

WASHINGTON REAL ESTATE INVESTMENT TRUST
Form 10-K
March 03, 2014

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

FORM 10-K

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

For fiscal year ended December 31, 2013

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

COMMISSION FILE NO. 1-6622

WASHINGTON REAL ESTATE INVESTMENT TRUST
(Exact name of registrant as specified in its charter)

MARYLAND 53-0261100
(State of incorporation) (IRS Employer Identification Number)
6110 EXECUTIVE BOULEVARD, SUITE 800, ROCKVILLE, MARYLAND 20852
(Address of principal executive office) (Zip code)
Registrant's telephone number, including area code: (301) 984-9400

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

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

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

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

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 NO

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.

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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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

As of June 28, 2013, the aggregate market value of such shares held by non-affiliates of the registrant was \$1,775,842,352 (based on the closing price of the stock on June 28, 2013).

As of February 26, 2014, 66,598,192 common shares were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our definitive Proxy Statement relating to the 2014 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
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PART I

ITEM 1: BUSINESS

WRIT Overview

Washington Real Estate Investment Trust (“we” or “WRIT”) is a self-administered, self-managed, 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 and 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.

We consider markets to be local if they can be reached from Washington within two hours by car. While we have historically focused most of our investments in the greater Washington metro region, in order to maximize acquisition opportunities we will consider investments within the two-hour radius described above. In the future, 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 and all but one of our officers have over 20 years of experience in this region.

Washington Metro Region Economy

The Washington metro region experienced modest job growth during 2013, as a decrease in federal government employment and procurement attributable to continued fiscal austerity offset gains in other sectors. 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 20,700 jobs during the 12 month period ending October 2013. The region's unemployment rate was 5.9% at October 2013, up from 5.1% in the prior year. Though job growth in 2013 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 economic growth to remain sluggish in 2014, with more robust growth in 2015 and 2016.

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 from Delta are set forth below:

Office Segment

• Average effective rents in the region decreased 2.9% in 2013 and in 2012.

• Overall vacancy was 13.4% at December 31, 2013 and 2012, slightly higher than the national rate of 13.2%.

Net absorption (defined as the change in occupied, standing inventory from one period to the next) totaled 1.8 million square feet in 2013, compared to negative net absorption of 2.9 million square feet in 2012. The 15-year average annual absorption for the region is 5.3 million square feet.

• Of the 6.4 million square feet of office space under construction at December 31, 2013 (down from 8.0 million square feet at December 31, 2012), 53% is pre-leased, compared to 51% one year ago.

Retail Segment

Rental rates at grocery-anchored centers in the region were up 2.2% in 2013, compared to the 1.4% increase in 2012. Vacancy for grocery-anchored centers was 4.7% at December 31, 2013, down from 4.9% at December 31, 2012.

Multifamily Segment

Net effective rents for all investment grade apartments in the Washington metro region decreased 1.8% in 2013, compared to a 1.7% increase in 2012. Class A rents decreased by 3.0% in 2013, compared to an increase of 1.9% in 2012.

The vacancy rate for all apartments was 4.9% at December 31, 2013, compared to 4.3% at December 31, 2012. The national rate was 4.3% at December 31, 2013. Class A vacancy increased to 4.7% at December 31, 2013 from 4.2% at December 31, 2012.

Our Portfolio

As of December 31, 2013, we owned a diversified portfolio of 56 properties, totaling approximately 7.4 million square feet of commercial space and 2,674 residential units, and land held for development. These 56 properties consist of 23 office properties, 5 medical office properties (which were subsequently sold on January 21, 2014), 16 retail centers and 12 multifamily properties. Our principal objective is to invest in high quality properties in prime locations, then proactively manage, lease and direct ongoing capital improvement programs to improve their economic performance. The percentage of total real estate rental revenue by property group for 2013, 2012 and 2011, and the percent leased as of December 31, 2013, were as follows:

Percent Leased		Real Estate Rental Revenue ⁽¹⁾			
December 31, 2013 ⁽²⁾		2013	2012	2011	
91%	Office	58	% 58	% 57	%
94%	Retail	21	% 21	% 21	%
93%	Multifamily	21	% 21	% 22	%
		100	% 100	% 100	%

⁽¹⁾ Data excludes discontinued operations - medical office and industrial segments.

⁽²⁾ Calculated as the percentage of physical net rentable area leased.

On a combined basis, our commercial portfolio (i.e., our office, medical office and retail properties, but not our multifamily properties) was 92% leased at December 31, 2013, 88% leased at December 31, 2012 and 91% leased at December 31, 2011.

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	
2014	138	824,668	\$25,915	12	%
2015	147	944,533	30,734	15	%
2016	124	798,793	23,338	11	%
2017	106	741,094	26,398	13	%
2018	108	666,054	16,536	8	%
2019 and thereafter	273	2,416,901	86,236	41	%
Total	896	6,392,043	\$209,157	100	%

Total real estate rental revenue from continuing operations was \$263.0 million for 2013, \$254.8 million for 2012 and \$234.7 million for 2011. During the three year period ended December 31, 2013, we acquired seven office properties, two retail properties and one multifamily property. During that same period, we sold eleven office properties, thirteen medical office properties and our entire industrial segment.

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 2013. 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 would seriously impact these sectors.

No single tenant accounted for more than 5.0% of real estate rental revenue in 2013, 2012 or 2011. All federal government tenants in the aggregate accounted for approximately 1.0% of our 2013 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, are as follows:

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

We expect to continue investing in additional income-producing properties through acquisitions, development and redevelopment. We invest in properties which we believe will increase in income and value. 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, 2013 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 26, 2014, we had 263 employees including 180 persons engaged in property management functions and 83 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 required to distribute 90% of our ordinary taxable income to our shareholders. When selling properties, we have the option of (a) reinvesting the sales proceeds of properties sold, allowing for a deferral of income taxes on the sale, (b) paying out capital gains to the shareholders with no tax to us or (c) treating the 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, 2013:

Property	Type	Rentable Square Feet	Contract Sales Price (in thousands)	Gain on Sale (in thousands)
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
Industrial Portfolio (2)	Industrial/Office	3,092,000	\$350,900	\$97,491
Dulles Station, Phase I	Office	180,000	58,800	—
	Total 2011	3,272,000	\$409,700	\$97,491

(1) Transaction 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). Subsequent to the end of 2013, we closed on Transactions III and IV, consisting of Woodburn Medical Park I and II and Prosperity Medical Center I, II and III.

(2) The Industrial Portfolio consisted of every property in our industrial segment and two office properties (the Crescent and Albemarle Point).

All disclosed gains on sale are calculated in accordance with U.S. generally accepted accounting principles (“GAAP”). We have identified a portion of the sold Medical Office Portfolio properties for tax deferred exchange under Section 1031 of the Internal Revenue Code. Section 1031 requires that we identify and close on the acquisition of replacement properties within limited time periods. We may not be able to identify and acquire appropriate replacement properties within the specified time periods. If we do not identify and acquire the replacement properties within the specified time periods, we would expect to recognize a taxable gain with respect to the sale of the Medical Office Portfolio. The amount of this taxable gain would depend upon the timing and size of the replacement property acquisitions and also our other results of operations, and it could be a material amount. If we recognize this taxable gain, we could be required to pay a significant portion of it as a special capital gain dividend to our shareholders or alternatively be subject to income taxes on the taxable gain.

We distributed all of our ordinary taxable income for the years ended December 31, 2013, 2012 and 2011 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 REIT 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

Edgar Filing: WASHINGTON REAL ESTATE INVESTMENT TRUST - Form 10-K

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.writ.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 WRIT 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 43.

Our performance and value are subject to risks associated with our real estate assets and with the real estate industry. 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;
- the financial health of our tenants and the ability to collect rents;
- consumer confidence, unemployment rates and consumer tastes and preferences;
- competition from similar asset type properties;
- 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;
- vacancies, changes in market rental rates and the need to periodically repair, renovate and re-let space;
- increased operating costs, including insurance premiums, utilities and real estate taxes;
- inflation;
- civil disturbances, earthquakes and other natural disasters, terrorist acts or acts of war; and
- decreases in the underlying value of our real estate.

We are dependent upon the economic climate of the Washington metropolitan region.

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. In the event of negative economic 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.

As a REIT operating exclusively in the Washington metro region, a significant portion of our properties is occupied by United States Government tenants or 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 the sequestration process, 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. 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 renewal. 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.

We currently have an active development project to build a mid-rise apartment building at 650 North Glebe Road in Arlington, Virginia, and an active redevelopment project to renovate 7900 Westpark Drive, an office building in McLean, 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 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

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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; and occupancy rates and rents at the completed property may not meet the expected levels and could be insufficient to make the property profitable.

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 be unable to finance acquisitions on favorable terms;
- the acquired properties may fail to perform as we expected in analyzing our investments;
- the actual returns realized on acquired properties may not exceed our average 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; and
- 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 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; and
- liabilities incurred in the ordinary course of business.

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.

Real estate investments can be difficult to sell and convert to cash quickly, especially if market conditions are not favorable, and we may find that to be the case under the current economic conditions due to limited credit availability for potential buyers. 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 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' consent. Due to these factors, we may be unable to sell a property at an advantageous time.

We may not timely reinvest the proceeds of the sale of our medical office portfolio in properties, which would adversely affect our results of operations and net income.

During 2013, we implemented a plan to sell our entire medical office portfolio and completed the final phase of this plan early in 2014. We may not be successful in reinvesting some or all of the proceeds of the sale of medical office portfolio in the near term. If we do not successfully reinvest the sales proceeds promptly in income-producing properties, the resulting decrease in our net income attributable to the controlling interests will not be completely offset by income from the temporary investment of the disposition proceeds. This decrease in net income would have a negative impact on our earnings to fixed charges and debt service coverage ratios and could have a negative impact on our ability to pay dividends at their current level. Even if we promptly reinvest some or all of the sales proceeds in income-producing properties, we still expect some decrease in net income attributable to the controlling interests in future quarters due to the cost of these acquisitions.

The sale of our medical office portfolio may require the payment of additional dividends or result in a tax liability for the taxable gains on the sold properties.

We have identified a portion of the sold Medical Office Portfolio properties for tax deferred exchange under Section 1031 of the Internal Revenue Code. Section 1031 requires that we identify and close on the acquisition of replacement properties within limited time periods. We may not be able to identify and acquire appropriate replacement properties within the specified time periods. If we do not identify and acquire the replacement properties within the specified time periods, we would expect to recognize a taxable gain with respect to the sale of the Medical Office Portfolio. The amount of this taxable gain would depend upon the timing and size of the replacement property acquisitions and also our other results of operations, and it could be a material amount. If we recognize this taxable gain, we could be required to pay a significant portion of it as a special capital gain dividend to our shareholders or alternatively be subject to income taxes on the taxable gain.

Funds used to pay capital gains to our shareholders or tax liabilities would not be available for reinvestment in properties, potentially decreasing our net income, negatively impacting our earnings to fixed charges and debt service coverage ratios and negatively impacting our ability to pay future dividends at their current level. Further, it is possible that the qualification of a transaction as a Section 1031 exchange could be successfully challenged and determined to be currently taxable. In this event, our taxable income would increase. This could require us to pay additional dividends or, in lieu of that, income taxes, possibly including interest and penalties.

We face potential difficulties or delays renewing leases or re-leasing space.

As of December 31, 2013, leases on our commercial properties classified as continuing operations will expire as follows:

	% of leased square footage
2014	12%
2015	15%
2016	11%
2017	13%
2018	8%
2019 and thereafter	41%
Total	100%

Multifamily properties are leased under operating leases with terms of generally one year or less. For the years ended December 31, 2013, 2012 and 2011, the multifamily tenant retention rate was 43%, 61% and 56%, 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. As a result of the foregoing, our cash flow could decrease and our ability to make distributions to our shareholders could be

adversely affected.

We face potential adverse effects from major tenants' bankruptcies or insolvencies.

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 from 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.

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. 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.

Our properties face significant competition.

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.

We are dependent on key personnel.

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.

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 further reduce our dividend, as we did in the third quarter of 2012. Our ability to continue to pay dividends on our common shares at its 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. As noted above, we reduced our dividend rate, 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.

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.

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

On February 26, 2014, our total consolidated debt was approximately \$1.1 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 \$24.86 per share of our common shares on February 26, 2014, multiplied by the number of our common shares, our consolidated debt to total consolidated market capitalization ratio was approximately 40% as of February 26, 2014.

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. 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 stocks 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.

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.

Rising interest rates would increase our interest costs.

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.

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. 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.

We face risks associated with short-term liquid investments.

We have significant cash balances periodically 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.

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.

Compliance or failure to comply with the Americans with Disabilities Act and other laws and regulations could result in substantial costs.

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.

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 2014. There are other types of losses, such as from wars or catastrophic events, for which we cannot obtain insurance at all or at

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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 December 26, 2007, the Terrorism Risk Insurance Program Reauthorization Act of 2007 was signed into law and extends the program through December 31, 2014. 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.

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. Potential liability for environmental contamination could result in substantial costs.

Under federal, state and local environmental laws, ordinances and regulations, we may be required to investigate and clean up the effects of releases of hazardous or toxic substances or petroleum products at our properties, regardless of our knowledge or responsibility, simply because of our current or past ownership or operation of the real estate. 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 involved in indoor air quality standards, especially with respect to asbestos, mold, medical waste and lead-based paint. The clean up of any environmental contamination, including asbestos and mold, can be costly. If environmental problems arise, we may have to make substantial payments which could adversely affect our financial condition and results of operations because:

- as owner or operator we may have to pay for property damage and for investigation and clean-up costs incurred in connection with the contamination;
- the law typically imposes clean-up responsibility and liability regardless of whether the owner or operator knew of or caused the contamination;
- even if more than one person may be responsible for the contamination, each person who shares legal liability under the environmental laws may be held responsible for all of the clean-up costs; and
- governmental entities and third parties may sue the owner or operator of a contaminated site for damages and costs.

These costs 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 create liens on contaminated sites in favor of the government for damages and costs it incurs in connection with a contamination.

Environmental laws also govern the presence, maintenance and removal of asbestos. Such laws require that owners or operators of buildings containing asbestos:

properly manage and maintain the asbestos;

notify and train those who may come into contact with asbestos; and

undertake special precautions, including removal or other abatement, if asbestos 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 associated with exposure to asbestos fibers.

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.

Breaches of data security could materially harm our business and reputation.

In the normal course of business we collect and retain certain personal information provided by our tenants and employees. While we employ a variety of data security measures to protect the confidentiality of this information and periodically review and improve our data security measures, we cannot assure that we will be able to prevent unauthorized access to this personal information. Any breach of our data security measures and loss of this personal information may result in legal liability and costs (including damages and penalties), as well as damage to our reputation, that could materially and adversely affect our business and financial performance.

Failure to qualify as a REIT would cause us to be taxed as a corporation, which would substantially reduce funds available for payment of dividends.

If we fail to qualify as a REIT for federal income tax purposes, we would be taxed as a corporation. We believe that we are organized and qualified as a REIT and intend 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 Internal Revenue Code as to which there are only limited judicial and administrative interpretations and involves the determination of facts 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 not be allowed a deduction for dividends paid to shareholders in computing our taxable income and could be subject to federal income tax at regular corporate rates;
- we also could be subject to the federal alternative minimum tax and possibly increased state and local taxes;
- 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; and
- all dividends would be subject to tax as ordinary income to the extent of our current and accumulated earnings and profits potentially eligible as “qualified dividends” subject to the applicable income tax rate.

In addition, if we fail to qualify as a REIT, we would no longer be required to pay dividends. 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.

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;
- 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;
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.

Provisions of the Maryland General Corporation Law may limit a change in control.

There are several provisions of the Maryland General Corporation Law, or the MGCL, that may limit the ability of a third party to undertake a change in control, including:

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.

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 WRIT. 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 WRIT.

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, 2013, which consisted of 56 properties and land held for development. On January 21, 2014, we sold the five remaining medical office properties, Woodburn Medical Park I and II and Prosperity Medical Center I, II and III.

As of December 31, 2013, the percent leased is 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.

