg, MD	1996	1971/2003	212	157,000	95	%
Bethesda Hill Apartments	Bethesda, MD	1997	1986	195	225,000	96	%
Bennett Park	Arlington, VA	2007	2007	224	214,000	99	%

Clayborne	Alexandria, VA	2008	2008	74	60,000	93	%
Kenmore	Washington, D.C.	2008	1948	374	268,000	94	%
The Paramount	Arlington, VA	2013	1984	135	141,000	93	%
Yale West	Washington, DC	2014	2011	216	173,000	95	%
The Maxwell [2]	Arlington, VA	2014	2014	163	143,000	N/A	
Subtotal				3,053	2,594,000	96	%
TOTAL					9,971,000		

[1] Multifamily buildings are presented in gross square feet.
[2] We substantially completed major construction activities at The Maxwell by the end of 2014. However, as of December 31, 2014, only two of six residential floors were available for occupancy. Therefore, we will not include The Maxwell's units in our leasing and occupancy calculations until the first quarter of 2015.

ITEM 3: LEGAL PROCEEDINGS

None.

ITEM 4: MINE SAFETY DISCLOSURES
N/A.

PART II

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

Our shares trade on the New York Stock Exchange. As of February 24, 2015, there are 4,447 shareholders of record. The high and low sales price for our shares for 2014 and 2013, by quarter, and the amount of dividends we paid per share are as follows:

			Quarterly Share Price Range	
Quarter		Dividends Per Share	High	Low
2014				
	Fourth	0.30000	$28.48	$25.35
	Third	0.30000	$28.44	$25.33
	Second	0.30000	$26.95	$23.41
	First	0.30000	$25.69	$22.30
2013				
	Fourth	0.30000	$27.20	$22.48
	Third	0.30000	$28.76	$24.00
	Second	0.30000	$30.58	$25.05
	First	0.30000	$28.85	$26.41

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

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

During the period covered by this report, we did not sell equity securities without registration under the Securities Act. A summary of our repurchases of shares of our common stock for the three months ended December 31, 2014 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
October 1 - October 31, 2014	2,541	$25.66	N/A	N/A
November 1 - November 30, 2014	4,325	26.46	N/A	N/A
December 1 - December 31, 2014	14,095	27.66	N/A	N/A
Total	20,961	27.17	N/A	N/A

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

ITEM 6: SELECTED FINANCIAL DATA

The following table sets forth our selected financial data on a historical basis, which has been revised for properties disposed of or classified as held for sale (see note 3 to the consolidated financial statements). The following data should be read in conjunction with our financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Form 10-K.

	2014	2013	2012	2011	2010
	(in thousands, except per share data)				
Real estate rental revenue	$288,637	$263,024	$254,794	$234,733	$204,219
Income (loss) from continuing operations	$5,070	$(193)	$7,768	$(14,389)	$(10,874)
Discontinued operations:					
Income from operations of properties sold or held for sale	$546	$15,395	$10,816	$23,414	$26,834
Gain on sale of real estate	$105,985	$22,144	$5,124	$97,491	$21,599
Net income	$111,601	$37,346	$23,708	$105,378	$37,559
Net income attributable to the controlling interests	$111,639	$37,346	$23,708	$104,884	$37,426
Income (loss) from continuing operations attributable to the controlling interests per share – diluted	$0.08	$—	$0.11	$(0.22)	$(0.17)
Net income attributable to the controlling interests per share – diluted	$1.67	$0.55	$0.35	$1.58	$0.60
Total assets	$2,113,707	$1,975,493	$2,124,376	$2,120,758	$2,167,881
Lines of credit payable	$50,000	$—	$—	$99,000	$100,000
Mortgage notes payable	$418,525	$294,671	$319,025	$342,989	$265,757
Notes payable	$747,208	$846,703	$906,190	$657,470	$753,587
Shareholders' equity	$819,555	$754,959	$792,057	$859,044	$857,080
Cash dividends paid	$80,277	$80,104	$97,734	$115,045	$108,949
Cash dividends declared and paid per share	$1.20	$1.20	$1.47	$1.74	$1.73

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

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

- Overview. Discussion of our business, operating results, investment activity and capital requirements, and summary of our significant transactions to provide context for the remainder of MD&A.
- Critical Accounting Policies and Estimates. Descriptions of accounting policies that reflect significant judgments and estimates used in the preparation of our consolidated financial statements.
- Results of Operations. Discussion of our financial results comparing 2014 to 2013 and comparing 2013 to 2012.
- Liquidity and Capital Resources. Discussion of our financial condition and analysis of changes in our capital structure and cash flows.

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

- Net operating income ("NOI"), calculated as real estate rental revenue less real estate expenses excluding depreciation and amortization and general and administrative expenses. NOI is a non-GAAP supplemental measure to net income.
- Funds From Operations ("FFO"), calculated as set forth below under the caption "Funds from Operations." FFO is a non-GAAP supplemental measure to net income.
- Occupancy, calculated as occupied square footage as a percentage of total square footage as of the last day of that period.
- Leased percentage, calculated as the percentage of available physical net rentable area leased for our commercial segments and percentage of apartments leased for our multifamily segment.
- Rental rates.
- 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. A "same-store" property is one that was owned for the entirety of the periods being evaluated and excludes properties under redevelopment or development and properties purchased or sold at any time during the periods being compared. A "non-same-store" property is one that was acquired, under redevelopment or development, or placed into service during either of the periods being evaluated. We define redevelopment properties as those for which we expect to spend significant development and construction costs on existing or acquired buildings pursuant to a formal plan which has a current impact on operating results, occupancy and the ability to lease space with the intended result of a higher economic return on the property. Properties under redevelopment or development are included within the non-same-store properties beginning in the period during which redevelopment or development activities commence. Redevelopment and development properties are included in the same-store pool upon completion of the redevelopment or development, and the earlier of achieving 90% occupancy or two years after completion.

Overview

Business

As described in "Item 1 - Business", our business consists of the ownership and operation of income-producing real property in the greater Washington metro region. We own a diversified portfolio of office buildings, multifamily buildings and retail centers. Over the past three years, we have sold our medical office segment and reinvested a portion of the sales proceeds into properties that fit our strategy of owning properties inside the Washington metro region's Beltway, near major transportation nodes and in areas with strong employment drivers and superior growth demographics. We intend to continue this strategy in 2015.

Operating Results

Real estate rental revenue, NOI, net income attributable to the controlling interests and FFO for the years ended December 31, 2014 and 2013 were as follows (in thousands):

	Year Ended December 31,		
	2014	2013	Change
Real estate rental revenue	$288,637	$263,024	$25,613
NOI[1]	$184,942	$169,731	$15,211
Net income attributable to the controlling interests	$111,639	$37,346	$74,293
FFO[2]	$101,057	$113,103	$(12,046)

[1] See pages 35 and 40 of the MD&A for reconciliations of NOI to net income.

[2] See page 52 of the MD&A for reconciliations of FFO to net income.

NOI increased by $15.2 million primarily due to acquisitions ($10.9 million). NOI from same-store properties increased by $8.6 million, as higher occupancy ($6.9 million) and lower net provisions for bad debt ($2.4 million) were partially offset by higher real estate tax assessments ($1.0 million).