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, 2013	
Office Buildings						
1901 Pennsylvania Avenue	Washington, D.C.	1977	1960	101,000	92	%
51 Monroe Street	Rockville, MD	1979	1975	222,000	95	%
515 King Street	Alexandria, VA	1992	1966	75,000	96	%
6110 Executive Boulevard	Rockville, MD	1995	1971	203,000	82	%
1220 19 th Street	Washington, D.C.	1995	1976	104,000	90	%
1600 Wilson Boulevard	Arlington, VA	1997	1973	168,000	84	%
7900 Westpark Drive	McLean, VA	1997	1972/1986/1999	530,000	80	%
600 Jefferson Plaza	Rockville, MD	1999	1985	113,000	84	%
Wayne Plaza	Silver Spring, MD	2000	1970	96,000	87	%
Courthouse Square	Alexandria, VA	2000	1979	115,000	97	%
One Central Plaza	Rockville, MD	2001	1974	267,000	93	%
1776 G Street	Washington, D.C.	2003	1979	263,000	100	%
West Gude Drive	Rockville, MD	2006	1984/1986/1988	277,000	83	%
Monument II	Herndon, VA	2007	2000	207,000	87	%
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	134,000	93	%
1000 Corporate Drive	Stafford, VA	2010	2009	136,000	100	%
1140 Connecticut Avenue	Washington, D.C.	2011	1966	184,000	93	%
1227 25 th Street	Washington, D.C.	2011	1988	132,000	92	%
Braddock Metro Center	Alexandria, VA	2011	1985	345,000	96	%
John Marshall II	Tysons Corner, VA	2011	1996/2010	223,000	100	%
Fairgate at Ballston	Arlington, VA	2012	1988	142,000	74	%
Subtotal				4,557,000	91	%
Medical Office Buildings						
Woodburn Medical Park I	Annandale, VA	1998	1984	77,000	96	%

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Woodburn Medical Park II	Annandale, VA	1998	1988	97,000	90	%
Prosperity Medical Center I	Merrifield, VA	2003	2000	91,000	76	%
Prosperity Medical Center II	Merrifield, VA	2003	2001	87,000	100	%
Prosperity Medical Center III	Merrifield, VA	2003	2002	75,000	84	%
Subtotal				427,000	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, 2013	
Retail Centers							
Takoma Park	Takoma Park, MD	1963	1962		51,000	100	%
Westminster	Westminster, MD	1972	1969		150,000	97	%
Concord Centre	Springfield, VA	1973	1960		76,000	55	%
Wheaton Park	Wheaton, MD	1977	1967		74,000	98	%
Bradlee Shopping Center	Alexandria, VA	1984	1955		168,000	95	%
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	94	%
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	94	%
Gateway Overlook	Columbia, MD	2010	2007		223,000	100	%
Olney Village Center	Olney, MD	2011	1979/2003		199,000	98	%
Subtotal					2,449,000	94	%
Multifamily Buildings							
3801 Connecticut Avenue	Washington, D.C.	1963	1951	307	179,000	86	%
Roosevelt Towers	Falls Church, VA	1965	1964	191	170,000	96	%
Country Club Towers	Arlington, VA	1969	1965	227	159,000	96	%
Park Adams	Arlington, VA	1969	1959	200	173,000	95	%
Munson Hill Towers	Falls Church, VA	1970	1963	279	258,000	96	%
The Ashby at McLean	McLean, VA	1996	1982	256	274,000	96	%
Walker House Apartments	Gaithersburg, MD	1996	1971/2003	212	157,000	97	%
Bethesda Hill Apartments	Bethesda, MD	1997	1986	195	225,000	96	%

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Bennett Park	Arlington, VA	2007	2007	224	214,000	94	%
Clayborne	Alexandria, VA	2008	2008	74	60,000	97	%
Kenmore	Washington, D.C.	2008	1948	374	268,000	88	%
The Paramount	Arlington, VA	2013	1984	135	141,000	90	%
Subtotal				2,674	2,278,000	93	%
TOTAL					9,711,000		

(1) Multifamily buildings are presented in gross square feet.

ITEM 3: LEGAL PROCEEDINGS

None.

ITEM 4: MINE SAFTEY 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 26, 2014, there are 4,749 shareholders of record. The high and low sales price for our shares for 2013 and 2012, by quarter, and the amount of dividends we paid per share are as follows:

Quarter		Dividends Per Share	Quarterly Share Price Range	
			High	Low
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
2012				
	Fourth	0.30000	\$27.19	\$24.28
	Third	0.30000	\$29.09	\$25.59
	Second	0.43375	\$30.50	\$26.87
	First	0.43375	\$31.00	\$27.01

We have historically paid dividends on a quarterly basis.

During the period covered by this report, we did not sell equity securities without registration under the Securities Act. Neither we nor any affiliated purchaser (as that term is defined in Securities Exchange Act Rule 10b-18(a) (3)) made any repurchases of our shares during the fourth quarter of the fiscal year covered by this report.

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.

	2013	2012	2011	2010	2009
	(in thousands, except per share data)				
Real estate rental revenue	\$263,024	\$254,794	\$234,733	\$204,219	\$201,889
(Loss) income from continuing operations	\$(193)	\$7,768	\$(14,389)	\$(10,874)	\$(1,768)
Discontinued operations:					
Income from operations of properties sold or held for sale	\$15,395	\$10,816	\$23,414	\$26,834	\$29,368
Gain on sale of real estate	\$22,144	\$5,124	\$97,491	\$21,599	\$13,348
Net income	\$37,346	\$23,708	\$105,378	\$37,559	\$40,948
Net income attributable to the controlling interests	\$37,346	\$23,708	\$104,884	\$37,426	\$40,745
Income (loss) from continuing operations attributable to the controlling interests per share – diluted	\$—	\$0.11	\$(0.22)	\$(0.17)	\$(0.03)
Net income attributable to the controlling interests per share – diluted	\$0.55	\$0.35	\$1.58	\$0.60	\$0.71
Total assets	\$1,975,493	\$2,124,376	\$2,120,758	\$2,167,881	\$2,045,225
Lines of credit payable	\$—	\$—	\$99,000	\$100,000	\$128,000
Mortgage notes payable	\$294,671	\$319,025	\$342,989	\$265,757	\$266,225
Notes payable	\$846,703	\$906,190	\$657,470	\$753,587	\$688,912
Shareholders' equity	\$754,959	\$792,057	\$859,044	\$857,080	\$745,255
Cash dividends paid	\$80,104	\$97,734	\$115,045	\$108,949	\$100,221
Cash dividends declared and paid per share	\$1.20	\$1.47	\$1.74	\$1.73	\$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 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 2013 to 2012 and comparing 2012 to 2011.

• **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

Our revenues are derived primarily from the ownership and operation of income-producing properties in the greater Washington metro region. As of December 31, 2013, we owned a diversified portfolio of 56 properties, totaling approximately 7.4 million square feet of commercial space and 2,674 multifamily units, and land held for development. These 56 properties consisted of 23 office properties, 5 medical office properties (which were subsequently sold on January 21, 2014), 16 retail centers and 12 multifamily properties.

We have a fundamental strategy of regional focus and diversification by property type. In recent years, we have sought to upgrade our portfolio by selling properties that do not fit our current strategy (as described above at "Item 1: Business - WRIT Overview"), and acquiring or developing higher quality and better-located properties that we believe are consistent with such strategy. 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.

Operating Results

Real estate rental revenue, NOI, net income attributable to the controlling interests and FFO for the years ended December 31, 2013 and 2012 were as follows (in thousands):

	Year Ended December 31,		Change
	2013	2012	
Real estate rental revenue	\$263,024	\$254,794	\$8,230
NOI ⁽¹⁾	\$169,731	\$168,249	\$1,482
Net income attributable to the controlling interests	\$37,346	\$23,708	\$13,638
FFO ⁽²⁾	\$113,103	\$122,518	\$(9,415)

⁽¹⁾ See pages 30 and 34 of the MD&A for reconciliations of NOI to net income.

⁽²⁾ See page 44 of the MD&A for reconciliations of FFO to net income.

NOI increased by \$1.5 million primarily due to acquisitions. NOI from same-store properties decreased by \$0.1 million, as lower occupancy and higher operating expenses were partially offset by higher rental rates. The lower occupancy reflects continuing challenges in leasing vacant space.

The \$9.4 million decrease in FFO primarily reflects higher interest expense, general and administrative expenses (including \$0.8 million related to the officer three-year long-term incentive plan), acquisition costs and a \$2.7 million loss on extinguishment of debt related to the disposition of our medical office segment. In addition, we incurred severance expenses related to the Medical Office Portfolio sale and the retirement of our prior Chief Executive Officer.

We anticipate continued challenges in leasing vacant space during 2014. 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.

The performance of our three operating segments and the market conditions in our region are discussed in greater detail below (industry data is as reported by Delta):

The region's office market was very challenging during 2013, as average effective rents decreased by 2.9% in 2013, after also decreasing by 2.9% in 2012. Net absorption (defined as the change in occupied, standing inventory from one year to the next) improved to a positive 1.8 million square feet in 2013 from a negative 2.9 million square feet in 2012, but remained well below the 15-year average of 5.3 million square feet. Overall vacancy remained steady at 13.4%. Vacancy in the submarkets was 15.8% for Northern Virginia, 14.5% for Suburban Maryland and 9.3% in the District of Columbia. Delta expects improvement in the region's office occupancy and rental rates to remain slow during 2014 due to fiscal austerity by the federal government and densification of office space in the private sector. Our office segment was 90.6% leased at December 31, 2013, an increase from 86.5% leased at December 31, 2012, primarily due to improved leasing activity in the District of Columbia. By submarket, our office segment was 88.6% leased in Northern Virginia, 92.0% leased in Suburban Maryland and 96.8% leased in the District of Columbia at December 31, 2013.

The region's retail market grew slowly in 2013, with rental rates at grocery-anchored centers increasing by 2.2%, as compared to a 1.4% increase in 2012. Vacancy rates decreased to 4.7% from 4.9% in 2012. Our retail segment was 94.0% leased at December 31, 2013, up from 92.2% at December 31, 2012.

The region's multifamily market showed the effects of increased supply, as the Washington metro region had 62 Class A projects in active lease-up at the end of 2013, as compared to 33 at the end of 2012. Net effective rents for investment grade apartments in the region decreased 1.8% in 2013, compared to a 1.7% increase in 2012. The region's vacancy rate for investment grade apartments increased to 4.9%, up from 4.3% one year ago. Our multifamily segment was 93.3% leased at December 31, 2013, down from 95.7% at December 31, 2012.

Investment Activity

In September 2013, we entered into four separate purchase and sale agreements to effectuate the sale of the Medical Office Portfolio, which consisted of our entire medical office segment (including land held for development at 4661 Kenmore Avenue) and two office buildings (Woodholme Center and 6565 Arlington Boulevard), for an aggregate purchase price of \$500.8 million. The dispositions consisted of four independent transactions, each of which closed pursuant to a separate purchase and sale agreement. Purchase and Sale Agreements #1 and #2 closed in November 2013 and Purchase and Sale Agreements #3 and #4 closed in January 2014.

We may not be successful in reinvesting some or all of the proceeds of the sale of medical office portfolio in the near term. If we do not successfully reinvest the sales proceeds promptly in income producing properties, the resulting decrease in our net income attributable to the controlling interests will not be completely offset by income from the temporary investment of the disposition proceeds. This decrease in net income attributable to the controlling interests would have a negative impact on our earnings to fixed charges and debt service coverage ratios and could have a negative impact on our ability to pay dividends at their current level. Even if we promptly reinvest some or all of the sales proceeds in income producing properties, we still expect some decrease in net income attributable to the controlling interests in future quarters due to the cost of these acquisitions.

We have identified a portion of the sold Medical Office Portfolio properties for tax deferred exchange under Section 1031 of the Internal Revenue Code. Section 1031 requires that we identify and close on the acquisition of replacement properties within limited time periods. We may not be able to identify and acquire appropriate replacement properties within the specified time periods. If we do not identify and acquire the replacement properties within the specified time periods, we would expect to recognize a taxable gain with respect to the sale of the Medical Office Portfolio. The amount of this taxable gain would depend upon the timing and size of the replacement property acquisitions and also our other results of operations, and it could be a material amount. If we recognize this taxable gain, we could be required to pay a significant portion of it as a special capital gain dividend to our shareholders or alternatively be subject to income taxes on the taxable gain.

We acquired one multifamily building in Arlington, Virginia. This transaction was consistent with our current strategy of focusing on properties inside the Washington metro region's Beltway, near major transportation nodes and in areas with strong employment drivers and superior growth demographics.

Capital Requirements

With proceeds from the sale of our medical office segment, we extinguished three mortgage notes secured by medical office properties and paid down our unsecured lines of credit. In January 2014, we extinguished the remaining \$100.0 million of our 5.25% unsecured notes on their maturity date. We do not have any remaining debt maturities in 2014.

Significant Transactions

We summarize below our significant transactions during the two years ended December 31, 2013:

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.

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 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.

2012

The disposition of Plumtree Medical Center, a 33,000 square foot medical office building, for a contract sales price of \$8.8 million, generating a gain on sale of \$1.4 million.

The issuance of \$300.0 million of 3.95% unsecured notes due October 15, 2022, with net proceeds of \$296.4 million. The notes bear an effective interest rate of 4.018%.

The disposition of 1700 Research Boulevard, a 101,000 square foot office building, for a contract sales price of \$14.3 million, generating a gain on sale of \$3.7 million.

The acquisition of an office building, Fairgate at Ballston, for \$52.3 million, adding approximately 142,000 square feet. We incurred \$0.2 million in acquisition costs related to this transaction.

The execution of an amended and restated credit agreement for our Credit Facility No. 1 to expand the facility from \$75.0 million to \$100.0 million, with an accordion feature that allows us to increase the facility to \$200.0 million, subject to additional lender commitments. The amended and restated facility matures June 2015, with a one-year extension at WRIT's option, and bears interest at a rate of LIBOR plus a margin of 120 basis points.

The execution of an amended and restated credit agreement for Credit Facility No. 2, our \$400.0 million unsecured line of credit, to extend the maturity date of the facility to July 2016, with a one-year extension option, and lower the interest rate to LIBOR plus a margin of 120 basis points.

The execution of new leases for 0.7 million square feet of commercial space, excluding properties classified as sold or held for sale, with an average rental rate increase of 12.8% 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 accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. 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 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 and held for sale, 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.

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 over the performance period 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 REIT 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. 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 (see note 3 to the consolidated financial statements). The impairment charge created a deferred tax asset of \$5.7 million at this TRS, 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, 2013, 2012 and 2011. The ability to compare one period to another is significantly affected by acquisitions completed and dispositions made during those years.

Properties we acquired during the three years ended December 31, 2013 were as follows:

Acquisition Date	Property	Type	Rentable Square Feet	Contract Purchase Price (in thousands)
October 1, 2013	The Paramount (135 units)	Multifamily	N/A	\$48,200
		Total 2013		\$48,200
June 21, 2012	Fairgate at Ballston	Office	142,000	\$52,250
		Total 2012	142,000	\$52,250
January 11, 2011	1140 Connecticut Ave	Office	188,000	\$80,250
March 30, 2011	1127 25th St	Office	132,000	47,000
June 15, 2011	650 North Glebe Road	Land	N/A	11,800
August 30, 2011	Olney Village	Retail	198,000	58,000
September 13, 2011	Braddock Metro	Office	351,000	101,000
September 15, 2011	John Marshall II	Office	223,000	73,500
November 23, 2011	1225 First Street	Land	N/A	13,850
		Total 2011	1,092,000	\$385,400

Properties we sold or classified as held for sale during the three years ended December 31, 2013 were as follows:

Property	Type	Rentable Square Feet	Contract Sales Price (in thousands)
Atrium Building	Office	79,000	\$15,750
Medical Office Portfolio ⁽¹⁾	Medical Office/Office	1,520,000	500,750
		1,599,000	\$516,500
1700 Research Boulevard	Office	101,000	\$14,250
Plumtree Medical Center	Medical Office	33,000	8,750
	Total 2012	134,000	\$23,000
Dulles Station, Phase I	Office	180,000	\$58,800
Industrial Portfolio ⁽²⁾	Industrial/Office	3,092,000	350,900
	Total 2011	3,272,000	\$409,700

The Medical Office Portfolio consists of every property in our medical office segment (including land held for development at 4661 Kenmore Avenue) and two office properties (Woodholme Center and 6565 Arlington Boulevard). In November 2013, we closed on the sale of the two office properties (6565 Arlington Boulevard and Woodholme Center), 2440 M Street, Alexandria Professional Center, 8301 Arlington Boulevard, Ashburn Farm Office Park I, II and III, CetreMed I and II, Sterling Medical Office Building, 19500 at Riverside Office Park, Shady Grove Medical Village II, 9707 Medical Center Drive, 15001 Shady Grove Road and 15005 Shady Grove Road, Woodholme Medical Office Building and 4661 Kenmore Avenue. In January 2014, we closed on the sale of Woodburn Medical Park I and II and Prosperity Medical Center I, II and III.

⁽²⁾ The Industrial Portfolio consists of every property in our industrial segment and two office properties (the Crescent and Albemarle Point).

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

Consolidated Results of Operations (page 28). An overview analysis of results on a consolidated basis; and

Net Operating Income (page 32). 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, 2013 was as follows (in thousands, except percentage amounts):

	Year Ended December 31,			2013 vs 2012	%	2012 vs 2011	%		%
	2013	2012	2011						
Minimum base rent	\$226,839	\$221,764	\$206,545	\$5,075	2.3	% \$15,219	7.4		%
Recoveries from tenants	26,822	25,528	21,877	1,294	5.1	% 3,651	16.7		%
Provision for doubtful accounts	(3,605)	(4,779)	(3,927)	1,174	(24.6)	% (852)	21.7		%
Lease termination fees	643	680	367	(37)	(5.4)	% 313	85.3		%
Parking and other tenant charges	12,325	11,601	9,871	724	6.2	% 1,730	17.5		%
	\$263,024	\$254,794	\$234,733	\$8,230	3.2	% \$20,061	8.5		%

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

Minimum base rent increased by \$15.2 million in 2012 primarily due to acquisitions (\$16.0 million). Minimum base rent from same-store properties decreased by \$0.8 million primarily due lower occupancy (\$3.0 million), lower amortization of net lease intangible liabilities (\$0.4 million) and higher rent abatements (\$0.3 million), partially offset by higher rental rates (\$3.2 million).

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

Recoveries from tenants increased by \$3.7 million in 2012 primarily due to acquisitions (\$2.8 million), and higher real estate tax recoveries from same-store properties (\$0.9 million) due to higher property tax assessments across the portfolio.

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

Provision for doubtful accounts increased by \$0.9 million in 2012 due to higher provisions in the retail (\$0.5 million) and office (\$0.4 million) segments.

Lease Termination Fees: 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).

Lease termination fees increased by \$0.3 million in 2012 primarily due to higher fees in the office segment.

Parking and Other Tenant Charges: 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).

Parking and other tenant charges increased by \$1.7 million in 2012 primarily due to acquisitions (\$0.9 million), and increases in parking income (\$0.3 million) and short-term tenant rent (\$0.3 million) from same-store properties.

Occupancy for properties classified as continuing operations by segment for the three years ended December 31, 2013 was as follows:

Segment	December 31,			2013 vs 2012		2012 vs 2011	
	2013	2012	2011				
Office	85.7	% 85.2	% 89.6	% 0.5	% (4.4)%	
Retail	91.3	% 91.2	% 93.3	% 0.1	% (2.1)%	
Multifamily	92.1	% 94.1	% 94.9	% (2.0	)%	(0.8)%
Total	88.8	% 88.9	% 91.9	% (0.1	)%	(3.0)%

Occupancy represents occupied square footage indicated as a percentage of total square footage as of the last day of that period.

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.

Our overall occupancy decreased to 88.9% in 2012 from 91.9% in 2011, with the largest declines 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, 2013 were as follows (in thousands except percentage amounts):

	Year Ended December 31,			2013 vs		2012 vs			
	2013	2012	2011	2012	% Change	2011	% Change		
Property operating expenses	\$64,241	\$59,481	\$56,721	\$4,760	8.0	% \$2,760	4.9	%	
Real estate taxes	29,052	27,064	22,903	1,988	7.3	% 4,161	18.2	%	
	\$93,293	\$86,545	\$79,624	\$6,748	7.8	% \$6,921	8.7	%	

Real estate expenses as a percentage of revenue were 35.5%, 34.0% and 33.9% for the three years ended December 31, 2013, 2012 and 2011, 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 \$4.8 million in 2013 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.

Property operating expenses increased by \$2.8 million in 2012 primarily due to acquisitions (\$4.5 million), partially offset by property operating expenses from same-store properties, which decreased by \$1.7 million primarily due to lower utilities expense (\$1.1 million) caused by lower electricity and gas rates and to higher recoveries of bad debt (\$0.6 million).

Real Estate Taxes: 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.

Real estate taxes increased by \$4.2 million in 2012 due to acquisitions (\$2.4 million) and higher real estate taxes at same-store properties (\$1.8 million) due to higher property assessments.

Other Operating Expenses

Other operating expenses for the three years ended December 31, 2013 were as follows (in thousands, except percentage amounts):

	Year Ended December 31,			2013 vs 2012	%	2012 vs 2011	%		
	2013	2012	2011					Change	Change
Depreciation and amortization	\$85,740	\$85,107	\$74,403	\$633	0.7	% \$10,704	14.4	%	
Acquisition costs	1,265	234	3,607	1,031	440.6	% (3,373)	(93.5)%	
Interest expense	63,573	60,627	61,402	2,946	4.9	% (775)	(1.3)%	
General and administrative	17,535	15,488	15,728	2,047	13.2	% (240)	(1.5)%	
	\$168,113	\$161,456	\$155,140	\$6,657	4.1	% \$6,316	4.1	%	

Depreciation and Amortization: Depreciation and amortization expense increased by \$0.6 million in 2013 primarily due to operating properties acquired and placed into service of \$48.2 million and \$52.3 million in 2013 and 2012, respectively.

Depreciation and amortization expense increased by \$10.7 million in 2012 primarily due to operating properties acquired and placed into service of \$52.3 million and \$385.4 million in 2012 and 2011, respectively.

Acquisition Costs: 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.

Acquisition costs decreased by \$3.4 million in 2012 primarily due to a lower volume of acquisitions in 2012 than in 2011.

Interest Expense: Interest expense by debt type for the three years ended December 31, 2013 was as follows (in thousands, except percentage amounts):

Debt Type	Year Ended December 31,			2013 vs 2012	%	2012 vs 2011	%		
	2013	2012	2011					Change	Change
Notes payable	\$43,174	\$37,982	\$38,918	\$5,192	13.7	% \$(936)	(2.4)%	
Mortgage notes payable	18,378	20,847	18,434	(2,469)	(11.8	)%	2,413	13.1	%
Lines of credit	3,257	3,486	4,788	(229)	(6.6	)%	(1,302)	(27.2)%
Capitalized interest	(1,236)	(1,688)	(738)	452	(26.8	)%	(950)	128.7	%
Total	\$63,573	\$60,627	\$61,402	\$2,946	4.9	% \$(775)	(1.3)%	

The \$5.2 million increase in notes payable interest during 2013 is due to the 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 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 2013 is attributable to lower average borrowings outstanding during 2013. Capitalized interest decreased by \$0.5 million during 2013 due to placing the development project at 1225 First Street on hold.

The \$0.9 million decrease in notes payable interest during 2012 is due to the repayment of our 5.95% senior notes during 2011 and our 5.05% senior notes during 2012, partially offset by the issuance of our 3.95% senior notes in 2012. The \$2.4 million increase in mortgage interest expense is due to the assumption of mortgage notes with the acquisitions of Olney Village Center and John Marshall II in 2011, partially offset by the repayments of several mortgage notes during 2012. The \$1.3 million decrease in interest expense on our unsecured lines of credit is attributable to lower average borrowings outstanding during 2012. Capitalized interest increased by \$1.0 million during 2012 due to expenditures on our two multifamily development projects at 650 North Glebe Road and 1225 First Street.

General and Administrative Expense: 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.

General and administrative expense decreased by \$0.2 million in 2012 primarily due to lower incentive compensation expense, partially offset by severance costs.

Real Estate Impairment

Dulles Station, Phase II consists of undeveloped land in Herndon, Virginia and a half interest in a parking garage that is adjacent to this land. The land is zoned for development as an office building. In connection with the preparation of financial statements

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for the 2011 Annual Report on Form 10-K, we reviewed changes in market conditions, specifically higher vacancy and lower rental rates in the Washington metro region office market and other circumstances affecting the Herndon submarket, such as the increased uncertainty surrounding the timing of the completion of the second phase of the Dulles Metrorail project, and reassessed the likelihood that we would follow through on these development plans. Based upon the foregoing review and assessment, we determined that the development of the land at Dulles Station, Phase II is not probable under those market conditions. Due to this determination, we recognized a \$14.5 million impairment charge during the fourth quarter of 2011 in order to reduce the carrying value of the land and garage at Dulles Station, Phase II to its fair value of \$12.1 million.

Discontinued Operations

Income from operations of properties sold or held for sale for the three years ended December 31, 2013 were as follows (in thousands, except for percentages):

	Year Ended December 31,			2013 vs 2012	%	2012 vs 2011	%
	2013	2012	2011				
Revenues	\$45,791	\$54,344	\$80,948	\$(8,553)	(15.7)%	\$(26,604)	(32.9)%
Property expenses	(17,039)	(18,273)	(25,265)	1,234	(6.8)%	6,992	(27.7)%
Real estate impairment	—	(2,097)	(599)	2,097	(100.0)%	(1,498)	250.1%
Depreciation and amortization	(12,161)	(18,827)	(26,125)	6,666	(35.4)%	7,298	(27.9)%
Interest expense	(1,196)	(4,331)	(5,545)	3,135	(72.4)%	1,214	(21.9)%
Total	\$15,395	\$10,816	\$23,414	\$4,579	42.3%	\$(12,598)	(53.8)%

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 Portfolio being accounted for as discontinued operations.

Income from operations of properties sold or held for sale decreased by \$12.6 million for the year ended December 31, 2012 primarily due to the sale of the Industrial Portfolio during the fourth quarter of 2011.

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.

We recognized a \$0.6 million impairment charge for Dulles Station, Phase I during the first quarter of 2011 to reflect the property's fair value less selling costs based on its contract sales price.

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.

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,		\$ Change	% Change	
	2013	2012			
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 – 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,		
	2013	2012	
Occupancy			
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 7900 Westpark Drive. 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 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 – 7900 Westpark Drive

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,		
	2013	2012	
Occupancy			
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 7900 Westpark Drive, 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 2012, excluding properties sold or classified as held for sale. During 2013, we executed new 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,		\$ Change	% Change	
	2013	2012			
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 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,		\$ Change	% Change	
	2013	2012			
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:

2013 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,		
	2013	2012	
Occupancy			
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.

2012 Compared to 2011

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 2012 compared to 2011. All amounts are in thousands except percentage amounts.

	Year Ended December 31,		\$ Change	% Change	
	2012	2011			
Real Estate Rental Revenue					
Same-store	\$216,095	\$215,957	\$138	0.1	%
Non-same-store ⁽¹⁾	38,699	18,776	19,923	106.1	%
Total real estate rental revenue	\$254,794	\$234,733	\$20,061	8.5	%
Real Estate Expenses					
Same-store	\$72,560	\$72,473	\$87	0.1	%
Non-same-store ⁽¹⁾	13,985	7,151	6,834	95.6	%
Total real estate expenses	\$86,545	\$79,624	\$6,921	8.7	%
NOI					
Same-store	\$143,535	\$143,484	\$51	—	%
Non-same-store ⁽¹⁾	24,714	11,625	13,089	112.6	%
Total NOI	\$168,249	\$155,109	\$13,140	8.5	%
Reconciliation to Net Income					
NOI	\$168,249	\$155,109			
Depreciation and amortization	(85,107)	(74,403))		
General and administrative expenses	(15,488)	(15,728))		
Real estate impairment	—	(14,526))		
Acquisition costs	(234)	(3,607))		
Interest expense	(60,627)	(61,402))		
Other income	975	1,144)		
Loss on extinguishment of debt	—	(976))		
Discontinued operations ⁽²⁾ :					
Income from properties sold or held for sale	10,816	23,414)		
Gain on sale of real estate	5,124	97,491)		
Income tax expense	—	(1,138))		
Net income	23,708	105,378)		
Less: Net income attributable to noncontrolling interests	—	(494))		
Net income attributable to the controlling interests	\$23,708	\$104,884			

⁽¹⁾ Non-same-store properties include:

2012 Office acquisition – Fairgate at Ballston

2011 Office acquisitions – 1140 Connecticut Avenue, 1227 2nd Street, Braddock Metro Center and John Marshall II

2011 Retail acquisition – Olney Village Center

⁽²⁾ Discontinued operations include gain on disposals and income from operations for:

2013 held for sale and sold – Atrium Building and Medical Office Portfolio

2012 dispositions – Plumtree Medical Center and 1700 Research Boulevard

2011 dispositions – Dulles Station, Phase I and the Industrial Portfolio

Real estate rental revenue from same-store properties increased by \$0.1 million in 2012 primarily due to higher rental rates (\$3.2 million) and reimbursements for real estate taxes (\$0.9 million), partially offset by lower occupancy (\$3.0

million) and higher reserves for uncollectible revenue (\$0.8 million).

Real estate expenses from same-store properties increased by \$0.1 million in 2012 primarily due to higher real estate taxes (\$1.8 million) due to higher assessments across the portfolio, partially offset by lower utilities expenses (\$1.1 million) caused by lower rates and usage and lower legal expenses (\$0.5 million).

	December 31,			
	2012	2011		
Occupancy				
Same-store	89.6	% 91.8		%
Non-same-store	84.5	% 92.3		%
Total	88.9	% 91.9		%

Same-store occupancy decreased to 89.6% in 2012 from 91.8% in 2011, with the largest decrease in the office segment. Non-same-store occupancy increased to 84.5% in 2012 from 92.3% in 2011, driven by lower occupancy at Braddock Metro Center and Olney Village Center. During 2012, 58.3% of the commercial square footage expiring was renewed as compared to 58.5% in 2011, excluding properties sold or classified as held for sale. During 2012, we executed new leases (excluding properties classified as sold or held for sale) for 0.7 million commercial square feet at an average rental rate of \$32.08 per square foot, an increase of 12.8%, with average tenant improvements and leasing commissions and incentives (including free rent) of \$32.75 per square foot.

An analysis of NOI by segment follows.

Office Segment:

	Year Ended December 31,		\$ Change	% Change	
	2012	2011			
Real Estate Rental Revenue					
Same-store	\$ 113,892	\$ 116,449	\$(2,557)	(2.2))%
Non-same-store ⁽¹⁾	33,509	16,884	16,625	98.5	%
Total real estate rental revenue	\$ 147,401	\$ 133,333	\$ 14,068	10.6	%
Real Estate Expenses					
Same-store	\$ 40,583	\$ 38,991	\$ 1,592	4.1	%
Non-same-store ⁽¹⁾	12,793	6,643	6,150	92.6	%
Total real estate expenses	\$ 53,376	\$ 45,634	\$ 7,742	17.0	%
NOI					
Same-store	\$ 73,309	\$ 77,458	\$(4,149)	(5.4))%
Non-same-store ⁽¹⁾	20,716	10,241	10,475	102.3	%
Total NOI	\$ 94,025	\$ 87,699	\$ 6,326	7.2	%

⁽¹⁾ Non-same-store properties include:

2012 acquisition – Fairgate at Ballston

2011 acquisitions – 1140 Connecticut Avenue, 1227 2nd Street, Braddock Metro Center and John Marshall II

Real estate rental revenue from same-store properties decreased by \$2.6 million in 2012 primarily due to lower occupancy (\$3.2 million), higher reserves for uncollectible revenue (\$0.4 million) and higher rent abatements (\$0.3 million), partially offset by higher rental rates (\$1.0 million) and parking income (\$0.4 million).

Real estate expenses from same-store properties increased by \$1.6 million in 2012 primarily due to higher real estate taxes (\$1.2 million) and lower recoveries of uncollectible receivables (\$0.4 million).

	December 31,			
	2012	2011		
Occupancy				
Same-store	85.9	% 89.4		%
Non-same-store	82.7	% 90.5		%
Total	85.2	% 89.6		%

Same-store occupancy decreased to 85.9% in 2012 from 89.4% in 2011, primarily due to lower occupancy at 7900 Westpark Drive and 6110 Executive Boulevard. During 2012, 50.4% of the square footage that expired was renewed compared to 47.4% in 2011, excluding properties sold or classified as held for sale. During 2012, we executed new leases (excluding properties classified as sold or held for sale) for 0.5 million square feet of office space at an average rental rate of \$35.50 per square foot, an increase of 13.9%, with average tenant improvements and leasing

commissions and incentives (including free rent) of \$42.41 per square foot.

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Retail Segment:

	Year Ended December 31,		\$ Change	% Change	
	2012	2011			
Real Estate Rental Revenue					
Same-store	\$49,316	\$48,529	\$787	1.6	%
Non-same-store ⁽¹⁾	5,190	1,892	3,298	174.3	%
Total real estate rental revenue	\$54,506	\$50,421	\$4,085	8.1	%
Real Estate Expenses					
Same-store	\$11,510	\$13,765	\$(2,255)	(16.4)	%
Non-same-store ⁽¹⁾	1,192	508	684	134.6	%
Total real estate expenses	\$12,702	\$14,273	\$(1,571)	(11.0)	%
NOI					
Same-store	\$37,806	\$34,764	\$3,042	8.8	%
Non-same-store ⁽¹⁾	3,998	1,384	2,614	188.9	%
Total NOI	\$41,804	\$36,148	\$5,656	15.6	%

⁽¹⁾ Non-same-store properties include:

2011 acquisition – Olney Village Center

Real estate rental revenue from same-store properties increased by \$0.8 million in 2012 primarily due to higher occupancy (\$0.6 million) and higher recoveries from tenants (\$0.5 million), partially offset by higher reserves for uncollectible revenue (\$0.4 million).