Net income attributable to the controlling interests increased by $74.3 million primarily due to higher gains on sale of real estate ($84.4 million), partially offset by loss of income from properties included in our former medical office segment, which was sold in stages during the fourth quarter of 2013 and the first quarter of 2014. Primarily due to this disposition, income from discontinued operations decreased by $14.8 million. This lost income has been partially replaced by income from acquisitions made using the proceeds from the sale of our medical office segment.

The $12.0 million decrease in FFO primarily reflects loss of income from properties included in our former medical office segment.

As described in "Item 1 - Business", under "Washington Metro Region Real Estate Markets", we anticipate continued market challenges in leasing vacant space during 2015. For example, when our renovation of Silverline Center is substantially completed during Q1 2015, we will have approximately 200,000 square feet of office space to lease up at this property. We also anticipate circumstances where rents on new or renewal leases will be lower than the existing portfolio rents, putting further downward pressure on NOI from same-store properties.

Investment Activity

We completed the disposition of our Medical Office Portfolio during the first quarter of 2014, resulting in a gain on sale of real estate of $106.0 million.

We acquired two office buildings, one retail center and one multifamily building during 2014, all located in Washington, DC. We also substantially completed construction on The Maxwell, a multifamily development in Arlington, Virginia at the end of 2014. These transactions are consistent with our current strategy.

Capital Requirements

We extinguished the remaining $100.0 million of our 5.25% unsecured notes on their maturity date in January 2014.

We assumed mortgage notes with remaining principal balances of $48.2 million and $52.7 million with our acquisitions of Yale West and The Army Navy Club Building, respectively. We have $150.0 million of 5.35% unsecured notes that mature in May 2015. As of February 24, 2015, our unsecured lines of credit have a combined borrowing capacity of $434.5 million.

Significant Transactions

We summarize below our significant transactions during the two years ended December 31, 2014:

2014

- The acquisition of Yale West, a 216-unit multifamily property in Washington, DC, for a contract purchase price of $73.0 million. We assumed a $48.2 million mortgage with this acquisition. We incurred $1.8 million of acquisition costs related to this transaction.
- The acquisition of The Army Navy Club Building, a 108,000 square foot office property in Washington, DC, for a contract purchase price of $79.0 million. We assumed a $52.7 million mortgage with this acquisition. We incurred $1.4 million of acquisition costs with this transaction.

- The acquisition of 1775 Eye Street, NW, a 185,000 square foot office property in Washington, DC, for a contract purchase price of $104.5 million. We incurred $1.7 million of acquisition costs with this transaction.
- The acquisition of Spring Valley Retail Center, a 75,000 square foot retail property in Washington, DC, for a contract purchase price of $40.5 million. We incurred $0.8 million of acquisition costs with this transaction.
- The execution of new and renewal leases for 1.4 million square feet of commercial space with an average rental rate increase of 9.5% over expiring leases.

2013

- The acquisition of The Paramount, a multifamily property in Arlington, Virginia with 135 units and 3,600 square feet of retail space, for a contract purchase price of $48.2 million. We incurred $0.3 million in acquisition costs related to this transaction.
- The execution of four separate contracts with a single buyer for the sale of the entire medical office segment, consisting of 17 medical office assets, and two office assets, 6565 Arlington Boulevard and Woodholme Center (both of which have significant medical office tenancy), encompassing in total approximately 1.5 million square feet. The assets sold also included land held for development at 4661 Kenmore Avenue. The sales prices under the four agreements aggregated to $500.8 million. Purchase and Sale Agreement #1 ($303.4 million of the aggregate sales price) and Purchase and Sale Agreement #2 ($3.8 million of the aggregate sales price) closed in November 2013, resulting in a gain on sale of real estate of $18.9 million. Purchase and Sale Agreement #3 ($79.0 million of the aggregate sales price) and Purchase and Sale Agreement #4 ($114.6 million of the aggregate sales price) closed in January 2014, resulting in a gain on sale of $106.0 million.
- The disposition of the Atrium Building, a 79,000 square foot office building, for a contract sales price of $15.8 million, resulting in a gain on sale of $3.2 million.
- The execution of new and renewal leases for 1.6 million square feet of commercial space, excluding leases at properties classified as sold or held for sale, with an average rental rate increase of 10.2% over expiring leases.

Critical Accounting Policies and Estimates

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

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

Allowance for Doubtful Accounts

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

Accounting for Real Estate Acquisitions

We record acquired or assumed assets, including physical assets and in-place leases, and liabilities, based on their fair values. We determine the estimated fair values of the assets and liabilities in accordance with current GAAP fair value provisions. We determine the fair values of acquired buildings on an “as-if-vacant” basis considering a variety of

factors, including the replacement cost of the property, estimated rental and absorption rates, estimated future cash flows and valuation assumptions consistent with current

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market conditions. We determine the fair value of land acquired based on comparisons to similar properties that have been recently marketed for sale or sold.

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

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

Capitalized Interest

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

Real Estate Impairment

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

Stock Based Compensation

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

Federal Income Taxes

Generally, and subject to our ongoing qualification as a REIT, no provisions for income taxes are necessary except for taxes on undistributed taxable income and taxes on the income generated by our TRS's. Our TRS's are subject to corporate federal and state income tax on their taxable income at regular statutory rates. During the fourth quarter of 2011, we recognized a $14.5 million impairment charge at Dulles Station, Phase II, a development property held by one of our TRS's. The impairment charge created a deferred tax asset of $5.7 million at the TRS level, and we have determined that it is more likely than not that this deferred tax asset will not be realized, as we cannot reliably project sufficient future taxable income in the TRS's to realize all or part of the deferred tax asset. We have therefore recorded a valuation allowance for the full amount of the deferred tax asset related to the

impairment charge at Dulles Station, Phase II.

Results of Operations

The discussion that follows is based on our consolidated results of operations for the years ended December 31, 2014, 2013 and 2012. The ability to compare one period to another is significantly affected by acquisitions completed and dispositions made during those years (see note 3 to the consolidated financial statements).

To provide more insight into our operating results, we divide our discussion into two main sections:

- Consolidated Results of Operations (page 32). An overview analysis of results on a consolidated basis; and
- Net Operating Income (page 35). A detailed analysis of same-store versus non-same-store NOI results by segment.

NOI is a non-GAAP measure calculated as real estate rental revenue less real estate expenses excluding depreciation and amortization and general and administrative expenses.

Consolidated Results of Operations

Real Estate Rental Revenue

Real estate rental revenue for properties classified as continuing operations for the three years ended December 31, 2014 was as follows (in thousands, except percentage amounts):

	Year Ended December 31,						
	2014	2013	2012	2014 vs 2013	% Change	2013 vs 2012	% Change
Minimum base rent	$244,684	$226,839	$221,764	$17,845	7.9 %	$5,075	2.3 %
Recoveries from tenants	31,610	26,822	25,528	4,788	17.9 %	1,294	5.1 %
Provision for doubtful accounts	(2,021)	(3,605)	(4,779)	1,584	(43.9)%	1,174	(24.6)%
Lease termination fees	891	643	680	248	38.6 %	(37)	(5.4)%
Parking and other tenant charges	13,473	12,325	11,601	1,148	9.3 %	724	6.2 %
	$288,637	$263,024	$254,794	$25,613	9.7 %	$8,230	3.2 %

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

Minimum Base Rent: Minimum base rent increased by $17.8 million in 2014 primarily due to acquisitions ($14.6 million) and higher occupancy ($6.9 million) and rental rates ($2.0 million) at same-store properties. These were partially offset by lower occupancy ($5.0 million) at Silverline Center, which is under redevelopment, and higher amortization of capitalized lease incentives ($0.5 million) at same-store properties.