Real estate expenses from same-store properties decreased by \$2.3 million in 2012 due to lower bad debt (\$1.1 million), legal (\$0.5 million) and snow removal (\$0.3 million) expenses.

	December 31,		% Change	
	2012	2011		
Occupancy				
Same-store	91.0	% 92.7		%
Non-same-store	94.0	% 100.0		%
Total	91.2	% 93.3		%

Same-store occupancy decreased to 91.0% in 2012 from 92.7% in 2011, driven by lower occupancy at Concord Centre and Randolph Shopping Center, partially offset by higher occupancy at Frederick Crossing. Non-same-store occupancy decreased to 94.0% from 100.0% due to lower occupancy at Olney Village Center. During 2012, 75.7% of the square footage that expired was renewed compared to 87.8% in 2011. During 2012, we executed new leases for 0.2 million square feet of retail space at an average rental rate of \$23.99, an increase of 8.9%, with average tenant improvements and leasing commissions and incentives (including free rent) of \$9.71 per square foot.

Multifamily Segment:

	Year Ended December 31,		\$ Change	% Change	
	2012	2011			
Real Estate Rental Revenue	\$52,887	\$50,979	\$1,908	3.7	%
Real Estate Expenses	20,467	19,717	750	3.8	%
NOI	\$32,420	\$31,262	\$1,158	3.7	%

Real estate rental revenue increased by \$1.9 million in 2012 primarily due to higher rental rates.

Real estate expenses increased by \$0.8 million in 2012 primarily due to higher real estate taxes.

Occupancy decreased to 94.1% in 2012 from 94.9% in 2011, driven by lower occupancy at 3801 Connecticut Avenue, Walker House Apartments and Munson Hill Towers, partially offset by higher occupancy at 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, and asset dispositions. Our ability to raise funds through the sale of debt and equity securities is dependent on, among other things, general economic conditions, general market conditions for REITs, our operating performance, our debt rating and the current trading price of our common shares. We analyze which source of capital we believe to be most advantageous to us at any particular point in time. However, the capital markets may not consistently be available on terms that we consider attractive. As a result, there can be no assurance that we will be able to access the public or private debt and equity markets at a given point in the future.

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 our 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 2014, we expect that we will have significant capital requirements, including the following items. There can be no assurance that our capital requirements will not be materially higher or lower than these expectations. As of February 26, 2014, we had cash and cash equivalents of approximately \$80.2 million and availability under our unsecured credit facilities of \$500.0 million.

Funding dividends and distributions to our shareholders and unit holders (including any capital gain dividend requirement arising from our sale of the Medical Office Portfolio as described above under "Overview - Investment Activity.");

• Approximately \$70.0 - \$75.0 million to invest in our existing portfolio of operating assets, including approximately \$38.0 - \$42.0 million to fund tenant-related capital requirements and leasing commissions;

• Approximately \$50.0 - \$55.0 million to invest in our development and redevelopment projects; and

• Funding for potential property acquisitions throughout the remainder of 2014, offset by proceeds from potential property dispositions.

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 2014. However, as a result of general market conditions in the greater Washington metro region, economic conditions affecting the ability to attract and retain tenants, unfavorable fluctuations in interest rates or 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 needs which may limit growth. If capital were not available, we may not be able to pay the dividend required to maintain our status as a REIT, make required principal and interest payments, make strategic acquisitions or make necessary routine capital improvements or undertake redevelopment opportunities with respect to our existing portfolio of operating assets.

Debt Financing

We generally use secured or unsecured, corporate-level debt, including mortgages, unsecured notes and our unsecured credit facilities, 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, 2013 and 2012, our debt was as follows (in thousands):

	December 31,	
	2013	2012
Mortgage notes payable	\$294,671	\$342,970
Unsecured credit facilities	—	—
Unsecured notes payable	846,703	906,190
	\$1,141,374	\$1,249,160

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, 2013, our \$294.7 million in mortgage notes payable, which includes \$2.5 million in net unamortized discounts due to fair value adjustments, bore an effective weighted average fair value interest rate of 6.1% and had a weighted average maturity of 3.5 years. We may either initiate secured mortgage debt or assume mortgage debt from time-to-time in conjunction with property acquisitions.

In January 2013, we extinguished without penalty the remaining \$30.0 million of principal on the mortgage note secured by West Gude Drive.

In November 2013, we extinguished the remaining \$2.2 million of principal on the mortgage note secured by Ashburn Farm Office Park with extinguishment costs of \$0.5 million.

In November 2013, we extinguished the remaining \$1.9 million of principal on the mortgage note secured by Ashburn Farm III Office Park with extinguishment costs of \$0.4 million.

In November 2013, we extinguished the remaining \$19.3 million of principal on the mortgage note secured by Woodholme Medical Office Center with extinguishment costs of \$1.8 million.

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 no borrowings outstanding and no letters of credit issued as of December 31, 2013, 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 no borrowings outstanding and no letters of credit issued as of December 31, 2013 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;

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• 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 debt instruments. 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, 2013, we were in compliance with our loan 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 loan 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 intend to ladder the maturities of our debt to mitigate exposure to interest rate risk in future years.

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.

At December 31, 2013, our unsecured notes with maturities ranging from January 2014 through February 2028, were as follows (in thousands):

5.25% notes due 2014	\$100,000	
5.35% notes due 2015	150,000	
4.95% notes due 2020	250,000	
3.95% notes due 2022	300,000	
7.25% notes due 2028	50,000	
Total principal	850,000	
Net unamortized discount	(3,297)
Total	\$846,703	

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 could result in a default under one or more of our debt instruments. 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, 2013, we were in compliance with our unsecured notes covenants.

From time to time, we may seek to repurchase and cancel our outstanding 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 66.5 million shares were outstanding at December 31, 2013.

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 would use net proceeds from the sale of common shares under this program for general corporate purposes. As of December 31, 2013, we have not issued any 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 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

WRIT'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 WRIT an additional financing tool that may be used to raise capital for future acquisitions or other business purposes. As of December 31, 2013, 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 to make the necessary dividend payments and the effect of REIT distribution requirements, which require at least 90% of our taxable income to be distributed to shareholders. 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, 2013 were as follows (in thousands):

	Year Ended December 31,		
	2013	2012	2011
Common dividends	\$80,104	\$97,734	\$115,045
Noncontrolling interest distributions	—	—	2,488
	\$80,104	\$97,734	\$117,533

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.

Dividends paid during 2012 decreased from 2011 primarily due to a decrease in the dividend paid per share offset by a small increase in shares outstanding due to our dividend reinvestment program. The decrease in noncontrolling interests distributions reflects the sale of Northern Virginia Industrial Park.

Capital Commitments

We will require capital for development and redevelopment projects currently underway and in the future. As of December 31, 2013, we had under development a mid-rise apartment property at 650 North Glebe Road in Arlington, VA and the renovation of our office building at 7900 Westpark Drive in McLean, Virginia.

Our total investment in 650 North Glebe Road is expected to be \$49.9 million, including land costs and our partner's 10% share. We have secured debt financing totaling \$33.0 million. As of December 31, 2013, we had invested \$27.3 million in 650 North Glebe Road including land costs and we expect to fund approximately \$20.6 million in 2014 on this project. We currently expect to complete this development project during the fourth quarter of 2014.

Our total investment in the renovation at 7900 Westpark Drive is expected to be \$35.0 million. As of December 31, 2013, we had invested \$3.6 million in the renovation at 7900 Westpark Drive and we expect to fund approximately \$29.7 million in 2014 on this project. We currently expect to complete this development project during the first quarter of 2015.

As of December 31, 2013, 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 reassess this project on a periodic

basis going forward.

There were no projects placed into service in the year ended December 31, 2013. As of December 31, 2013, we had no outstanding contractual commitments related to our development and redevelopment projects, and expect to fund approximately \$51.4 million of total development/redevelopment spending during 2014.

We anticipate funding several major renovation projects in our portfolios during 2014, as follows (in thousands):

Office	\$ 14,487
Retail	2,564
Multifamily	8,491
Total	\$ 25,542

These projects include HVAC system upgrades, common area and unit renovations and hot water boilers at multifamily properties; HVAC upgrades, plaza waterproofing, lobby renovations and roof replacements at office properties; and façade renovations and roof repairs and replacements at retail properties. Not all of the anticipated spending had been committed via executed construction contracts at December 31, 2013. 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, 2013, 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⁾	\$ 1,464,495	\$ 159,567	\$ 520,387	\$ 95,360	\$ 689,181
Purchase obligations ⁽²⁾	11,354	3,782	7,572	—	—
Tenant-related capital ⁽³⁾	17,784	17,784	—	—	—
Building capital ⁽⁴⁾	11,494	11,494	—	—	—
Operating leases	14,847	318	814	520	13,195

(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, 2013.

(4) Committed building capital additions based on contracts in place as of December 31, 2013.

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 \$34.2 million in 2014. Due to the competitive office leasing market we expect that tenant-related capital costs will continue at this level into 2015.

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, 2013 were as follows (in thousands):

	Year ended December 31,			Variance	
	2013	2012	2011	2013 vs. 2012	2012 vs. 2011
Cash provided by operating activities	\$ 113,318	\$ 131,448	\$ 117,626	\$(18,130)	\$ 13,822
Cash provided by (used in) investing activities	189,848	(88,796)	61,098	278,644	(149,894)
Cash used in financing activities	(191,928)	(35,998)	(244,955)	(155,930)	208,957

The decrease in cash provided by operating activities in 2013 was primarily due to the loss of income from properties sold as part of the Medical Office Portfolio and higher interest payments. The increase in cash provided by operating activities in 2012 was primarily due to acquisitions made during 2011 and 2012.

Net cash provided by investing activities increased in 2013 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 investing activities increased in 2012 due to the sale of the Industrial Portfolio in 2011, partially offset by a higher volume of acquisition activity in 2011.

The increase in cash used by financing activities in 2013 reflects the repayment of mortgage notes and our 5.125% unsecured notes. The decrease in cash used by financing activities in 2012 was primarily due the issuance of the 3.95% unsecured notes and the decrease of our quarterly dividend, partially offset by paying down the balances on our unsecured lines of credit. The increase in cash used by financing activities in 2011 reflects higher dividends and repayment of notes.

Capital Improvements and Development Costs

Our capital improvement and development costs for the three years ended December 31, 2013 were as follows (in thousands):

	Year Ended December 31,		
	2013	2012	2011
Accretive capital improvements:			
Acquisition related	\$ 1,369	\$ 3,718	\$ 2,549
Expansions and major renovations	23,831	20,147	9,435
Development/redevelopment	15,826	6,494	25,929
Tenant improvements (including first generation leases)	21,746	18,333	13,350
Total accretive capital improvements ⁽¹⁾	62,772	48,692	51,263
Other capital improvements:	8,883	8,982	7,481
Total	\$ 71,655	\$ 57,674	\$ 58,744

⁽¹⁾ We consider capital improvements to be accretive to revenue and not necessarily to net income.

Included in the capital improvement and development costs listed above are capitalized interest in the amount of \$1.2 million, \$1.7 million and \$0.7 million for the years ended December 31, 2013, 2012 and 2011, respectively, and capitalized employee compensation in the amount of \$1.7 million, \$1.5 million and \$0.8 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Accretive Capital Improvements

Acquisition Related Improvements: Acquisition related improvements are capital improvements to properties acquired during the preceding three years which were anticipated at the time we acquired the properties. These types of improvements were made in 2013 to Fairgate at Ballston, Braddock Metro Center, 1227 25th Street and 1140 Connecticut Avenue.

Expansions and Major Renovations: Expansion projects increase the rentable area of a property, while major renovation projects are improvements sufficient to increase the income otherwise achievable at a property. Expansions and major renovations during 2013 included upgrades to heating/AC units and hallway renovations at The Kenmore; HVAC modifications, common area renovations and fitness center at 1600 Willson Boulevard; common area and lobby renovations at 6110 Executive Boulevard; façade renovations, elevator and HVAC upgrades at 2000 M Street;

conference room, corridor and restroom renovations at West Gude; HVAC modifications at 1140 Connecticut Avenue; and unit renovations at Roosevelt Towers, Country Club and The Ashby at McLean.

Development/Redevelopment: Development costs represent expenditures for ground up development of new operating properties. Redevelopment costs represent expenditures for improvements intended to reposition properties in their markets and increase income that would be otherwise achievable. Development/Redevelopment costs in each of the years presented include costs

associated with the ground up development of 1225 First Street and 650 North Glebe Road and redevelopment at 7900 Westpark Drive. We have temporarily suspended development at 1225 First Street.

Tenant Improvements: Tenant improvements are costs, such as space build-out, associated with commercial lease transactions. Our average tenant improvement costs per square foot of space leased, excluding first generation leases, during the three years ended December 31, 2013 were as follows:

	Year Ended December 31,		
	2013	2012	2011
Office ⁽¹⁾	\$29.90	\$27.20	\$13.00
Retail	\$7.05	\$7.85	\$7.07

⁽¹⁾ Excludes properties sold or classified as held for sale.

The \$2.70 increase in 2013 in tenant improvement costs per square foot of office space leased was primarily due to leases executed in 2013 requiring \$5.9 million for tenant improvements at Braddock Metro Center for a new tenant.

The \$14.20 increase in 2012 in tenant improvement costs per square foot of office space leased was primarily due to leases executed in 2012 requiring \$4.5 million in tenant improvements at 2000 M Street, Fairgate at Ballston and 1140 Connecticut Avenue.

The \$0.80 decrease in 2013 and the \$0.78 increase in 2012 in tenant improvement costs per square foot of retail space leased was due to a lease executed with a single tenant requiring \$0.9 million in tenant improvements in 2012 at Gateway Overlook.

Tenant improvement costs for retail tenants are substantially lower than for office tenants because the improvements required for retail tenants tend to be substantially less extensive than for office tenants.

Other Capital Improvements

Other capital improvements, also referred to as recurring capital improvements, are those not included in the above categories. Over time these costs will be recurring in nature to maintain a property's income and value. In our multifamily properties, these include new appliances, flooring, cabinets and bathroom fixtures. These improvements, which are made as needed upon vacancy of an apartment, totaled \$1.1 million in 2013, averaging \$971 per apartment for the 43% of apartments turned over relative to our total portfolio of apartment units. In our commercial properties and residential properties (aside from improvements related to apartment turnover), improvements include installation of new heating and air conditioning equipment, asphalt replacement, new signage, permanent landscaping, window replacements, new lighting and new finishes. In addition, we incurred repair and maintenance expense of \$12.3 million during 2013 to maintain the quality of our buildings.

Forward-Looking Statements

This Form 10-K contains forward-looking statements which involve risks and uncertainties. Such forward looking statements include each of the statements in "Item 1: Business" and "Item 7: Management's Discussion and Analysis of Financial Conditions and Results of Operations" concerning the Washington metro region's economy, gross regional product, unemployment and job growth and real estate market performance. Such forward-looking statements also include the following statements with respect to WRIT:

- (a) our intention to invest in properties that we believe will increase in income and value;
- (b) our belief that external sources of capital will continue to be available and that additional sources of capital will be available from the sale of common shares or notes; and
- (c) our belief that we have the liquidity and capital resources necessary to meet our known obligations and to make additional property acquisitions and capital improvements when appropriate to enhance long-term growth.

Forward-looking statements also include other statements in this report preceded by, followed by or that include the words "believe," "expect," "intend," "anticipate," "potential," "project," "will" and other similar expressions.

We claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for the foregoing statements. The following important factors, in addition to those discussed elsewhere in this Form 10-K, could affect our future results and could cause those results to differ materially from those expressed in the forward-looking statements:

(a) the effect of credit and financial market conditions;

- (b) the availability and cost of capital;
- (c) fluctuations in interest rates;
- (d) the economic health of our tenants;
- (e) the timing and pricing of lease transactions;
- (f) the economic health of the greater Washington Metro region, or other markets we may enter;
- (g) the effects of changes in Federal government spending;
- (h) the supply of competing properties;
- (i) consumer confidence;
- (j) unemployment rates;
- (k) consumer tastes and preferences;
- (l) our future capital requirements;
- (m) inflation;
- (n) compliance with applicable laws, including those concerning the environment and access by persons with disabilities;
- (o) governmental or regulatory actions and initiatives;
- (p) changes in general economic and business conditions;
- (q) terrorist attacks or actions;
- (r) acts of war;
- (s) weather conditions;
- (t) the effects of changes in capital available to the technology and biotechnology sectors of the economy; and
- (u) other factors discussed under the caption "Risk Factors."

We undertake no obligation to update our forward-looking statements or risk factors to reflect new information, future events, or otherwise.

Ratios of Earnings to Fixed Charges and Debt Service Coverage

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

	Year Ended December 31,		
	2013	2012	2011
Earnings to fixed charges ⁽¹⁾	0.98	1.10	0.75
Debt service coverage	2.7	x 2.7	x 2.7

⁽¹⁾ Due to WRIT's losses from continuing operations during 2013 and 2011, the earnings to fixed charges ratio for each year was less than 1:1. WRIT must generate additional earnings of \$1.4 million and \$15.6 million in 2013 and 2011, respectively, to achieve a ratio of 1:1.

We computed the ratio of earnings to fixed charges by dividing earnings by fixed charges. For this purpose, earnings consist of income from continuing operations attributable to the controlling interests plus fixed charges, less capitalized interest. Fixed charges consist of interest expense, including amortized costs of debt issuance, and interest costs capitalized.

We computed the debt service coverage ratio by dividing EBITDA (which is earnings before interest income and expense, taxes, depreciation, amortization, real estate impairment and gain on sale of real estate) by interest expense and principal amortization.

Funds From Operations

FFO is a widely used measure of operating performance for real estate companies. We provide FFO as a supplemental measure to net income calculated in accordance with GAAP. Although FFO is a widely used measure of operating performance for REITs, FFO does not represent net income calculated in accordance with GAAP. As such, it should not be considered an alternative to net income as an indication of our operating performance. In addition, FFO does not represent cash generated from operating activities in accordance with GAAP, nor does it represent cash available to pay distributions and should not be considered as an alternative to cash flow from operating activities, determined in accordance with GAAP, as a measure of our liquidity. The National Association of Real Estate Investment Trusts, Inc. ("NAREIT") defines FFO (April, 2002 White Paper) as net income (computed in accordance with GAAP) excluding gains (or losses) from sales of property and impairments of depreciable real estate, if any,

plus real estate depreciation and amortization. We consider FFO to be a standard supplemental measure for REITs because it facilitates an understanding of the operating performance of our properties without giving effect to real estate depreciation and amortization, which historically assumes that the value of real estate assets diminishes predictably over time. Since real estate values have instead historically risen or fallen with market conditions, we believe that FFO more accurately provides investors an indication of our ability to incur and service debt, make capital expenditures and fund other needs. Our FFO may not be comparable to FFO reported by other REITs. These other REITs may not define the term in accordance with the current NAREIT definition or may interpret the current NAREIT definition differently.

Our FFO and a reconciliation of FFO to net income for the three years ended December 31, 2013 were as follows (in thousands):

	Year Ended December 31,		
	2013	2012	2011
Net income attributable to the controlling interests	\$37,346	\$23,708	\$104,884
Adjustments:			
Depreciation and amortization	85,740	85,107	74,403
Discontinued operations, net of amounts attributable to noncontrolling interests:			
Depreciation and amortization	12,161	18,827	26,125
Gain on sale of real estate	(22,144)	(5,124)	(97,091)
Real estate impairment on depreciable real estate	—	—	599
Income tax expense (benefit)	—	—	1,138
FFO, as defined by NAREIT	\$113,103	\$122,518	\$110,058

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The principal material financial market risk to which we are exposed is interest rate risk. Our exposure to interest rate risk relates primarily to refinancing long-term fixed rate obligations, the opportunity cost of fixed rate obligations in a falling interest rate environment and our variable rate lines of credit. We primarily enter into debt obligations to support general corporate purposes, including acquisition of real estate properties, capital improvements and working capital needs. In the past we have used interest rate hedge agreements to hedge against rising interest rates in anticipation of imminent refinancing or new debt issuance.

The table below presents principal, interest and related weighted average fair value interest rates by year of maturity, with respect to debt outstanding on December 31, 2013.

	2014	2015	2016	2017	2018	Thereafter	Total	Fair Value
(In thousands)								
Unsecured fixed rate debt								
Principal	\$100,000	\$150,000	\$—	\$—	\$—	\$600,000	\$850,000	\$856,171
Interest payments	\$38,500	\$31,863	\$27,850	\$27,850	\$27,850	\$106,588	\$260,501	
Interest rate on debt maturities	5.34	% 5.45	% —	% —	% —	% 4.73	% 4.93	%
Mortgages								
Principal amortization ⁽¹⁾ (30 year schedule)	\$2,840	\$3,017	\$141,688	\$104,369	\$2,661	\$42,625	\$297,200	\$313,476
Interest payments ⁽²⁾	\$16,805	\$16,626	\$12,058	\$3,163	\$2,513	\$2,305	\$53,470	
	5.26	% 5.26	% 5.55	% 7.20	% 5.07	% 5.26	% 6.08	%

Weighted
average interest
rate on principal
amortization

(1) Excludes net discounts of \$2.5 million at December 31, 2013.

(2) Interest payments on our construction loan is based on LIBOR in effect on our borrowings outstanding at December 31, 2013.

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary data appearing on pages 55 to 90 are incorporated herein by reference.

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ITEM 9: CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A: CONTROLS AND PROCEDURES

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

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer, Chief Financial Officer and Executive Vice President – Accounting and Administration, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2013. Based on the foregoing, our Chief Executive Officer, Chief Financial Officer and Executive Vice President – Accounting and Administration (Principal Accounting Officer) concluded that our disclosure controls and procedures were effective at a reasonable assurance level.

Internal Control over Financial Reporting

See the Report of Management in Item 8 of this Form 10-K.

See the Reports of Independent Registered Public Accounting Firm in Item 8 of this Form 10-K.

During the three months ended December 31, 2013, there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B: OTHER INFORMATION

None.

PART III

Certain information required by Part III is omitted from this Form 10-K in that we will file a definitive proxy statement pursuant to Regulation 14A with respect to our 2014 Annual Meeting (the "Proxy Statement") no later than 120 days after the end of the fiscal year covered by this Form 10-K, and certain information included therein is incorporated herein by reference. Only those sections of the Proxy Statement which specifically address the items set forth herein are incorporated by reference. In addition, we have adopted a code of ethics which can be reviewed and printed from our website www.writ.com.

ITEM 10: DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item is hereby incorporated herein by reference to the Proxy Statement.

ITEM 11: EXECUTIVE COMPENSATION

The information required by this Item is hereby incorporated herein by reference to the Proxy Statement.

ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required under this Item by Item 403 of Regulation S-K is hereby incorporated herein by reference to the Proxy Statement.

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	—	\$ —	1,048,410
Equity compensation plans not approved by security holders	10,000	⁽¹⁾ \$ 33.09	—
Total	10,000	\$ 33.09	1,048,410

We previously maintained a stock option plan for trustees which provided for the annual granting of 2,000 ⁽¹⁾ non-qualified stock options to trustees, the last of which were granted in 2004. This plan expired on December 15, 2007 and options may no longer be issued thereunder.

ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item is hereby incorporated herein by reference to the Proxy Statement.

ITEM 14: PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is hereby incorporated herein by reference to the Proxy Statement.

PART IV

ITEM 15: EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(A). The following documents are filed as part of this Form 10-K:

1. Financial Statements	Page
Management's Report on Internal Control Over Financial Reporting	<u>52</u>
Report of Independent Registered Public Accounting Firm	<u>53</u>
Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting	<u>54</u>
Consolidated Balance Sheets as of December 31, 2013 and 2012	<u>55</u>
Consolidated Statements of Income for the Years Ended December 31, 2013, 2012 and 2011	<u>56</u>
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2013, 2012 and 2011	<u>57</u>
Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2013, 2012 and 2011	<u>58</u>
Consolidated Statements of Cash Flows for the Years Ended December 31, 2013, 2012 and 2011	<u>59</u>
Notes to Consolidated Financial Statements	<u>60</u>
2. Financial Statement Schedules	
Schedule II – Valuation and Qualifying Accounts	<u>86</u>
Schedule III – Consolidated Real Estate and Accumulated Depreciation	<u>87</u>
All other schedules are omitted because they are either not required or the required information is shown in the financial statements or notes thereto.	

3. Exhibits:

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File Number	Exhibit	Filing Date	
3.1	Articles of Amendment and Restatement, effective as of May 17, 2011	DEF 14A	001-06622	B	4/1/2011	
3.2	Amended and Restated Bylaws of Washington Real Estate Investment Trust, as adopted on May 17, 2011	8-K	001-06622	3.3	5/23/2011	
4.1	Indenture dated as of August 1, 1996 between WRIT and The First National Bank of Chicago	8-K	001-06622	(c)	8/13/1996	
4.2	Form of 2028 Notes	8-K	001-06622	99.1	2/25/1998	
4.3	Officers' Certificate Establishing Terms of the 2014 Notes, dated December 8, 2003	8-K	001-06622	4(a)	12/11/2003	
4.4	Form of 2014 Notes	8-K	001-06622	4(b)	12/11/2003	
4.5	Form of 5.35% Senior Notes due May 1, 2015 dated April 26, 2005	8-K	001-06622	4.2	4/26/2005	
4.6	Officers Certificate establishing the terms of the 2012 and 2015 Notes, dated April 20, 2005	8-K	001-06622	4.3	4/26/2005	
4.7	Form of 5.35% Senior Notes due May 1, 2015 dated October 6, 2005	8-K	001-06622	4.1	10/6/2005	
4.8	Officers Certificate establishing the terms of the 2015 Notes, dated October 3, 2005	8-K	001-06622	4.2	10/6/2005	
4.9	Supplemental Indenture by and between WRIT and the Bank of New York Trust Company, N.A. dated as of July 3, 2007	8-K	001-06622	4.1	7/5/2007	
4.10	Credit agreement dated June 29, 2007 by and among WRIT, as borrower, the financial institutions party	8-K	001-06622	4.1	7/6/2007	

4.11	thereto as lenders, and SunTrust Bank as agent Multifamily Note Agreement (Walker House Apartments) dated as of May 29, 2008, by and between WRIT and Wells Fargo Bank, National Association	10-Q	001-06622	4	8/8/2008
4.12	Multifamily Note Agreement (3801 Connecticut Avenue) dated as of May 29, 2008, by and between WRIT and Wells Fargo Bank, National Association	10-Q	001-06622	4.0	8/8/2008
4.13	Multifamily Note Agreement (Bethesda Hill Apartments) dated as of May 29, 2008, by and between WRIT and Wells Fargo Bank, National Association	10-Q	001-06622	4.0	8/8/2008
4.14	Form of 4.95% Senior Notes due October 1, 2020	8-K	001-06622	4.1	9/30/2010
4.15	Officers' Certificate establishing the terms of the 4.95% Senior Notes due October 1, 2020	8-K	001-06622	4.2	9/30/2010

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Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	File Number	Exhibit Filing Date	
4.16	Credit Agreement, dated as of July 1, 2011, by and among Washington Real Estate Investment Trust, as borrower, the financial institutions party thereto as lenders, each of The Bank of New York Mellon, Citibank, N.A. and Credit Suisse AG, Cayman Islands Branch as a documentation agent, Wells Fargo Securities, LLC, as lead arranger and bookrunner, and Wells Fargo Bank, National Association, as administrative agent.	8-K	001-06622	4.1	7/6/2011
4.17	Second Amendment to Credit Agreement, dated as of December 23, 2011, with Suntrust Bank. Amended and Restated Credit Agreement, dated as of May 17, 2012, by and among Washington Real Estate Investment Trust, as borrower, the financial institutions party thereto as lenders, each of The Bank of New York Mellon, Citibank, N.A. and Credit Suisse AG, Cayman Islands Branch as a documentation agent, Wells Fargo Securities, LLC, as lead arranger and bookrunner, and Wells Fargo Bank, National Association, as administrative agent.	10-K	001-06622	4.21	2/27/2012
4.18	Amended and Restated Credit Agreement, dated as of June 25, 2012, by and among Washington Real Estate Investment Trust, as borrower, the financial institutions party thereto as lenders, SunTrust Robinson Humphrey, Inc., as sole lead arranger and bookrunner, and SunTrust Bank, as administrative agent.	8-K	001-06622	4.1	5/18/2012
4.19	Form of 3.95% Senior Notes due October 15, 2022	8-K	001-06622	4.1	6/27/2012
4.20	Officers' Certificate establishing the terms of 3.95% Notes due October 15, 2022	8-K	001-06622	4.1	9/17/2012
4.21		8-K	001-06622	4.2	9/17/2012
10.1*	2001 Stock Option Plan	DEF 14A	001-06622	A	3/29/2001
10.2*	Share Purchase Plan	10-Q	001-06622	10(j)	11/14/2002
10.3*	Supplemental Executive Retirement Plan	10-Q	001-06622	10(k)	11/14/2002
10.4*	Description of WRIT Short-term and Long-term Incentive Plan	10-K	001-06622	10(l)	3/16/2005
10.5*	Description of WRIT Revised Trustee Compensation Plan	10-K	001-06622	10(m)	3/16/2005
10.6*	Supplemental Executive Retirement Plan	10-K	001-06622	10(p)	3/16/2006
10.7*	2007 Omnibus Long Term Incentive Plan	DEF 14A	001-06622	B	4/9/2007
10.8*	Deferred Compensation Plan for Officers dated January 1, 2007	10-K	001-06622	10(gg)	2/29/2008
10.9*	Supplemental Executive Retirement Plan II dated May 23, 2007	10-K	001-06622	10(hh)	2/29/2008
10.10*	Amended Long Term Incentive Plan, effective January 1, 2008	10-Q	001-06622	10(ii)	5/9/2008

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10.11*	Form of Indemnification Agreement by and between WRIT and the indemnitee	8-K	001-06622	10(n)	7/27/2009
10.12*	Long Term Incentive Plan, effective January 1, 2009	10-K	001-06622	10.28	2/26/2010
10.13*	Short Term Incentive Plan, effective January 1, 2009	10-K	001-06622	10.29	2/26/2010
10.14*	Executive Stock Ownership Policy, adopted October 27, 2010	8-K	001-06622	10.31	11/2/2010
10.15*	Amendment to Deferred Compensation Plan for Officers, adopted October 27, 2010	8-K	001-06622	10.32	11/2/2010
10.16*	Long Term Incentive Plan, effective January 1, 2011	10-Q	001-06622	10.34	5/6/2011
10.17*	Short Term Incentive Plan, effective January 1, 2011	10-Q	001-06622	10.35	5/6/2011
10.18*	Amended and restated change in control agreement dated December 1, 2011 with William T. Camp	10-K	001-06622	10.32	2/27/2012
10.19*	Amended and restated change in control agreement dated December 1, 2011 with Laura M. Franklin	10-K	001-06622	10.33	2/27/2012
10.20*	Amended and restated change in control agreement dated December 1, 2011 with Thomas C. Morey	10-K	001-06622	10.34	2/27/2012
10.21*	Amended and restated change in control agreement dated December 1, 2011 with Thomas L. Regnell	10-K	001-06622	10.35	2/27/2012
10.22*	Amended and restated change in control agreement dated December 1, 2011 with James B. Cederdahl	10-K	001-06622	10.37	2/27/2012
10.23*	Short Term Incentive Plan, effective January 1, 2012	10-Q	001-06622	10.38	5/7/2012
10.24*	Separation Agreement and General Release between Michael S. Paukstis and Washington Real Estate Investment Trust dated February 7, 2013	8-K	001-06622	10.1	2/13/2013
10.25	Sales Agency Financing Agreement, dated June 22, 2012 between WRIT and BNY Mellon Capital Markets, LLC	8-K	001-06622	1.1	6/22/2012
10.26*	Amendment to Deferred Compensation Plan for Officers, adopted December 31, 2012	10-K	001-06622	10.37	2/27/2013
10.27*	Amended and restated change in control agreement dated February 27, 2013 with George F. McKenzie	10-K	001-06622	10.38	2/27/2013