Minimum base rent increased by $5.1 million in 2013 primarily due to acquisitions ($3.0 million) and higher rental rates ($5.8 million) at same-store properties, partially offset by lower occupancy ($2.4 million), higher rent abatements ($0.7 million) and higher amortization of deferred lease incentives ($0.2 million) at same-store properties.

Recoveries from Tenants: Recoveries from tenants increased by $4.8 million in 2014 primarily due to acquisitions ($3.4 million) and higher reimbursements ($1.9 million) from same-store properties. These were partially offset by lower reimbursements ($0.5 million) from Silverline Center, which is under redevelopment.

Recoveries from tenants increased by $1.3 million in 2013 primarily due to higher reimbursements for operating expenses from same-store properties.

Provision for Doubtful Accounts: Provision for doubtful accounts decreased by $1.6 million in 2014 primarily due to lower provisions in the retail ($1.2 million) and office ($0.4 million) segments.

Provision for doubtful accounts decreased by $1.2 million in 2013 primarily due to lower provisions in the retail segment.

Lease Termination Fees: Lease termination fees increased by $0.2 million in 2014 due to higher fees in the office segment.

Lease termination fees slightly decreased in 2013 as higher fees from acquisitions ($0.1 million) were offset by lower fees from

same-store properties ($0.1 million).

Parking and Other Tenant Charges: Parking and other tenant charges increased by $1.1 million in 2014 primarily due to increases in parking income from acquisitions ($0.7 million) and same-store properties ($0.2 million).
Parking and other tenant charges increased by $0.7 million in 2013 primarily due to increases in parking income from same-store properties ($0.5 million) and acquisitions ($0.3 million).

Occupancy for properties classified as continuing operations by segment for the three years ended December 31, 2014 was as follows:

Segment	December 31, 2014	2013	2012	2014 vs 2013	2013 vs 2012
Office	86.9 %	85.7 %	85.2 %	1.2 %	0.5 %
Retail	94.4 %	91.3 %	91.2 %	3.1 %	0.1 %
Multifamily [1]	93.8 %	92.1 %	94.1 %	1.7 %	(2.0)%
Total	90.5 %	88.8 %	88.9 %	1.7 %	(0.1)%

[1] We substantially completed major construction activities at The Maxwell by the end of 2014. However, as of December 31, 2014, only two of six residential floors were available for occupancy. Therefore, we will not include The Maxwell's units in our leasing and occupancy calculations until the first quarter of 2015.
Occupancy represents occupied square footage indicated as a percentage of total square footage as of the last day of that period.
Our overall occupancy increased to 90.5% in 2014 from 88.8% in 2013, with higher occupancy in all segments.
Our overall occupancy decreased to 88.8% in 2013 from 88.9% in 2012, with a decline in the multifamily segment partially offset by higher occupancy in the office and retail segments.
A detailed discussion of occupancy by segment can be found in the Net Operating Income section.
Real Estate Expenses
Real estate expenses for the three years ended December 31, 2014 were as follows (in thousands except percentage amounts):

	Year Ended December 31, 2014	2013	2012	2014 vs 2013	% Change	2013 vs 2012	% Change
Property operating expenses	$70,259	$64,241	$59,481	$6,018	9.4 %	$4,760	8.0 %
Real estate taxes	33,436	29,052	27,064	4,384	15.1 %	1,988	7.3 %
	$103,695	$93,293	$86,545	$10,402	11.1 %	$6,748	7.8 %

Real estate expenses as a percentage of revenue were 35.9%, 35.5% and 34.0% for the three years ended December 31, 2014, 2013 and 2012, respectively.
Property Operating Expenses: Property operating expenses include utilities, repairs and maintenance, property administration and management, operating services, common area maintenance, property insurance, bad debt and other operating expenses.
Property operating expenses increased by $6.0 million in 2014 primarily due to acquisitions ($4.6 million). Property operating expenses from same-store properties increased by $1.1 million primarily due to higher utilities expenses ($0.8 million), higher snow removal costs ($0.8 million) and higher administrative expenses ($0.3 million), partially offset by higher recoveries of uncollectible receivables ($0.8 million).
Property operating expenses increased by $4.8 million in 2013 primarily due to acquisitions ($0.8 million) and property operating expenses from same-store properties, which increased by $3.8 million primarily due to lower recoveries of bad debt ($0.9 million), and higher administrative ($0.8 million), repairs and maintenance ($0.6 million), snow removal ($0.4 million), utilities ($0.3 million), custodial ($0.2 million) and vacant space preparation ($0.2 million) expenses.

Real Estate Taxes: Real estate taxes increased by $4.4 million in 2014 primarily due to acquisitions ($3.4 million) and higher real estate taxes at same-store properties ($1.0 million) due to higher property assessments.
Real estate taxes increased by $2.0 million in 2013 due to acquisitions ($0.4 million) and higher real estate taxes at same-store properties ($1.5 million) due to higher property assessments.

Other Operating Expenses

Other operating expenses for the three years ended December 31, 2014 were as follows (in thousands, except percentage amounts):

	Year Ended December 31,							
	2014	2013	2012	2014 vs 2013	% Change		2013 vs 2012	% Change	
Depreciation and amortization	$96,011	$85,740	$85,107	$10,271	12.0	%	$633	0.7	%
Acquisition costs	5,710	1,265	234	4,445	351.4	%	1,031	440.6	%
Interest expense	59,785	63,573	60,627	(3,788)	(6.0	)%	2,946	4.9	%
General and administrative	19,761	17,535	15,488	2,226	12.7	%	2,047	13.2	%
	$181,267	$168,113	$161,456	$13,154	7.8	%	$6,657	4.1	%

Depreciation and Amortization: Depreciation and amortization expense increased by $10.3 million and $0.6 million in 2014 and 2013, respectively, primarily due to acquisitions.

Acquisition Costs: Acquisition costs increased by $4.4 million in 2014 primarily due to the higher volume acquisitions than in 2013.

Acquisition costs increased by $1.0 million in 2013 primarily due to the acquisition of The Paramount in 2013 and expenses related to potential acquisitions in 2014.

Interest Expense: Interest expense by debt type for the three years ended December 31, 2014 was as follows (in thousands, except percentage amounts):

	Year Ended December 31,								
Debt Type	2014	2013	2012	2014 vs 2013	% Change		2013 vs 2012	% Change	
Notes payable	$37,424	$43,174	$37,982	$(5,750)	(13.3	)%	$5,192	13.7	%
Mortgage notes payable	21,916	18,378	20,847	3,538	19.3	%	(2,469)	(11.8	)%
Lines of credit	2,587	3,257	3,486	(670)	(20.6	)%	(229)	(6.6	)%
Capitalized interest	(2,142)	(1,236)	(1,688)	(906)	73.3	%	452	(26.8	)%
Total	$59,785	$63,573	$60,627	$(3,788)	(6.0	)%	$2,946	4.9	%

The $5.8 million decrease in notes payable interest during 2014 is primarily due to the repayment of our 5.25% senior notes in January 2014. The $3.5 million increase in mortgage interest expense is primarily due to the assumption of mortgages with the acquisitions of Yale West and The Army Navy Club Building, partially offset by the repayments of several mortgage notes during 2013. The $0.7 million decrease in interest expense on our unsecured lines of credit during 2014 is primarily due to lower average borrowings outstanding during 2014. Capitalized interest increased by $0.9 million during 2013 primarily due to expenditures on our development/redevelopment projects at The Maxwell and Silverline Center.