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Incorporated by Reference

Exhibit Number	Exhibit Description	Form	File Number	Exhibit	Filing Date	Filed Herewith
10.28*	Amended and restated change in control agreement dated February 27, 2013 with William T. Camp	10-K	001-06622	10.39	2/27/2013	
10.29*	Amended and restated change in control agreement dated February 27, 2013 with Laura M. Franklin	10-K	001-06622	10.40	2/27/2013	
10.30*	Amended and restated change in control agreement dated February 25, 2013 with Thomas C. Morey	10-K	001-06622	10.41	2/27/2013	
10.31*	Amended and restated change in control agreement dated February 26, 2013 with Thomas L. Regnell	10-K	001-06622	10.42	2/27/2013	
10.32*	Amended and restated change in control agreement dated February 26, 2013 with James B. Cederdahl	10-K	001-06622	10.43	2/27/2013	
10.33*	Change in control agreement dated February 26, 2013 with Paul S. Weinschenk	10-K	001-06622	10.44	2/27/2013	
10.34*	Amendment to Deferred Compensation Plan for Officers, adopted February 13, 2013	10-Q	001-06622	10.45	5/9/2013	
10.35*	Amendment to Deferred Compensation Plan for Directors, adopted February 13, 2013	10-Q	001-06622	10.46	5/9/2013	
10.36*	Amendment to Short Term Incentive Plan, adopted as of January 22, 2013	10-Q	001-06622	10.47	5/9/2013	
10.37*	Separation Agreement and General Release between George F. McKenzie and Washington Real Estate Investment Trust dated July 23, 2013	10-Q	001-06622	10.48	7/31/2013	
10.38	Purchase and Sale Agreement, dated as of September 27, 2013, for 2440 M Street, Alexandria Professional Center, 8301 Arlington Boulevard, 6565 Arlington Boulevard, Ashburn Farm Office Park I, II and III, CentreMed I and II, Sterling Medical Office Building, 19500 at Riverside Office Park, Shady Grove Medical Village II, 9707 Medical Center Drive, 15001 and 15005 Shady Grove Road, Woodholme Center, and Woodholme Medical Office Building	8-K	001-06622	10.49	10/3/2013	
10.39	Purchase and Sale Agreement, dated as of September 27, 2013, for 4661 Kenmore Avenue	8-K	001-06622	10.50	10/3/2013	
10.40	Purchase and Sale Agreement, dated as of September 27, 2013, for Woodburn Medical Park I and II	8-K	001-06622	10.51	10/3/2013	
10.41	Purchase and Sale Agreement, dated as of September 27, 2013, for Prosperity Medical Center I, II and III	8-K	001-06622	10.52	10/3/2013	
10.42*	Amended and Restated Deferred Compensation Plan for Directors, effective October 22, 2013	10-Q	001-06622	10.53	11/1/2013	
10.43*	Employment Agreement dated August 19, 2013 with Paul T. McDermott	10-Q	001-06622	10.54	11/1/2013	
10.44*	Change in control agreement dated October 1, 2013 with Paul T. McDermott					X
10.45*						X

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	Amendment to Deferred Compensation Plan for Officers, adopted February 18, 2014	
10.46*	Amendment to Deferred Compensation Plan for Directors as Amended and Restated, adopted February 18, 2014	X
12	Computation of Ratio of Earnings to Fixed Charges	X
21	Subsidiaries of Registrant	X
23	Consent of Independent Registered Public Accounting Firm	X
24	Power of Attorney	X
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended ("the Exchange Act")	X
31.2	Certification of the Executive Vice President – Accounting and Administration pursuant to Rule 13a-14(a) of the Exchange Act	X
31.3	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act	X
32	Certification of the Chief Executive Officer, Executive Vice President – Accounting and Administration (Principal Accounting Officer) and Chief Financial Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X
101	The following materials from our Annual Report on Form 10-K for the year ended December 31, 2013 formatted in eXtensible Business Reporting Language ("XBRL"): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Shareholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) notes to these consolidated financial statements.	X

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

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

SIGNATURES

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

WASHINGTON REAL ESTATE INVESTMENT TRUST

Date: March 3, 2014

By: /s/ Paul T. McDermott

Paul T. McDermott

President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Charles T. Nason* Charles T. Nason	Chairman, Trustee	March 3, 2014
/s/ Paul T. McDermott Paul T. McDermott	President, Chief Executive Officer and Trustee	March 3, 2014
/s/ William G. Byrnes* William G. Byrnes	Trustee	March 3, 2014
/s/ Edward S. Civera* Edward S. Civera	Trustee	March 3, 2014
/s/ John P. McDaniel* John P. McDaniel	Trustee	March 3, 2014
/s/ Thomas Edgie Russell, III* Thomas Edgie Russell, III	Trustee	March 3, 2014
/s/ Wendelin A. White* Wendelin A. White	Trustee	March 3, 2014
/s/ Anthony L. Winns* Anthony L. Winns	Trustee	March 3, 2014
/s/ William T. Camp William T. Camp	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	March 3, 2014
/s/ Laura M. Franklin Laura M. Franklin	Executive Vice President Accounting, Administration and Corporate Secretary (Principal Accounting Officer)	March 3, 2014

* By: /s/ Laura M. Franklin through power of attorney
Laura M. Franklin

MANAGEMENT'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Washington Real Estate Investment Trust ("WRIT") is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of internal controls over financial reporting. WRIT's internal control system over financial reporting is a process designed under the supervision of WRIT's principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions.

In connection with the preparation of WRIT's annual consolidated financial statements, management has undertaken an assessment of the effectiveness of WRIT's internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued in 1992 by the Committee of Sponsoring Organizations of the Treadway Commission (the 1992 COSO Framework). Management's assessment included an evaluation of the design of WRIT's internal control over financial reporting and testing of the operational effectiveness of those controls.

Based on this assessment, management has concluded that as of December 31, 2013, WRIT's internal control over financial reporting was effective at a reasonable assurance level regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Ernst & Young LLP, the independent registered public accounting firm that audited WRIT's consolidated financial statements included in this report, have issued an unqualified opinion on the effectiveness of WRIT's internal control over financial reporting, a copy of which appears on the next page of this annual report.

Report of Independent Registered Public Accounting Firm
The Board of Trustees and Shareholders of
Washington Real Estate Investment Trust

We have audited the accompanying consolidated balance sheets of Washington Real Estate Investment Trust and Subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. Our audits also included the financial statement schedules listed in the Index at Item 15(A). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Washington Real Estate Investment Trust and Subsidiaries at December 31, 2013 and 2012, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Washington Real Estate Investment Trust and Subsidiaries' internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework) and our report dated March 3, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
McLean, Virginia
March 3, 2014

Report of Independent Registered Public Accounting Firm
The Board of Trustees and Shareholders of
Washington Real Estate Investment Trust

We have audited Washington Real Estate Investment Trust and Subsidiaries' internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework) (the COSO criteria). Washington Real Estate Investment Trust's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, Washington Real Estate Investment Trust and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Washington Real Estate Investment Trust and Subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2013 of Washington Real Estate Trust and Subsidiaries and our report dated March 3, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
McLean, Virginia
March 3, 2014

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

	December 31,	
	2013	2012
Assets		
Land	\$426,575	\$418,008
Income producing property	1,675,652	1,587,375
	2,102,227	2,005,383
Accumulated depreciation and amortization	(565,342	) (497,057
Net income producing property	1,536,885	1,508,326
Properties under development or held for future development	61,315	45,270
Total real estate held for investment, net	1,598,200	1,553,596
Investment in real estate sold or held for sale, net	79,901	364,999
Cash and cash equivalents	130,343	19,105
Restricted cash	9,189	13,423
Rents and other receivables, net of allowance for doubtful accounts of \$6,783 and \$10,443, respectively	48,756	46,904
Prepaid expenses and other assets	105,004	107,303
Other assets related to properties sold or held for sale	4,100	19,046
Total assets	\$ 1,975,493	\$ 2,124,376
Liabilities		
Notes payable	\$846,703	\$906,190
Mortgage notes payable	294,671	319,025
Lines of credit	—	—
Accounts payable and other liabilities	51,742	50,094
Advance rents	13,529	12,925
Tenant security deposits	7,869	7,642
Other liabilities related to properties sold or held for sale	1,533	32,357
Total liabilities	1,216,047	1,328,233
Equity		
Shareholders' equity		
Preferred shares; \$0.01 par value; 10,000 shares authorized; no shares issued or outstanding	—	—
Shares of beneficial interest; \$0.01 par value; 100,000 shares authorized: 66,531 and 66,437 shares issued and outstanding at December 31, 2013 and 2012, respectively	665	664
Additional paid in capital	1,151,174	1,145,515
Distributions in excess of net income	(396,880	) (354,122
Total shareholders' equity	754,959	792,057
Noncontrolling interests in subsidiaries	4,487	4,086
Total equity	759,446	796,143
Total liabilities and shareholders' equity	\$ 1,975,493	\$ 2,124,376
See accompanying notes to the consolidated financial statements.		

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

	Year Ended December 31,		
	2013	2012	2011
Revenue			
Real estate rental revenue	\$263,024	\$254,794	\$234,733
Expenses			
Utilities	16,311	15,781	15,691
Real estate taxes	29,052	27,064	22,903
Repairs and maintenance	12,261	11,339	10,490
Property administration	10,155	9,248	8,430
Property management	8,255	8,503	7,272
Operating services and common area maintenance	13,469	12,358	11,804
Other real estate expenses	3,790	2,252	3,034
Depreciation and amortization	85,740	85,107	74,403
Acquisition costs	1,265	234	3,607
Real estate impairment	—	—	14,526
General and administrative	17,535	15,488	15,728
	197,833	187,374	187,888
Real estate operating income	65,191	67,420	46,845
Other income (expense)			
Interest expense	(63,573)	(60,627)	(61,402)
Other income	926	975	1,144
Loss on extinguishment of debt	(2,737)	—	(976)
	(65,384)	(59,652)	(61,234)
(Loss) income from continuing operations	(193)	7,768	(14,389)
Discontinued operations:			
Income from operations of properties sold or held for sale	15,395	10,816	23,414
Gain on sale of real estate	22,144	5,124	97,491
Income tax expense	—	—	(1,138)
Net income	37,346	23,708	105,378
Less: Net income attributable to noncontrolling interests in subsidiaries	—	—	(494)
Net income attributable to the controlling interests	37,346	23,708	104,884
Basic net (loss) income attributable to the controlling interests per share			
Continuing operations	\$—	\$0.11	\$(0.22)
Discontinued operations, including gain on sale of real estate	0.55	0.24	1.80
Net income attributable to the controlling interests per share	\$0.55	\$0.35	\$1.58
Diluted net (loss) income attributable to the controlling interests per share			
Continuing operations	\$—	\$0.11	\$(0.22)
Discontinued operations, including gain on sale of real estate	0.55	0.24	1.80
Net income attributable to the controlling interests per share	\$0.55	\$0.35	\$1.58
Weighted average shares outstanding – basic	66,580	66,239	65,982
Weighted average shares outstanding – diluted	66,580	66,376	65,982

See accompanying notes to the consolidated financial statements.

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

	Year Ended December 31,		
	2013	2012	2011
Net income	\$37,346	\$23,708	\$105,378
Other comprehensive income:			
Change in fair value of interest rate hedge	—	—	1,469
Comprehensive income	37,346	23,708	106,847
Less: Net income attributable to noncontrolling interests	—	—	(494)
Comprehensive income attributable to the controlling interests	\$37,346	\$23,708	\$106,353

See accompanying notes to the consolidated financial statements.

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

	Shares	Shares of Beneficial Interest at Par Value	Additional Paid in Capital	Distributions in Excess of Net Income Attributable to the Controlling Interests	Accumulated Other Comprehensive Income	Total Shareholders' Equity	Non-controlling Interests in Subsidiaries	Total Equity
Balance, December 31, 2010	65,870	\$ 659	\$ 1,127,825	\$ (269,935)	\$ (1,469)	\$ 857,080	\$ 3,778	\$ 860,858
Net income attributable to the controlling interests	—	—	—	104,884	—	104,884	—	104,884
Net income attributable to noncontrolling interests	—	—	—	—	—	—	494	494
Change in fair value of interest rate hedge	—	—	—	—	1,469	1,469	—	1,469
Distributions to noncontrolling interests	—	—	—	—	—	—	(2,488)	(2,488)
Contributions from noncontrolling interest	—	—	—	—	—	—	2,004	2,004
Dividends	—	—	—	(115,045)	—	(115,045)	—	(115,045)
Shares issued under Dividend Reinvestment Program	170	2	5,041	—	—	5,043	—	5,043
Share options exercised	51	1	1,291	—	—	1,292	—	1,292
Share grants, net of share grant amortization and forfeitures	174	—	4,321	—	—	4,321	—	4,321
Balance, December 31, 2011	66,265	\$ 662	\$ 1,138,478	\$ (280,096)	\$ —	\$ 859,044	\$ 3,788	\$ 862,832
Net income attributable to the controlling interests	—	—	—	23,708	—	23,708	—	23,708
Contributions from noncontrolling interest	—	—	—	—	—	—	298	298
Dividends	—	—	—	(97,734)	—	(97,734)	—	(97,734)

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Shares issued under Dividend Reinvestment Program	55	1	1,315	—	—	1,316	—	1,316
Share options exercised	45	—	1,153	—	—	1,153	—	1,153
Share grants, net of share grant amortization and forfeitures	72	1	4,569	—	—	4,570	—	4,570
Balance, December 31, 2012	66,437	\$664	\$1,145,515	\$(354,122)	\$—	\$792,057	\$4,086	\$796,143
Net income attributable to the controlling interests	—	—	—	37,346	—	37,346	—	37,346
Contributions from noncontrolling interest	—	—	—	—	—	—	401	401
Dividends	—	—	—	(80,104)	—	(80,104)	—	(80,104)
Share grants, net of share grant amortization and forfeitures	94	1	5,659	—	—	5,660	—	5,660
Balance, December 31, 2013	66,531	\$665	\$1,151,174	\$(396,880)	\$—	\$754,959	\$4,487	\$759,446

See accompanying notes to the consolidated financial statements.

WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	Year Ended December 31,		
	2013	2012	2011
Cash flows from operating activities			
Net income	\$37,346	\$23,708	\$105,378
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain on sale of real estate	(22,144)	(5,124)	(97,491)
Depreciation and amortization, including amounts in discontinued operations	97,901	103,934	100,528
Provision for losses on accounts receivable	3,772	3,847	4,005
Real estate impairment, including amounts in discontinued operations	—	2,097	15,125
Share-based compensation expense	6,246	5,856	5,597
Amortization of debt premiums, discounts and related financing costs	4,158	3,867	3,194
Loss on extinguishment of debt, net	2,737	—	—
Changes in other assets	(10,591)	(8,458)	(16,416)
Changes in other liabilities	(6,107)	1,721	(2,294)
Net cash provided by operating activities	113,318	131,448	117,626
Cash flows from investing activities			
Real estate acquisitions, net ⁽¹⁾	(48,200)	(52,142)	(281,701)
Capital improvements to real estate	(55,829)	(51,180)	(32,815)
Development in progress	(15,826)	(6,494)	(25,929)
Net cash received from sale of real estate	313,765	21,825	402,164
Real estate deposits, net	(3,900)	(250)	—
Non-real estate capital improvements	(162)	(555)	(621)
Net cash provided by (used in) investing activities	189,848	(88,796)	61,098
Cash flows from financing activities			
Line of credit borrowings (repayments), net	—	(99,000)	(1,000)
Dividends paid	(80,104)	(97,734)	(115,045)
Net contributions from (distributions to) noncontrolling interests	401	298	(2,488)
Proceeds from dividend reinvestment program	—	1,316	5,043
Borrowing under construction loan	7,297	—	—
Principal payments – mortgage notes payable, including penalties for early extinguishment	(58,679)	(85,667)	(32,331)
Net proceeds from debt offering	—	298,314	—
Payment of financing costs	(843)	(4,678)	(3,905)
Notes payable repayments, including penalties for early extinguishment	(60,000)	(50,000)	(96,521)
Net proceeds from exercise of share options	—	1,153	1,292
Net cash used in financing activities	(191,928)	(35,998)	(244,955)
Net increase (decrease) in cash and cash equivalents	111,238	6,654	(66,231)
Cash and cash equivalents at beginning of year	19,105	12,451	78,682
Cash and cash equivalents at end of year	\$130,343	\$19,105	\$12,451
Supplemental disclosure of cash flow information:			
Cash paid for interest, net of capitalized interest expense	\$62,744	\$58,282	\$63,916
Cash paid for income taxes	\$54	\$84	\$725
Increase in accrued capital improvements and development costs	\$(328)	\$(2,128)	\$(2,404)

(1) See note 3 to the consolidated financial statements for the supplemental disclosure of non-cash investing and financing activities, including the assumption of mortgage debt in conjunction with some of our real estate acquisitions.

See accompanying notes to the consolidated financial statements.

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WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

NOTE 1: NATURE OF BUSINESS

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

Federal Income Taxes

We believe that we qualify as a real estate investment trust (“REIT”) under Sections 856-860 of the Internal Revenue Code and intend to continue to qualify as such. To maintain our status as a REIT, we are required to distribute 90% of our ordinary taxable income to our shareholders. When selling properties, we have the option of (a) reinvesting the sale proceeds of properties sold, allowing for a deferral of income taxes on the sale, (b) paying out capital gains to the shareholders with no tax to WRIT or (c) treating the capital gains as having been distributed to the shareholders, paying the tax on the gain deemed distributed and allocating the tax paid as a credit to the shareholders. During the three years ended December 31, 2013, we sold the following properties (in thousands):

Disposition Date	Property	Type	Gain on Sale
March 19, 2013	Atrium Building	Office	\$3,195
November 2013	Medical Office Portfolio Transactions I & II ⁽¹⁾	Medical Office / Office	18,949
		Total 2013	\$22,144
August 31, 2012	1700 Research Boulevard	Office	\$3,724
December 20, 2012	Plumtree Medical Center	Medical Office	1,400
		Total 2012	\$5,124
April 5, 2011	Dulles Station, Phase I	Office	\$—
October - November 2011	Industrial Portfolio ⁽²⁾	Office/Industrial	97,491
		Total 2011	\$97,491

⁽¹⁾ 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 at 4661 Kenmore Avenue. Subsequent to the end of 2013, we closed on Transaction III, consisting of Woodburn Medical Park I and II, and Transaction IV, consisting of Prosperity Medical Center I, II and III (see note 17).