The $5.2 million increase in notes payable interest during 2013 is primarily due to the issuance of our 3.95% senior notes in 2012, partially offset by the repayment of our 5.05% senior notes during 2012. The $2.5 million decrease in mortgage interest expense is primarily due to the repayments of several mortgage notes during 2013. The $0.2 million decrease in interest expense on our unsecured lines of credit during 2014 is primarily due to lower average borrowings outstanding during 2013. Capitalized interest decreased by $0.5 million during 2013 primarily due to placing the development project at 1225 First Street on hold.

General and Administrative Expense: General and administrative expense increased by $2.2 million in 2014 primarily due to higher severance expense ($0.8 million), higher short-term incentive compensation expense ($0.5 million), and higher accelerated depreciation of leasehold improvements ($0.5 million) related to the relocation of the corporate headquarters to Washington, DC.

General and administrative expense increased by $2.0 million in 2013 primarily due to higher incentive compensation expense related to the officer three-year long-term incentive plan.

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Discontinued Operations

Income from operations of properties sold or held for sale for the three years ended December 31, 2014 were as follows (in thousands, except for percentages):

	Year Ended December 31,						
	2014	2013	2012	2014 vs 2013	% Change	2013 vs 2012	% Change
Revenues	$892	$45,791	$54,344	$(44,899)	(98.1)%	$(8,553)	(15.7)%
Property expenses	(346)	(17,039)	(18,273)	16,693	(98.0)%	1,234	(6.8)%
Real estate impairment	—	—	(2,097)	—	N/A	2,097	(100.0)%
Depreciation and amortization	—	(12,161)	(18,827)	12,161	(100.0)%	6,666	(35.4)%
Interest expense	—	(1,196)	(4,331)	1,196	(100.0)%	3,135	(72.4)%
Total	$546	$15,395	$10,816	$(14,849)	(96.5)%	$4,579	42.3 %

Income from operations of properties sold or held for sale decreased by $14.8 million for the year ended December 31, 2014 due to the completion of the sale of the former medical office segment during the first quarter of 2014.

Income from operations of properties sold or held for sale increased by $4.6 million for the year ended December 31, 2013 primarily due to the medical office segment being accounted for as discontinued operations.

We recognized a $2.1 million impairment charge for the land at 4661 Kenmore Avenue during the fourth quarter of 2012 in order to reduce its carrying value to its fair value of $3.8 million.

Net Operating Income

NOI is the primary performance measure we use to assess the results of our operations at the property level. 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 or income from continuing operations, 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. NOI is calculated as real estate rental revenue less real estate expenses excluding depreciation and amortization and general and administrative expenses. A reconciliation of NOI to net income follows.

2014 Compared to 2013

The following tables of selected operating data reconcile NOI to net income attributable to the controlling interests and provide the basis for our discussion of NOI in 2014 compared to 2013. All amounts are in thousands except percentage amounts.

	Year Ended December 31,			
	2014	2013	$ Change	% Change
Real Estate Rental Revenue				
Same-store	$259,607	$248,914	$10,693	4.3 %
Non-same-store[1]	29,030	14,110	14,920	105.7 %
Total real estate rental revenue	$288,637	$263,024	$25,613	9.7 %
Real Estate Expenses				
Same-store	$89,892	$87,760	$2,132	2.4 %
Non-same-store[1]	13,803	5,533	8,270	149.5 %
Total real estate expenses	$103,695	$93,293	$10,402	11.1 %
NOI				
Same-store	$169,715	$161,154	$8,561	5.3 %
Non-same-store[1]	15,227	8,577	6,650	77.5 %
Total NOI	$184,942	$169,731	$15,211	9.0 %
Reconciliation to Net Income				
NOI	$184,942	$169,731		
Depreciation and amortization	(96,011)	(85,740)		
General and administrative expenses	(19,761)	(17,535)		
Acquisition costs	(5,710)	(1,265)		
Interest expense	(59,785)	(63,573)		
Other income	825	926		
Gain on sale of real estate	570	—		
Loss on extinguishment of debt	—	(2,737)		
Discontinued operations[2]:				
Income from properties sold or held for sale	546	15,395		
Gain on sale of real estate	105,985	22,144		
Net income	111,601	37,346		
Less: Net income attributable to noncontrolling interests	38	—		
Net income attributable to the controlling interests	$111,639	$37,346		

[1] Non-same-store properties include:
2014 Multifamily acquisition – Yale West
2014 Office acquisitions – The Army Navy Club Building and 1775 Eye Street, NW
2014 Retail acquisition – Spring Valley Retail Center
2014 Retail sold (classified as continuing operations) – 5740 Columbia Road (parcel at Gateway Overlook)
2013 Multifamily acquisition – The Paramount
2013 Office redevelopment property – Silverline Center (formerly 7900 Westpark Drive)

[2] Discontinued operations include gains on sale and income from operations for:
2014 and 2013 sold – Atrium Building and Medical Office Portfolio – medical office segment and two office buildings (6565 Arlington Boulevard and Woodholme Center)

Real estate rental revenue from same-store properties increased by $10.7 million in 2014 primarily due to higher occupancy ($6.9 million), higher rental rates ($2.0 million), higher reimbursements ($1.9 million) and lower reserves

for uncollectible revenue ($1.6 million), partially offset by higher rent abatements ($1.7 million).
Real estate expenses from same-store properties increased by $2.1 million in 2014 primarily due to higher real estate taxes ($1.0 million) due to higher assessments across the portfolio, higher utilities expenses ($0.8 million), higher snow removal costs ($0.8 million) and higher administrative expenses ($0.3 million), partially offset by higher recoveries of uncollectible receivables ($0.8 million).

Occupancy	December 31, 2014	2013
Same-store	93.3 %	89.4 %
Non-same-store	71.2 %	80.4 %
Total	90.5 %	88.8 %

Same-store occupancy increased to 93.3% in 2014, with the increases in all segments. Non-same-store occupancy decreased to 71.2% in 2014, primarily due to lower occupancy at Silverline Center. This property went into redevelopment during the fourth quarter of 2013 (see note 3 to the consolidated financial statements) and decreased to 53.6% occupancy at the end of 2014 from 78.9% at the end of 2013. The renovation of the property is expected to be completed during the first quarter of 2015. During 2014, 65.2% of the commercial square footage expiring was renewed as compared to 78.4% in 2013. During 2014, we executed new and renewal leases for 1.4 million commercial square feet at an average rental rate of $33.99 per square foot, an increase of 9.5%, with average tenant improvements and leasing commissions and incentives (including free rent) of $38.13 per square foot.
An analysis of NOI by segment follows.

Office Segment:

	Year Ended December 31, 2014	2013	$ Change	% Change
Real Estate Rental Revenue				
Same-store	$146,542	$139,270	$7,272	5.2 %
Non-same-store[1]	19,574	13,069	6,505	49.8 %
Total real estate rental revenue	$166,116	$152,339	$13,777	9.0 %
Real Estate Expenses				
Same-store	$54,266	$52,212	$2,054	3.9 %
Non-same-store[1]	9,637	5,081	4,556	89.7 %
Total real estate expenses	$63,903	$57,293	$6,610	11.5 %
NOI				
Same-store	$92,276	$87,058	$5,218	6.0 %
Non-same-store[1]	9,937	7,988	1,949	24.4 %
Total NOI	$102,213	$95,046	$7,167	7.5 %

[1] Non-same-store properties include:
2014 Office acquisitions – The Army Navy Club Building and 1775 Eye Street, NW
2013 redevelopment property – Silverline Center

Real estate rental revenue from same-store properties increased by $7.3 million in 2014 primarily due to higher occupancy ($5.4 million), higher rental rates ($1.9 million), higher reimbursements ($0.7 million), lower reserves for uncollectible revenue ($0.4 million) and higher parking income ($0.2 million), partially offset by higher rent abatements ($1.5 million).
Real estate expenses from same-store properties increased by $2.1 million in 2014 primarily due to higher utilities expenses ($0.8 million), real estate taxes ($0.4 million), custodial services ($0.3 million) and administrative expenses ($0.3 million).

Occupancy	December 31, 2014	2013
Same-store	92.1 %	86.6 %
Non-same-store	61.4 %	78.9 %
Total	86.9 %	85.7 %

Same-store occupancy increased to 92.1% in 2014 primarily due to higher occupancy at Braddock Metro Center. The decrease in non-same-store occupancy is primarily due to lower occupancy at Silverline Center, which went into redevelopment during the fourth quarter of 2013. During 2014, 64.2% of the square footage that expired was renewed compared to 65.2% in 2013. During 2014, we executed new and renewal leases for 1.0 million square feet of office

space at an average rental rate of $37.15 per square foot, an increase of 8.9%, with average tenant improvements and leasing commissions and incentives (including free rent) of $47.14 per square foot.

Retail Segment:

	Year Ended December 31,				
	2014	2013	$ Change	% Change	
Real Estate Rental Revenue					
Same-store	$59,418	$56,055	$3,363	6.0	%
Non-same-store[1]	845	134	711	530.6	%
Total real estate rental revenue	$60,263	$56,189	$4,074	7.3	%
Real Estate Expenses					
Same-store	$13,801	$13,747	$54	0.4	%
Non-same-store[1]	221	21	200	952.4	%
Total real estate expenses	$14,022	$13,768	$254	1.8	%
NOI					
Same-store	$45,617	$42,308	$3,309	7.8	%
Non-same-store[1]	624	113	511	452.2	%
Total NOI	$46,241	$42,421	$3,820	9.0	%

[1] Non-same-store properties include:
2014 acquisition – Spring Valley Retail Center
2014 sold (classified as continuing operations) – 5740 Columbia Road (parcel at Gateway Overlook)

Real estate rental revenue increased by $3.4 million in 2014 primarily due to lower reserves for uncollectible revenue ($1.2 million), higher occupancy ($1.1 million), higher reimbursements ($0.9 million) and higher rental rates ($0.3 million).
Real estate expenses increased by $0.1 million in 2014 primarily due to higher snow removal costs ($0.6 million), partially offset by higher recoveries of bad debt ($0.5 million).

	December 31,			
Occupancy	2014		2013	
Same-store	94.5	%	91.3	%
Non-same-store	92.8	%	100.0	%
Total	94.4	%	91.3	%

Occupancy increased to 94.5% in 2014 primarily due to higher occupancy at Bradlee Shopping Center and Westminster Shopping Center. The decrease in non-same-store occupancy reflects the acquisition of Spring Valley Retail Center during the fourth quarter of 2014, which was 96.2% occupied at acquisition. During 2014, 72.5% of the square footage that expired was renewed compared to 92.9% in 2013. During 2014, we executed new and renewal leases for 0.3 million square feet of retail space at an average rental rate of $24.44, an increase of 12.8%, with average tenant improvements and leasing commissions and incentives (including free rent) of $10.49 per square foot.

Multifamily Segment:

	Year Ended December 31,				
	2014	2013	$ Change	% Change	
Real Estate Rental Revenue					
Same-store	$53,647	$53,589	$58	0.1	%
Non-same-store[(1)]	8,611	907	7,704	849.4	%
Total real estate rental revenue	$62,258	$54,496	$7,762	14.2	%
Real Estate Expenses					
Same-store	$21,825	$21,801	$24	0.1	%
Non-same-store[(1)]	3,945	431	3,514	815.3	%
Total real estate expenses	$25,770	$22,232	$3,538	15.9	%
NOI					
Same-store	$31,822	$31,788	$34	0.1	%
Non-same-store[(1)]	4,666	476	4,190	880.3	%
Total NOI	$36,488	$32,264	$4,224	13.1	%

(1) Non-same-store properties include:
2014 acquisition – Yale West
2013 acquisition – The Paramount

Real estate rental revenue from same-store properties increased by $0.1 million in 2014 primarily due to higher occupancy ($0.4 million), partially offset by lower rental rates ($0.2 million) and higher rent abatements ($0.2 million).

Real estate expenses from same-store properties slightly increased in 2014 primarily due to higher real estate taxes ($0.4 million), partially offset by lower bad debt expense ($0.3 million).

	December 31,			
Occupancy	2014		2013	
Same-store	94.1	%	92.6	%
Non-same-store	91.6	%	85.4	%
Total	93.8	%	92.1	%

Same-store occupancy increased to 94.1% in 2014 primarily due to higher occupancy at 3801 Connecticut Avenue.

2013 Compared to 2012

The following tables of selected operating data reconcile NOI to net income attributable to the controlling interests and provide the basis for our discussion of NOI in 2013 compared to 2012. All amounts are in thousands except percentage amounts.

	Year Ended December 31,			
	2013	2012	$ Change	% Change
Real Estate Rental Revenue				
Same-store	$243,633	$238,418	$5,215	2.2 %
Non-same-store[1]	19,391	16,376	3,015	18.4 %
Total real estate rental revenue	$263,024	$254,794	$8,230	3.2 %
Real Estate Expenses				
Same-store	$85,956	$80,660	$5,296	6.6 %
Non-same-store[1]	7,337	5,885	1,452	24.7 %
Total real estate expenses	$93,293	$86,545	$6,748	7.8 %
NOI				
Same-store	$157,677	$157,758	$(81)	(0.1)%
Non-same-store[1]	12,054	10,491	1,563	14.9 %
Total NOI	$169,731	$168,249	$1,482	0.9 %
Reconciliation to Net Income				
NOI	$169,731	$168,249		
Depreciation and amortization	(85,740)	(85,107)		
General and administrative expenses	(17,535)	(15,488)		
Acquisition costs	(1,265)	(234)		
Interest expense	(63,573)	(60,627)		
Other income	926	975		
Loss on extinguishment of debt	(2,737)	—		
Discontinued operations[2]:				
Income from properties sold or held for sale	15,395	10,816		
Gain on sale of real estate	22,144	5,124		
Net income	37,346	23,708		
Less: Net income attributable to noncontrolling interests	—	—		
Net income attributable to the controlling interests	$37,346	$23,708		

[1] Non-same-store properties include:
2013 Multifamily acquisition – The Paramount
2013 Office redevelopment property – Silverline Center (formerly 7900 Westpark Drive)
2012 Office acquisition – Fairgate at Ballston

[2] Discontinued operations include gain on disposals and income from operations for:
2013 held for sale and sold – Atrium Building and Medical Office Portfolio – medical office segment and two office buildings (6565 Arlington Boulevard and Woodholme Center)
2012 sold – Plumtree Medical Center and 1700 Research Boulevard

Real estate rental revenue from same-store properties increased by $5.2 million in 2013 primarily due to higher rental rates ($5.8 million), lower reserves for uncollectible revenue ($1.0 million), higher reimbursements for operating expenses ($1.2 million) and higher parking income ($0.5 million), partially offset by lower occupancy ($2.4 million) and higher rent abatements ($0.9 million).