⁽²⁾ The Industrial Portfolio consists of every property in our industrial segment and two office properties (the Crescent and Albemarle Point).

We have identified a portion of the sold Medical Office Portfolio properties for tax deferred exchange under Section 1031 of the Internal Revenue Code. Section 1031 requires that we identify and close on the acquisition of replacement properties within limited time periods. We may not be able to identify and acquire appropriate replacement properties within the specified time periods. If we do not identify and acquire the replacement properties within the specified time periods, we would expect to recognize a taxable gain with respect to the sale of the Medical Office Portfolio. The amount of this taxable gain would depend upon the timing and size of the replacement property acquisitions and also our other results of operations, and it could be a material amount. If we recognize this taxable gain, we could be required to pay a significant portion of it as a special capital gain dividend to our shareholders or alternatively be subject to income taxes on the taxable gain.

Generally, and subject to our ongoing qualification as a REIT, no provisions for income taxes are necessary except for taxes on undistributed REIT 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, or as calculated under the

alternative minimum tax, as appropriate. As of December 31, 2013, our TRS's had no net deferred tax assets and a net deferred tax liability of \$0.6 million. As of December 31, 2012, our TRS's had no net deferred tax assets and a net deferred tax liability of \$0.6 million. These are primarily related to temporary differences in the timing of the recognition of revenue, amortization and depreciation.

During 2011, we settled on the sale of Dulles Station, Phase I, an office property held by one of our TRS's. After the application of available net operating loss carryforwards, we recognized \$1.1 million in net federal and state income tax liabilities during 2011 in connection with the sale and operations of the entities.

Also during 2011, we recognized a \$14.5 million impairment charge at Dulles Station, Phase II, a development property held by one of our TRS's (see note 3). The impairment charge created a deferred tax asset of \$5.7 million at this TRS, but we have determined that it is more likely than not that this deferred tax asset will not be realized. 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.

The following is a breakdown of the taxable percentage of our dividends for the years ended December 31, 2013, 2012 and 2011,(unaudited):

	2013	2012	2011	
Ordinary income	62	% 72	% 60	%
Return of capital	38	% 26	% 17	%
Qualified dividends	—	% —	% 5	%
Unrecaptured Section 1250 gain	—	% 2	% 13	%
Capital gain	—	% —	% 5	%

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

Principles of Consolidation and Basis of Presentation

The accompanying audited consolidated financial statements include the consolidated accounts of WRIT, our majority-owned subsidiaries and entities in which WRIT has a controlling interest, including where WRIT has been determined to be a primary beneficiary of a variable interest entity (“VIE”). See note 3 for additional information on the properties for which there is a noncontrolling interest. All intercompany balances and transactions have been eliminated in consolidation.

We have prepared the accompanying audited consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission. In addition, in the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the results for the periods presented have been included.

Use of Estimates in the Financial Statements

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

Revenue Recognition

We lease multifamily properties under operating leases with terms of generally one year or less. We lease commercial properties (our office, medical office and retail segments) under operating leases with average terms of three to five years. We recognize rental income and rental abatements from our multifamily and commercial leases when earned on a straight-line basis over the lease term. Recognition of rental income commences when control of the facility has been given to the tenant. 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 review of the current status of our receivables. We recognize percentage rents, which represent additional rents based on gross tenant sales, when tenants’ sales exceed specified thresholds.

We recognize sales of real estate at closing only when sufficient down payments have been obtained, possession and other attributes of ownership have been transferred to the buyer and we have no significant continuing involvement.

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

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable primarily represents amounts accrued and unpaid from tenants in accordance with the terms of the respective leases, subject to our revenue recognition policy. We review receivables monthly and establish reserves when, in the opinion of management, collection of the receivable is doubtful. We establish reserves for tenants whose rent payment history or financial condition casts doubt upon the tenants' ability to perform under their lease obligations. When we deem the collection of a receivable to be doubtful in the same quarter that we established the receivable, then we recognize the allowance for that receivable as an offset to real estate revenues. When we deem a receivable that was initially established in a prior quarter to be doubtful, then we recognize the allowance as an operating expense. In addition to rents due currently, accounts receivable include amounts representing minimal rental income accrued on a straight-line basis to be paid by tenants over the remaining term of their respective leases. Our accounts receivable balances include \$6.2 million and \$6.9 million of notes receivable as of December 31, 2013 and 2012, respectively. Included in these balances is a note receivable we acquired with the 2445 M Street acquisition in 2008.

Deferred Financing Costs

We capitalize and amortize external costs associated with the issuance or assumption of mortgages, notes payable and fees associated with the lines of credit using the effective interest rate method or the straight-line method which approximates the effective interest rate method, over the estimated life of the related debt. We record the amortization of deferred financing costs as interest expense.

Deferred Leasing Costs

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

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

Real Estate and Depreciation

We depreciate buildings on a straight-line basis over estimated useful lives ranging from 28 to 50 years. We capitalize all capital improvements associated with replacements, improvements or major repairs to real property that extend its useful life and depreciate them using the straight-line method over their estimated useful lives ranging from 3 to 30 years. We also capitalize costs incurred in connection with our development projects, including capitalizing interest and other internal costs during periods in which qualifying expenditures have been made and activities necessary to get the development projects ready for their intended use are in progress. In addition, we capitalize tenant leasehold improvements when certain criteria are met, including when we supervise construction and will own the improvements. We depreciate all tenant improvements over the shorter of the useful life of the improvements or the term of the related tenant lease. Real estate depreciation expense from continuing operations was \$63.4 million, \$61.1 million, \$55.1 million during the years ended December 31, 2013, 2012, 2011, respectively.

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

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. Interest expense from continuing operations and interest capitalized to real estate assets related to development and major renovation activities for the three years ended December 31, 2013 were as follows (in thousands):

	Year Ended December 31,		
	2013	2012	2011
Total interest expense from continuing operations	\$64,809	\$62,315	\$62,140

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Capitalized interest	1,236	1,688	738
Interest expense, net of capitalized interest	\$63,573	\$60,627	\$61,402

We recognize impairment losses on long-lived assets used in operations and held for sale, 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

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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 its estimated fair value, calculated in accordance with current GAAP fair value provisions (see note 3).

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

The fair value of in-place leases consists of the following components – (a) the estimated cost to us to replace the leases, including foregone rents during the period of finding a new tenant and foregone recovery of tenant pass-throughs (referred to as “absorption cost”); (b) the estimated cost of tenant improvements, and other direct costs associated with obtaining a new tenant (referred to as “tenant origination cost”); (c) estimated leasing commissions associated with obtaining a new tenant (referred to as “leasing commissions”); (d) the above/at/below market cash flow of the leases, determined by comparing the projected cash flows of the leases in place, including consideration of renewal options, to projected cash flows of comparable market-rate leases (referred to as “net lease intangible”); and (e) the value, if any, of customer relationships, determined based on our evaluation of the specific characteristics of each tenant’s lease and our overall relationship with the tenant (referred to as “customer relationship value”). We have attributed no value to customer relationships as of December 31, 2013 and 2012.

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 remaining life of the underlying leases. We classify leasing commissions and absorption costs as other assets and amortize leasing commissions and absorption costs as amortization expense on a straight-line basis over the remaining life of the underlying leases. We classify net lease intangible assets as other assets and amortize them on a straight-line basis as a decrease to real estate rental revenue over the remaining term of the underlying leases. We classify net lease intangible liabilities as other liabilities and amortize them on a straight-line basis as an increase to real estate rental revenue over the remaining term of the underlying leases. 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, leasing commissions, absorption costs and net lease intangible associated with that lease, over its new, shorter term.

Balances, net of accumulated depreciation or amortization, as appropriate, of the components of the fair value of in-place leases at December 31, 2013 and 2012 were as follows (in thousands):

	December 31,			2012		
	Gross Carrying Value	Accumulated Amortization	Net	Gross Carrying Value	Accumulated Amortization	Net
Tenant origination costs	\$47,697	\$ 29,653	\$ 18,044	\$48,172	\$ 23,719	\$24,453
Leasing commissions/absorption costs	78,629	48,376	30,253	78,464	37,672	40,792
Net lease intangible assets	12,495	7,008	5,487	12,430	5,350	7,080
Net lease intangible liabilities	26,348	19,403	6,945	26,244	17,089	9,155
Below-market ground lease intangible asset	12,080	1,145	10,935	12,080	956	11,124

Amortization of these combined components from continuing operations for the three years ended December 31, 2013 was as follows (in thousands):

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	Year Ended December 31,		
	2013	2012	2011
Amortization	\$17,290	\$19,573	\$13,704

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

2014	\$ 14,675
2015	11,886
2016	8,957
2017	5,830
2018	3,333

Discontinued Operations

We classify properties as held for sale when they meet the necessary criteria, which include: (a) senior management commits to and actively embarks upon a plan to sell the assets, (b) the sale is expected to be completed within one year under terms usual and customary for such sales and (c) actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. We generally consider that a property has met these criteria when a sale of the property has been approved by the Board of Trustees, or a committee with authorization from the Board, there are no known significant contingencies related to the sale and management believes it is probable that the sale will be completed within one year. Depreciation on these properties is discontinued at the time they are classified as held for sale, but operating revenues, operating expenses and interest expense continue to be recognized until the date of sale.

Revenues and expenses of properties that are either sold or classified as held for sale are presented as discontinued operations for all periods presented in the consolidated statements of income. Interest on debt that can be identified as specifically attributed to these properties is included in discontinued operations. We do not have significant continuing involvement in the operations of any of our disposed properties.

Segments

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

Cash and Cash Equivalents

Cash and cash equivalents include cash and commercial paper with original maturities of 90 days or less. WRIT maintains cash deposits with financial institutions that at times exceeds applicable insurance limits. WRIT reduces this risk by maintaining such deposits with high quality financial institutions that management believe are credit-worthy.

Restricted Cash

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

Earnings Per Common Share

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

We also determine "Diluted earnings per share" under the two-class method with respect to the unvested restricted share awards. We further evaluate any other potentially dilutive securities at the end of the period and adjust the basic earnings per share calculation for the impact of those securities that are dilutive. Our dilutive earnings per share calculation includes the dilutive impact of employee stock options based on the treasury stock method and our

performance share units under the contingently issuable method. The dilutive earnings per share calculation also considers our operating partnership units.

Stock Based Compensation

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

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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 over the performance period using the graded expense method. We measure compensation expense for awards with market conditions based on the grant date fair value, as determined using a Monte Carlo simulation, and we amortize the expense ratably over the requisite service period, regardless of whether the market conditions are achieved and the awards ultimately vest. Compensation expense for the trustee grants, which fully vest immediately, is fully recognized upon issuance based upon the fair market value of the shares on the date of grant.

Accounting for Uncertainty in Income Taxes

We can recognize a tax benefit only if it is "more likely than not" that a particular tax position will be sustained upon examination or audit. To the extent that the "more likely than not" standard has been satisfied, the benefit associated with a tax position is measured as the largest amount that is greater than 50% likely of being recognized upon settlement.

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

Tax returns filed for 2009 through 2013 tax years are subject to examination by taxing authorities. We classify interest and penalties related to uncertain tax positions, if any, in our financial statements as a component of general and administrative expense.

Reclassifications

Certain prior year amounts have been reclassified from continuing operations to discontinued operations to conform to the current year presentation (see note 3). In addition, we reclassified \$0.3 million of real estate deposits from operating activities to investing activities in the consolidated statement of cash flows for the year ended December 31, 2012.

NOTE 3: REAL ESTATE

Continuing Operations

As of December 31, 2013 and 2012, our real estate investment portfolio, at cost, consists of properties as follows (in thousands):

	December 31,	
	2013	2012
Office	\$1,296,967	\$1,261,534
Retail	415,899	411,948
Multifamily	389,361	331,901
	\$2,102,227	\$2,005,383

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

As of December 31, 2013, no single property or tenant accounted for more than 10% of total assets or total real estate rental revenue.

We had properties under development or held for development as of December 31, 2013. In the office segment, we had a redevelopment project to renovate 7900 Westpark Drive and land held for development at Dulles Station, Phase II. In the multifamily segment, we had land under development at 650 North Glebe Road and held for development at 1225 First Street.

The cost of our real estate portfolio under development or held for development as of December 31, 2013 and 2012 is as follows (in thousands):

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	December 31,	
	2013	2012
Office	\$12,175	\$8,922
Retail	495	587
Multifamily	48,645	35,761
	\$61,315	\$45,270

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Acquisitions

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 seek to upgrade our portfolio with acquisitions as opportunities arise. Properties and land for development acquired during the years ending December 31, 2013, 2012 and 2011 were as follows:

Acquisition Date	Property	Type	Rentable Square Feet (unaudited)	Contract Purchase Price (In thousands)
October 1, 2013	The Paramount (135 units)	Multifamily	N/A	\$48,200
		Total 2013		\$48,200
June 21, 2012	Fairgate at Ballston	Office	142,000	\$52,250
		Total 2012	142,000	\$52,250
January 11, 2011	1140 Connecticut Ave	Office	188,000	\$80,250
March 30, 2011	1227 25th Street	Office	132,000	47,000
June 15, 2011	650 North Glebe Road ⁽¹⁾	Mutifamily	N/A	11,800
August 30, 2011	Olney Village Center	Retail	198,000	58,000
September 13, 2011	Braddock Metro Center	Office	351,000	101,000
September 15, 2011	John Marshall II	Office	223,000	73,500
November 23, 2011	1225 First Street ⁽¹⁾	Mutifamily	N/A	13,850
		Total 2011	1,092,000	\$385,400

⁽¹⁾ Land for development. 650 North Glebe Road is currently under development and development has been suspended at 1225 First Street.

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

The revenue and earnings of our acquisitions during their year of acquisition for the three years ended December 31, 2013 are as follows (in thousands):

	Year Ended December 31,		
	2013	2012	2011
Real estate rental revenue	\$907	\$3,358	\$20,944
Net (loss) income	(105	) 325	484

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

We have recorded the total purchase price of the above acquisitions as follows (in thousands):

	2013	2012	2011
Land	\$8,568	\$17,750	\$90,896
Buildings	37,930	26,893	219,613
Tenant origination costs	32	3,100	15,667
Leasing commissions/absorption costs	943	4,172	29,719
Net lease intangible assets	102	508	6,805
Net lease intangible liabilities	(117	) (173	) (2,454
Fair value of assumed mortgage	—	—	(78,500
Furniture, fixtures & equipment	742	—	—

Total	\$48,200	\$52,250	\$281,746
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The weighted remaining average life for the 2013 acquisition components above, other than land and building, are 110 months for tenant origination costs, 22 months for leasing commissions/absorption costs, 81 months for net lease intangible assets and 88 months for net lease intangible liabilities.

The difference in the contract purchase price of \$52.3 million for the 2012 acquisition and the cash paid for the acquisition per the consolidated statements of cash flows of \$52.1 million is primarily related to credits received at settlement totaling \$0.1 million.

The difference in the total contract price of \$385.4 million for the 2011 acquisitions and the acquisition cost per the consolidated statements of cash flows of \$281.7 million is primarily related to the two mortgage notes assumed for \$76.7 million relating to John Marshall II and Olney Village Center, cash paid for the acquisition of land at 650 North Glebe Road for \$11.8 million and at 1225 First Street for \$13.9 million included in development, and credits received at settlement totaling \$1.3 million.

Noncontrolling Interests in Subsidiaries

In August 2007, we acquired a 0.8 acre parcel of land located at 4661 Kenmore Avenue, Alexandria, Virginia for future medical office development. The acquisition was funded by issuing operating partnership units in an operating partnership, which is a consolidated subsidiary of WRIT. This resulted in a noncontrolling ownership interest in this property based upon defined company operating partnership units at the date of purchase. In November 2013, 4661 Kenmore Avenue was sold as part of the Medical Office Portfolio (see "Discontinued Operations").

Variable Interest Entities

In June 2011, we executed a joint venture operating agreement with a real estate development company to develop a mid-rise multifamily property at 650 North Glebe Road in Arlington, Virginia. We estimate the total cost of the project to be \$49.9 million, and we secured third-party debt financing totaling \$33.0 million (see note 4). WRIT is the 90% owner of the joint venture, and will have management and leasing responsibilities when the project is completed and stabilized (defined as 90% of the residential units leased). The real estate development company owns 10% of the joint venture and is responsible for the development and construction of the property. The joint venture currently expects to complete this development project during the fourth quarter of 2014.

In November 2011, we executed a joint venture operating agreement with a real estate development company to develop a high-rise multifamily property at 1225 First Street (formerly 1219 First Street) in Alexandria, Virginia. We estimate the total cost of the project to be \$95.3 million, with approximately 70% of the project financed with debt. WRIT is the 95% owner of the joint venture and will have management and leasing responsibilities when the project is completed and stabilized. The real estate development company owns 5% of the joint venture and is responsible for the development and construction of the property. In the first quarter of 2013, we decided to delay commencement of construction due to market conditions and concerns of oversupply. We continue to reassess this project on a periodic basis going forward.

We have determined that the 650 North Glebe Road and 1225 First Street joint ventures are VIE's primarily based on the fact that the equity investment at risk is not sufficient to permit either entity to finance its activities without additional financial support. We expect that 70% of the total development costs will be financed through debt. We have also determined that WRIT is the primary beneficiary of each VIE due to the fact that WRIT is providing 90% to 95% of the equity contributions and will manage each property after stabilization.

We include the joint venture land acquisitions and related capitalized development costs on our consolidated balance sheets in properties under development or held for development, consistent with other development activity. As of December 31, 2013 and 2012, the land and capitalized development costs were as follows (in thousands):

December 31,	
2013	2012

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650 North Glebe Road	\$27,343	\$15,646
1225 First Street	20,788	19,807

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As of December 31, 2013 and 2012, the accounts payable and accrued liabilities related to the joint ventures were as follows (in thousands):

	December 31,	
	2013	2012
650 North Glebe Road	\$1,785	\$115
1225 First Street	39	1,676

Discontinued Operations

We dispose of assets that no longer meet our long-term strategy or return objectives and where market conditions for sale are favorable. The proceeds from the sales may be reinvested into other properties, used to fund development operations or to support other corporate needs, or distributed to our shareholders. Properties are considered held for sale when they meet specified criteria (see "Discontinued Operations" in note 2). Depreciation on these properties is discontinued at that time, but operating revenues, other operating expenses and interest continue to be recognized until the date of sale.

In September 2013, we entered into four separate purchase and sale agreements to effectuate the sale of our entire medical office segment (including land held for development at 4661 Kenmore Avenue) and two office buildings (Woodholme Center and 6565 Arlington Boulevard) for an aggregate purchase price of \$500.8 million. The sale was structured as four transactions. Transactions I & II closed in November 2013. In January 2014, we closed on the remaining two transactions.

The impact of the sale on our medical office segment on revenues and net income is summarized as follows (in thousands, except per share data):

	December 31,		
	2013	2012	2011
Real estate revenues	\$41,012	\$44,674	\$44,431
Net income	14,044	8,128	10,393
Basic net income per share	0.21	0.12	0.16
Diluted net income per share	0.21	0.12	0.16

During 2011, we sold our industrial segment, the impact of the disposal on revenues and net income for the three years ended December 31, 2013 were as follows (in thousands, except per share data):

	Year Ended December 31,		
	2013	2012	2011
Real estate revenues	\$—	\$—	\$23,045
Net income	—	—	16,484
Basic net income per share	—	—	0.23
Diluted net income per share	—	—	0.23

We sold or classified as held for sale the following properties during the three years ended December 31, 2013:

Property	Type	Rentable Square Feet (unaudited)	Contract Sales Price (in thousands)	Gain on Sale (in thousands)
Atrium Building	Office	79,000	\$15,750	\$3,195
Medical Office Portfolio Transactions I & II	Medical Office / Office	1,093,000	307,189	18,949
Medical Office Portfolio Transactions III & IV	Medical Office	427,000	193,561	N/A
	Total 2013	1,599,000	\$516,500	\$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
Industrial Portfolio	Industrial/Office	3,092,000	\$350,900	\$97,491
Dulles Station, Phase I	Office	180,000	58,800	—
	Total 2011	3,272,000	\$409,700	\$97,491

As of December 31, 2013 and 2012, investment in real estate for properties sold or held for sale were as follows (in thousands):

	December 31,	
	2013	2012
Office	\$—	\$71,605
Medical office	125,967	406,874
Total	\$125,967	\$478,479
Less accumulated depreciation	(46,066	) (113,480
Investment in real estate sold or held for sale, net	\$79,901	\$364,999

As of December 31, 2013 and 2012, liabilities related to properties sold or held for sale were as follows (in thousands):

	December 31,	
	2013	2012
Mortgage notes payable	\$—	\$23,945
Other liabilities	1,533	8,412
Liabilities related to properties sold or held for sale	\$1,533	\$32,357

Income from operations of properties sold or held for sale for the three years ended December 31, 2013 was as follows (in thousands):

	December 31,		
	2013	2012	2011
Revenues	\$45,791	\$54,344	\$80,948
Property expenses	(17,039	) (18,273	) (25,265
Real estate impairment	—	(2,097	) (599
Depreciation and amortization	(12,161	) (18,827	) (26,125
Interest expense	(1,196	) (4,331	) (5,545
	\$15,395	\$10,816	\$23,414

Income from operations of properties sold or held for sale by property for the three years ended December 31, 2013 was as follows (in thousands):

Property	Segment	Year Ending December 31,		
		2013	2012	2011
Dulles Station, Phase I	Office	\$—	\$—	\$(468)
Industrial Portfolio	Industrial/Office	—	—	10,621
1700 Research Boulevard	Office	—	225	651
Plumtree Medical Center	Medical Office	—	197	67
Atrium Building	Office	185	1,063	1,052
Medical Office Portfolio	Medical/Office	15,210	9,331	11,491
		\$15,395	\$10,816	\$23,414

Real Estate Impairment

During the fourth quarter of 2012, we determined that the development of a medical office building at 4661 Kenmore Avenue in Alexandria, Virginia was no longer probable due to a change in corporate strategy. Due to this determination, we recognized in discontinued operations an impairment charge of \$2.1 million during the fourth quarter of 2012 in order to reduce the carrying value of the land at 4661 Kenmore Avenue to its estimated fair value of \$3.8 million. 4661 Kenmore Avenue was sold during 2013.

During the fourth quarter of 2011, we reviewed changes in market conditions, specifically higher vacancy and lower rental rates in the Washington metro region office market and other circumstances affecting the Herndon submarket, such as the increased uncertainty surrounding the timing of the completion of the second phase of the Dulles Metrorail project, and reassessed the likelihood that we would follow through on these development plans. Based upon the foregoing review and assessment, we determined that the development of the land at Dulles Station, Phase II was not probable under those market conditions. Due to this determination, we recognized in continuing operations a \$14.5 million impairment charge during the fourth quarter of 2011 in order to reduce the carrying value of the land and garage at Dulles Station, Phase II to its fair value. In addition, we recognized in discontinued operations an impairment charge of \$0.6 million at Dulles Station, Phase I, which was sold during 2011.

We used a combination of internal models and third-party valuation estimates to determine the fair values of 4661 Kenmore Avenue and Dulles Station, Phase II. These fair valuations incorporated both market and income approaches, including recent comparable land sales and return on cost of development metrics. The valuations are inherently subjective because there are few observable market transactions for similar land, and therefore we, through discussions with market participants, made certain significant assumptions with respect to appropriate comparable transactions to consider, cash flow estimates and discount rates. Our estimate of the fair value of the land was further corroborated by an independent third-party valuation specialist. These fair valuations fall into Level 3 in the fair value hierarchy due to its reliance on significant unobservable inputs.

NOTE 4: MORTGAGE NOTES PAYABLE

As of December 31, 2013 and 2012, we had outstanding mortgage notes payable, each collateralized by one or more buildings and related land from our portfolio, as follows (in thousands):

Properties	Assumption/Issuance Date ⁽¹⁾	Effective Interest Rate ⁽²⁾	December 31,		Payoff Date/Maturity Date
			2013	2012	
650 North Glebe Road ^{(3), (4)}	2/21/2013	2.31	% \$7,297	\$—	2/21/2016
John Marshall II	9/15/2011	5.79	% \$52,563	\$53,274	5/5/2016
Olney Village Center	8/30/2011	4.94	% 20,743	22,343	10/1/2023
Kenmore Apartments	2/2/2009	5.37	% 34,937	35,535	3/1/2019
2445 M Street ⁽⁴⁾	12/2/2008	7.25	% 98,102	96,848	1/6/2017
3801 Connecticut Avenue, Walker House and Bethesda Hill ⁽⁵⁾	5/29/2008	5.71	% 81,029	81,029	6/1/2016
Ashburn Farm Office Park ⁽⁶⁾	6/1/2007	5.56	% —	2,313	11/21/2013
Ashburn Farm III Office Park ⁽⁷⁾	6/1/2007	5.69	% —	2,024	11/21/2013
Woodholme Medical Office Center ⁽⁸⁾	6/1/2007	5.29	% —	19,608	11/22/2013
West Gude Drive ⁽⁹⁾	8/25/2006	5.86	% —	29,996	1/11/2013
			\$294,671	\$342,970	

⁽¹⁾ Each of these mortgages was assumed with the acquisition of the collateralized properties, except for the mortgage notes secured by 3801 Connecticut Avenue, Walker House, Bethesda Hill, Kenmore Apartments, and the construction loan secured by the development project at 650 North Glebe Road, which were originally executed by WRIT. We record mortgages assumed in an acquisition at fair value, and balances presented include any recorded premiums or discounts.

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

⁽³⁾ Interest rate on 650 North Glebe Road is variable, based on LIBOR plus 2.15%. The maturity date can be extended for up to two years, subject to fees and compliance with certain provisions in the loan agreement, until February 20, 2018.

⁽⁴⁾ Interest only is payable monthly until the maturity date upon which all unpaid principal and interest are payable in full.

⁽⁵⁾ Interest only is payable monthly until the maturity date, which can be extended for one year upon which the interest rate is reset on June 1, 2016. At maturity on June 1, 2017, all unpaid principal and interest are payable in full.

⁽⁶⁾ In November 2013, we extinguished the remaining \$2.2 million of principal on the mortgage note secured by Ashburn Farm Office Park with extinguishment costs of \$0.5 million.

⁽⁷⁾ In November 2013, we extinguished the remaining \$1.9 million of principal on the mortgage note secured by Ashburn Farm III Office Park, with extinguishment costs of \$0.4 million.

⁽⁸⁾ In November 2013, we extinguished the remaining \$19.3 million of principal on the mortgage note secured by Woodholme Medical Office Center, with extinguishment costs of \$1.8 million.

⁽⁹⁾ In January 2013, we extinguished without penalty the remaining \$30.0 million of principal on the mortgage note secured by West Gude Drive.

The mortgage notes secured by Ashburn Farm Office Park I and II and Woodholme Medical Office Building are included in "Other liabilities related to properties sold or held for sale" on our consolidated balance sheets as of December 31, 2012, as the properties were sold in 2013.

Except as noted above, principal and interest are payable monthly until the maturity date, upon which all unpaid principal and

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interest are payable in full.

Total carrying amount of the above mortgaged properties was \$433.7 million and \$510.0 million at December 31, 2013 and 2012, respectively.

Scheduled principal payments subsequent to December 31, 2013 are as follows (in thousands):

2014	\$2,840
2015	3,017
2016	141,688
2017	104,369
2018	2,661
Thereafter	42,625
	297,200
Net discounts/premiums	(2,529)
Total	\$294,671

NOTE 5: UNSECURED LINES OF CREDIT PAYABLE

As of December 31, 2013, we maintained a \$100.0 million unsecured line of credit maturing in June 2015 (“Credit Facility No. 1”) and a \$400.0 million unsecured line of credit maturing in July 2016 (“Credit Facility No. 2”). Credit Facility No. 1 and No. 2 have accordion features that allow us to increase the facilities to \$200.0 million and \$600.0 million, respectively, subject to additional lender commitments. The amounts of these lines of credit unused and available at December 31, 2013 were as follows (in thousands):

	Credit Facility No. 1	Credit Facility No. 2
Committed capacity	\$100,000	\$400,000
Borrowings outstanding	—	—
Letters of credit issued	—	—
Unused and available	\$100,000	\$400,000

We executed borrowings and repayments on the unsecured lines of credit during 2013 as follows (in thousands):

	Credit Facility No. 1	Credit Facility No. 2
Balance at December 31, 2012	\$—	\$—
Borrowings	100,000	60,000
Repayments	(100,000)	(60,000)
Balance at December 31, 2013	\$—	\$—

We made borrowings to pay off the West Gude mortgage note and our 5.125% unsecured notes, fund the acquisition of The Paramount and for general corporate purposes. We made repayments during the year ended December 31, 2013 using proceeds from the sale of The Atrium Building, the sale of the Medical Office Portfolio transactions I & II, and cash from operations.

Borrowings under Credit Facility No. 1 and No. 2 bear interest at LIBOR plus a spread based on the credit rating on our publicly issued debt. The interest rate spread is 120 basis points for each facility.

All outstanding advances for Credit Facility No. 1 and No. 2 are due and payable upon maturity in June 2015 and July 2016, respectively. Credit Facility No. 1 and No. 2 may be extended for one year at our option. Interest only payments are due and payable generally on a monthly basis. For the three years ended December 31, 2013, we recognized interest expense (excluding facility fees) as follows (in thousands):

	Year Ended December 31,		
	2013	2012	2011
Credit Facility No. 1	\$281	\$470	\$355
Credit Facility No. 2	586	783	2,735

In addition, we pay a facility fee based on the credit rating of our publicly issued debt which as of December 31, 2013 equals 0.25% per annum of the committed capacity of each facility, without regard to usage. Rates and fees may be adjusted up or down

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based on changes in our senior unsecured credit ratings. For the three years ended December 31, 2013, we incurred facility fees as follows (in thousands):

	Year Ended December 31,		
	2013	2012	2011
Credit Facility No. 1	\$253	\$175	\$114
Credit Facility No. 2	1,014	887	658

Credit Facility No. 1 and No. 2 contain certain financial and non-financial covenants, all of which we have met as of December 31, 2013 and 2012. Included in these covenants is the requirement to maintain a minimum level of net worth, as well as limits on our total liabilities, secured indebtedness and required debt service payments.

Information related to revolving credit facilities for the three years ended December 31, 2013 as follows (in thousands, except percentage amounts):

	Year Ended December 31,			
	2013	2012	2011	
Total revolving credit facilities at December 31	\$500,000	\$500,000	\$475,000	
Borrowings outstanding at December 31	—	—	99,000	
Weighted average daily borrowings during the year	61,548	108,589	160,090	
Maximum daily borrowings during the year	135,000	242,000	281,000	
Weighted average interest rate during the year	1.41	% 1.15	% 1.90	%
Weighted average interest rate on borrowings outstanding at December 31	N/A	N/A	0.90	%

NOTE 6: NOTES PAYABLE

Our unsecured notes outstanding as of December 31, 2013 were as follows (in thousands):

	Coupon/Stated Rate	Effective Rate ⁽¹⁾	Principal Amount	Maturity Date ⁽²⁾
10 Year Unsecured Notes	5.25	% 5.339	% \$100,000	1/15/2014
10 Year Unsecured Notes	5.35	% 5.359	% 50,000	5/1/2015
10 Year Unsecured Notes	5.35	% 5.490	% 100,000	5/1/2015
10 Year Unsecured Notes	4.95	% 5.053	% 250,000	10/1/2020
10 Year Unsecured Notes	3.95	% 4.018	% 300,000	10/15/2022
30 Year Unsecured Notes	7.25	% 7.360	% 50,000	2/25/2028
Total principal			850,000	
Net unamortized discount			(3,297)	
Total			\$846,703	

⁽¹⁾ Yield on issuance date, including the effects of discounts on the notes.

⁽²⁾ No principal amounts are due prior to maturity.

We extinguished the remaining \$60.0 million of our 5.125% unsecured notes on their due date of March 15, 2013, using borrowings on our unsecured line of credit.

After December 31, 2013, we extinguished the remaining \$100.0 million of our 5.25% unsecured notes on its maturity date.

The required principal payments excluding the effects of note discounts or premium for the remaining years subsequent to December 31, 2013 are as follows (in thousands):

2014	\$ 100,000
2015	150,000
2016	—
2017	—
2018	—
Thereafter	600,000
	\$ 850,000

Interest on these notes is payable semi-annually. These notes contain certain financial and non-financial covenants, all of which we have met as of December 31, 2013. Included in these covenants is the requirement to maintain a minimum level of unencumbered assets, as well as limits on our total indebtedness, secured indebtedness and required debt service payments.

The covenants under our line of credit agreements require us t