Real estate expenses from same-store properties increased by $5.3 million in 2013 primarily due to higher real estate taxes ($1.5 million) due to higher assessments across the portfolio, lower recoveries of uncollectible receivables ($0.9 million), higher administrative expenses ($0.8 million), higher repairs and maintenance expenses ($0.6 million), higher snow removal costs ($0.4 million), higher usage of electricity ($0.3 million), higher custodial expenses ($0.2 million) and higher vacant space preparation expenses ($0.2 million).

	December 31,	
Occupancy	2013	2012
Same-store	89.7 %	89.2 %
Non-same-store	79.2 %	84.9 %
Total	88.8 %	88.9 %

Same-store occupancy increased to 89.7% in 2013, with the increases in office and retail occupancy partially offset by lower multifamily occupancy. Non-same-store occupancy decreased to 79.2% in 2013 from 84.9% in 2012, driven by lower occupancy at Fairgate at Ballston and Silverline Center. During 2013, 78.4% of the commercial square footage expiring was renewed as compared to 58.3% in 2012, excluding properties sold or classified as held for sale. During 2013, we executed new and renewal leases (excluding properties classified as sold or held for sale) for 1.6 million commercial square feet at an average rental rate of $29.28 per square foot, an increase of 10.2%, with average tenant improvements and leasing commissions and incentives (including free rent) of $38.40 per square foot.
An analysis of NOI by segment follows.

Office Segment:

	Year Ended December 31,			
	2013	2012	$ Change	% Change
Real Estate Rental Revenue				
Same-store	$133,855	$131,025	$2,830	2.2 %
Non-same-store[1]	18,484	16,376	2,108	12.9 %
Total real estate rental revenue	$152,339	$147,401	$4,938	3.4 %
Real Estate Expenses				
Same-store	$50,387	$47,491	$2,896	6.1 %
Non-same-store[1]	6,906	5,885	1,021	17.3 %
Total real estate expenses	$57,293	$53,376	$3,917	7.3 %
NOI				
Same-store	$83,468	$83,534	$(66)	(0.1)%
Non-same-store[1]	11,578	10,491	1,087	10.4 %
Total NOI	$95,046	$94,025	$1,021	1.1 %

[1] Non-same-store properties include:
2013 redevelopment property – Silverline Center
2012 acquisition – Fairgate at Ballston

Real estate rental revenue from same-store properties increased by $2.8 million in 2013 primarily due to higher rental rates ($2.5 million), reimbursements for operating expenses ($0.9 million) and real estate taxes ($0.5 million), and parking income ($0.4 million), partially offset by lower occupancy ($0.7 million) and higher rent abatements ($0.6 million).
Real estate expenses from same-store properties increased by $2.9 million in 2013 primarily due to higher real estate taxes ($0.7 million), administrative expenses ($0.6 million), operating services ($0.5 million), repairs and maintenance expenses ($0.2 million), consumption of electricity ($0.3 million) and lower recoveries of uncollectible receivables ($0.5 million).

	December 31,	
Occupancy	2013	2012
Same-store	87.1 %	85.3 %
Non-same-store	77.9 %	84.9 %
Total	85.7 %	85.2 %

Same-store occupancy increased to 87.1% in 2013 from 85.3% in 2012, primarily due to higher occupancy at 2000 M Street and 6110 Executive Boulevard, partially offset by lower occupancy at Braddock Metro Center. The decrease in

non-same-store occupancy is primarily due to lower occupancy at Fairgate at Ballston and Silverline Center, which went into redevelopment during the fourth quarter of 2013. During 2013, 65.2% of the square footage that expired was renewed compared to 50.4% in

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2012, excluding properties sold or classified as held for sale. During 2013, we executed new and renewal leases (excluding properties classified as sold or held for sale) for 1.1 million square feet of office space at an average rental rate of $34.27 per square foot, an increase of 8.4%, with average tenant improvements and leasing commissions and incentives (including free rent) of $51.67 per square foot.

Retail Segment:

	Year Ended December 31,				
	2013	2012	$ Change	% Change	
Real Estate Rental Revenue	$56,189	$54,506	$1,683	3.1	%
Real Estate Expenses	13,768	12,702	1,066	8.4	%
NOI	$42,421	$41,804	$617	1.5	%

Real estate rental revenue increased by $1.7 million in 2013 primarily due to higher occupancy ($1.8 million) and lower reserves for uncollectible revenue ($1.2 million), partially offset by lower occupancy ($1.1 million).
Real estate expenses increased by $1.1 million in 2013 primarily due to higher real estate taxes ($0.3 million), snow removal costs ($0.3 million) and bad debt expense ($0.2 million).
Occupancy increased to 91.3% in 2013 from 91.2% in 2012 primarily due to higher occupancy at the Centre at Hagerstown and Gateway Overlook, partially offset by lower occupancy at Westminster and Bradlee Shopping Center. During 2013, 92.9% of the square footage that expired was renewed compared to 75.7% in 2012. During 2013, we executed new and renewal leases for 0.5 million square feet of retail space at an average rental rate of $18.67, an increase of 17.9%, with average tenant improvements and leasing commissions and incentives (including free rent) of $9.96 per square foot.

Multifamily Segment:

	Year Ended December 31,					
	2013	2012	$ Change		% Change	
Real Estate Rental Revenue						
Same-store	$53,589	$52,887	$702		1.3	%
Non-same-store[1]	907	—	907		N/A	
Total real estate rental revenue	$54,496	$52,887	$1,609		3.0	%
Real Estate Expenses						
Same-store	$21,801	$20,467	$1,334		6.5	%
Non-same-store[1]	431	—	431		N/A	
Total real estate expenses	$22,232	$20,467	$1,765		8.6	%
NOI						
Same-store	$31,788	$32,420	$(632	)	(1.9	)%
Non-same-store[1]	476	—	476		N/A	
Total NOI	$32,264	$32,420	$(156	)	(0.5	)%

[1] Non-same-store properties include:
2014 acquisition – The Paramount

Real estate rental revenue from same-store properties increased by $0.7 million in 2013 primarily due to higher rental rates ($1.5 million), partially offset by lower occupancy ($0.6 million) and higher rent abatements ($0.2 million).
Real estate expenses from same-store properties increased by $1.3 million in 2013 primarily due to higher real estate taxes ($0.5 million), repairs and maintenance expenses ($0.4 million) and bad debt expense ($0.2 million).

	December 31,			
Occupancy	2013		2012	
Same-store	92.6	%	94.1	%
Non-same-store	85.4	%	N/A	
Total	92.1	%	94.1	%

Same-store occupancy decreased to 92.6% in 2013 from 94.1% in 2012 due primarily to lower occupancy at Roosevelt Towers, the Kenmore and Bethesda Hill Apartments.

Liquidity and Capital Resources

Capital Structure

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

We currently expect that our potential sources of liquidity for acquisitions, development, redevelopment, expansion and renovation of properties, and operating and administrative expenses, may include:

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

During 2015, we expect that we will have significant capital requirements, including the following items. As of February 24, 2015, we had cash and cash equivalents of approximately $34 million and availability under our unsecured credit facilities of $434.5 million.

- Funding dividends and distributions to our shareholders;
- $150.0 million to pay off or refinance our 5.35% unsecured notes that mature in May 2015;
- Approximately $65 - $70 million to invest in our existing portfolio of operating assets, including approximately $35 - $40 million to fund tenant-related capital requirements and leasing commissions;
- Approximately $15 - $20 million to invest in our development and redevelopment projects; and
- Funding for potential property acquisitions throughout the remainder of 2015, offset by proceeds from potential property dispositions.

There can be no assurance that our capital requirements will not be materially higher or lower than the above expectations. We currently believe that we will generate sufficient cash flow from operations and have access to the capital resources necessary to fund our requirements in 2015. However, as a result of general market conditions in the greater Washington metro region, economic conditions affecting the ability to attract and retain tenants, potentially rising interest rates or declines in our share price, unfavorable changes in the supply of competing properties, or our properties not performing as expected, we may not generate sufficient cash flow from operations or otherwise have access to capital on favorable terms, or at all. If we are unable to obtain capital from other sources, we may need to alter capital spending to be materially different than what is stated in the prior paragraph. If capital were not available, we may be unable to satisfy the distribution requirement applicable to REITs, make required principal and interest payments, make strategic acquisitions or make necessary and/or routine capital improvements or undertake improvement/redevelopment opportunities with respect to our existing portfolio of operating assets.

Debt Financing

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

At December 31, 2014 and 2013, our debt was as follows (in thousands):

	December 31,	
	2014	2013
Mortgage notes payable [1]	$418,525	$294,671
Unsecured lines of credit payable [1]	50,000	—
Unsecured notes payable [1]	747,208	846,703
	$1,215,733	$1,141,374

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

Our future debt maturities are as follows (in thousands):

Year	Mortgage Notes Payable	Unsecured Notes Payable	Unsecured Lines of Credit Payable	Total Debt
2015	$4,512	$150,000	$5,000	$159,512
2016	163,637	—	45,000	208,637
2017	154,436	—	—	154,436
2018	3,135	—	—	3,135
2019	33,909	—	—	33,909
Thereafter	54,871	600,000	—	654,871
	414,500	750,000	50,000	1,214,500
Net discounts/premiums	4,025	(2,792)	—	1,233
Total	$418,525	$747,208	$50,000	$1,215,733

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

Mortgage Debt

At December 31, 2014, our $418.5 million in mortgage notes payable, which includes $4.0 million in net unamortized discounts due to fair value adjustments, bore an effective weighted average fair value interest rate of 5.2% and had a weighted average maturity of 3.0 years. We may either initiate secured mortgage debt or assume mortgage debt from time-to-time in conjunction with property acquisitions.

Unsecured Credit Facilities

Our primary source of liquidity is our two revolving credit facilities. We can borrow up to $500.0 million under these lines, which bear interest at an adjustable spread over LIBOR based on our public debt rating.

Credit Facility No. 1 is a four-year, $100.0 million unsecured credit facility maturing in June 2015, and may be extended by one year at our option. We had $5.0 million outstanding and no letters of credit issued as of December 31, 2014, related to Credit Facility No. 1. Borrowings under the facility bear interest at LIBOR plus a spread based on the credit rating on our publicly issued debt. The interest rate spread is currently 120 basis points. All outstanding advances are due and payable upon maturity in June 2015, and may be extended by one year at our option. Interest only payments are due and payable generally on a monthly basis. In addition, we pay a facility fee based on the credit rating of our publicly issued debt which currently equals 0.25% per annum of the $100.0 million committed capacity, without regard to usage. Rates and fees may be increased or decreased based on changes in our senior unsecured credit ratings. These fees are payable quarterly.

Credit Facility No. 2 is a four-year $400.0 million unsecured credit facility maturing in July 2016, and may be extended for one year at our option. We had $45.0 million outstanding and no letters of credit issued as of December 31, 2014 related to Credit Facility No. 2. Advances under this agreement bear interest at LIBOR plus a spread based on the credit rating of our publicly issued debt. The interest rate spread is currently 120 basis points. All outstanding advances are due and payable upon maturity in July 2016, and may be extended for one year at our option. Interest only payments are due and payable generally on a monthly basis. In addition, we pay a facility fee

based on the credit rating of our publicly issued debt which currently equals 0.25% per annum of the $400.0 million committed capacity, without regard to usage. Rates and fees may be increased or decreased based on changes in our senior unsecured credit ratings. These fees are payable quarterly.

Our unsecured credit facilities contain financial and other covenants with which we must comply. Some of these covenants include:

- A minimum tangible net worth;
- A maximum ratio of total liabilities to gross asset value, calculated using an estimate of fair market value of our assets;
- A maximum ratio of secured indebtedness to gross asset value, calculated using an estimate of fair market value of our assets;
- A minimum ratio of quarterly EBITDA (earnings before interest, taxes, depreciation, amortization and extraordinary and nonrecurring gains and losses) to fixed charges, including interest expense;
- A minimum ratio of unencumbered asset value, calculated using a fair value of our assets, to unsecured indebtedness;
- A minimum ratio of net operating income from our unencumbered properties to unsecured interest expense; and
- A maximum ratio of permitted investments to gross asset value, calculated using an estimate of fair market value of our assets.

Failure to comply with any of the covenants under our unsecured credit facilities or other debt instruments could result in a default under one or more of our credit facility covenants. This could cause our lenders to accelerate the timing of payments and would therefore have a material adverse effect on our business, operations, financial condition and liquidity. As of December 31, 2014, we were in compliance with our credit facility covenants. In addition, our ability to draw on our unsecured credit facilities or incur other unsecured debt in the future could be restricted by the credit facility covenants.

We anticipate that in the near term we may rely to a greater extent upon our unsecured credit facilities. To the extent that we maintain larger balances on our unsecured credit facilities or maintain balances on our unsecured credit facilities for longer periods, adverse fluctuations in interest rates could have a material adverse effect on earnings.

Unsecured Notes

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

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

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

- Limits on our total indebtedness;
- Limits on our secured indebtedness;
- Limits on our required debt service payments; and
- Maintenance of a minimum level of unencumbered assets.

Failure to comply with any of the covenants under our unsecured notes or other debt instruments could result in a default under one or more of our unsecured note covenants. This could cause our debt holders to accelerate the timing of payments and would therefore have a material adverse effect on our business, operations, financial condition and liquidity. As of December 31, 2014, we were in compliance with our unsecured note covenants. In addition, our ability to draw on our unsecured credit facilities or incur other unsecured debt in the future could be restricted by our unsecured note covenants.

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

Common Equity

We have authorized for issuance 100.0 million common shares, of which 67.8 million shares were outstanding at December 31, 2014.

We are party to a sales agency financing agreement with BNY Mellon Capital Markets, LLC relating to the issuance and sale of up to $250.0 million of our common shares from time to time over a period of no more than 36 months

from June 2012. Sales of our common shares are made at market prices prevailing at the time of sale. We use net proceeds from the sale of common shares under this program for general corporate purposes. As of December 31, 2014, we had issued 1.1 million common shares under this program at a weighted average share price of $27.86 for gross proceeds of $31.3 million. In January 2015, we issued an additional 0.2 million common shares at a weighted average share price of $28.34 for gross proceeds of $5.2 million. As of February 23, 2015, we are able to issue up to an additional $213.5 million of our common shares under this program.

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. We use the net proceeds under this program for general corporate purposes. We did not issue any shares under this program during 2014 or 2013. During 2012, we issued 0.1 million common shares at a weighted average price of $29.67 per share, raising $1.3 million in net proceeds.

Preferred Equity

Washington REIT's Board of Trustees can, at its discretion, authorize the issuance of up to 10.0 million shares of preferred stock. The ability to issue preferred equity provides Washington REIT an additional financing tool that may be used to raise capital for future acquisitions or other business purposes. As of December 31, 2014, no shares of preferred stock had been authorized or issued.

Dividends

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

Our dividend and distribution payments for the three years ended December 31, 2014 were as follows (in thousands):

	Year Ended December 31,		
	2014	2013	2012
Common dividends	$80,277	$80,104	$97,734
Noncontrolling interest distributions	3,454	—	—
	$83,731	$80,104	$97,734

Dividends paid during 2014 increased from 2013 primarily due to an increase in shares outstanding from issuances under our sales agency financing agreement.

Dividends paid during 2013 decreased from 2012 primarily due to a decrease in the quarterly dividend paid per share from $0.43375 to $0.30 during 2012.

The $3.5 million distribution to noncontrolling interests in 2014 is related to the disposition of 4661 Kenmore Avenue as part of the Medical Office Portfolio sale (see note 3 to the consolidated financial statements).

Capital Commitments

We will require capital for development and redevelopment projects currently underway and in the future. During 2014 we substantially completed major construction activities at The Maxwell, a mid-rise apartment property in Arlington, Virginia. As of December 31, 2014, we had under development the renovation of Silverline Center, an office building in Tysons, Virginia.

Our total investment in The Maxwell is expected to be $50 million, including land costs and our partner's 10% share. We have secured debt financing totaling $33.0 million. As of December 31, 2014, we had invested $44 million in The Maxwell including land costs and we expect to fund approximately $6 million in 2015 on this project. We substantially completed major construction activities at this development project during the fourth quarter of 2014. As of December 31, 2014, we had received certificates of occupancy for two of the six residential floors, and received certificates of occupancy for the remaining floors during the first quarter of 2015.

Our total investment in the Silverline Center renovation is expected to be approximately $35.0 million. As of December 31, 2014, we had invested $25.1 million in the Silverline Center renovation and we expect to fund

approximately $10 million in 2015 on this project. We currently expect to complete the renovation of the property during the first quarter of 2015.

As of December 31, 2014, we had invested $20.8 million (including land costs) in a potential high-rise multifamily property at 1225 First Street in Alexandria, Virginia. We have a 95% interest in this project. In the first quarter 2013, we decided to delay commencement of construction due to market conditions and concerns of oversupply. We will continue to reassess this project on a periodic basis going forward.

As of December 31, 2014, we had no outstanding contractual commitments related to our development and redevelopment projects, and expect to fund approximately $16 million of total development/redevelopment spending during 2015.

We anticipate funding several major renovation projects in our portfolios during 2015, as follows (in thousands):

Office	$12,252
Retail	828
Multifamily	8,366
Total	$21,446

These projects include unit and common area renovations, facade restorations and window curtain wall replacement at multifamily properties; lobby renovations, conference center build out, HVAC upgrades and elevator modernizations at office properties; and roof replacements and facade renovations at retail properties. Not all of the anticipated spending had been committed via executed construction contracts at December 31, 2014. We expect to fund these projects using cash generated by our real estate operations, through borrowings on our unsecured credit facilities, or raising additional debt or equity capital in the public market.

Contractual Obligations

As of December 31, 2014, certain contractual obligations will require significant capital as follows (in thousands):

	Payments due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt[(1)]	$1,498,210	$214,037	$478,530	$348,941	$456,702
Purchase obligations[(2)]	8,247	5,150	3,097	—	—
Tenant-related capital[(3)]	20,584	20,584	—	—	—
Building capital[(4)]	20,876	20,876	—	—	—
Operating leases	14,727	343	929	520	12,935

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

(2) Represents electricity sales agreements with terms through 2016 and natural gas purchase agreements with terms through 2014.

(3) Committed tenant-related capital based on executed leases as of December 31, 2014.

(4) Committed building capital additions based on contracts in place as of December 31, 2014.

We have various standing or renewable contracts with vendors. The majority of these contracts can be canceled with immaterial or no cancellation penalties, with the exception of our elevator maintenance, electricity sales and natural gas purchase agreements, which are included above on the purchase obligations line. Contract terms on leases that can be canceled are generally one year or less. We are currently committed to fund tenant-related capital improvements as described in the table above for executed leases. However, expected leasing levels could require additional tenant-related capital improvements which are not currently committed. We expect that total tenant-related capital improvements, including those already committed, will be approximately $25 million in 2015. Due to the competitive office leasing market we expect that tenant-related capital costs will continue at this level into 2016.

Historical Cash Flows

Cash flows from operations are an important factor in our ability to sustain our dividend at its current rate. If our cash flows from operations were to decline significantly, we may have to reduce our dividend. Consolidated cash flows for the three years ended December 31, 2014 were as follows (in thousands):

	Year ended December 31,			Variance	
	2014	2013	2012	2014 vs. 2013	2013 vs. 2012
Cash provided by operating activities	$80,701	$113,318	$131,448	$(32,617)	$(18,130)

Cash (used in) provided by investing activities	(107,882)	189,848	(88,796)	(297,730)	278,644
Cash used in financing activities	(87,335)	(191,928)	(35,998)	104,593	(155,930)

The decrease in cash provided by operating activities in 2014 was primarily due to the loss of income from properties sold as part of the Medical Office Portfolio. The decrease in cash provided by operating activities in 2013 was primarily due to the loss of

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income from properties sold as part of the Medical Office Portfolio and higher interest payments.
Net cash used in investing activities increased in 2014 due to a higher volume of acquisitions, less proceeds from the sale of properties and higher development spending. Net cash provided by investing activities increased in 2013 primarily due to the closing on Purchase and Sale Agreements I and II of the Medical Office Portfolio, partially offset by higher development spending.
Net cash used in financing activities decreased in 2014 primarily due to the repayment of several mortgage notes in 2013. Net cash used in financing activities increased in 2013 primarily due to the repayment of several mortgage notes and the 5.125% unsecured notes in 2013.
Capital Improvements and Development Costs

Our capital improvement and development costs for the three years ended December 31, 2014 were as follows (in thousands):

	Year Ended December 31,		
	2014	2013	2012
Accretive capital improvements:			
Acquisition related	$2,533	$1,369	$3,718
Expansions and major renovations	24,602	23,831	20,147
Development/redevelopment	43,264	15,826	6,494
Tenant improvements (including first generation leases)	22,096	21,746	18,333
Total accretive capital improvements [1]	92,495	62,772	48,692
Other capital improvements:	8,579	8,883	8,982
Total	$		