WASHINGTON REAL ESTATE INVESTMENT TRUST
Form 10-K
February 26, 2016

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

FORM 10-K

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

For fiscal year ended December 31, 2015

OR

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

COMMISSION FILE NO. 001-06622

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As of June 30, 2015, the aggregate market value of such shares held by non-affiliates of the registrant was $1,758,593,812 (based on the closing price of the stock on June 30, 2015).

As of February 22, 2016, 68,191,846 common shares were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our definitive Proxy Statement relating to the 2016 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
2015 FORM 10-K ANNUAL REPORT
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PART I

ITEM 1: BUSINESS

Washington REIT Overview

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

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

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

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

Our Regional Economy and Real Estate Markets

The Washington metro region experienced strong job growth during 2015 with 68,500 net job additions, according to the Bureau of Labor Statistics. Of this job growth, 38% was related to professional and business services compared to 15% in 2014. The private sector has been the primary source of the job growth, while employment related to the federal government has stabilized after several years of decline. 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 region's unemployment rate was 4.3% as of October 2015, down from 4.7% in the prior year and lower than the national average of 5.0%. Delta expects the Washington metro region's strong job growth to continue in 2016, with expansion driven by the private sector.

The Washington metro region's strong job growth generally resulted in modest improvements in the real estate market performance for each of our segments. Market statistics and information for the Washington metro region from Delta are set forth below:

Office

	2015		2014	
Increase in average effective rents	2.3	%	1.3	%
Direct vacancy rate at year end	11.2	%	11.1	%
Net absorption (in millions of square feet) [1]	0.5		0.4	
Office space under construction at year end (in millions of square feet)	4.0		4.1	

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

The small increase in direct vacancy rates is primarily due to new deliveries of office buildings and the direct vacancy rate in our region is well below the national average of 16.5%. Delta projects gradual improvement in office vacancy and effective rents during 2016 due to stronger demand for office space.

Multifamily

	2015		2014	
Increase in net effective rents (Class A and B)	0.5	%	1.2	%
Increase in net effective rents (Class A)	0.5	%	1.0	%
Stabilized vacancy rate (Class A and B)	3.9	%	4.6	%
Stabilized vacancy rate (Class A)	4.6	%	5.6	%
New Class A and B apartment deliveries (# of units)	12,310		14,286	

Source: Delta

The multifamily real estate market remained steady during 2015 despite the large influx of new supply. Class A and B apartment deliveries are projected by Delta to increase to approximately 14,000 units in 2016. Delta expects strong demand to lead to higher rental rates in 2016 despite the new deliveries.

Retail

	2015		2014	
Increase in rental rates at grocery-anchored centers	2.9	%	2.3	%
Vacancy at grocery-anchored centers at year end	4.4	%	5.5	%

Source: Delta

The retail real estate market in the Washington metro region continues to show steady, but modest, improvement. Delta projects continued improvement in 2016 due to low unemployment.

Our Portfolio

As of December 31, 2015, we owned a diversified portfolio of 54 properties, totaling approximately 7.2 million square feet of commercial space and 3,258 residential units, and land held for development. These 54 properties consist of 25 office properties,13 multifamily properties and 16 retail centers. The percentage of total real estate rental revenue by segment for the three years ended December 31, 2015, 2014 and 2013, and the percent leased as of December 31, 2015, were as follows:

Percent Leased		% of Total Real Estate Rental Revenue[(1)]					
December 31, 2015[(2)]		2015		2014		2013	
92%	Office	57	%	57	%	58	%
96%	Multifamily	22	%	22	%	21	%
95%	Retail	21	%	21	%	21	%
		100	%	100	%	100	%

(1) Data excludes discontinued operations.

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

On a combined basis, our commercial portfolio (i.e., our office and retail properties) was 93% leased at December 31, 2015, 91% leased at December 31, 2014 and 92% leased at December 31, 2013.

Total real estate rental revenue from continuing operations for the each of the three years ended December 31, 2015 was $306.4 million, $288.6 million and $263.0 million, respectively. During the three years ended December 31, 2015, we acquired two office properties, three multifamily properties (including a parcel for development) and one retail property, and substantially completed major construction activities at one multifamily development project and one office redevelopment project. During that same period, we sold our entire medical office segment, three office properties, two multifamily properties, one retail property, interests in land held for development and a parcel of land at a retail property.

The commercial lease expirations for the next ten years and thereafter are as follows:

	# of Leases	Square Feet	Gross Annual Rent (in thousands)	Percentage of Total Gross Annual Rent	
Office:					
2016	102	429,087	$17,128	9	%
2017	88	566,574	21,901	12	%
2018	92	461,318	17,293	10	%
2019	89	703,590	27,954	15	%
2020	83	558,369	23,937	13	%
2021	58	479,586	18,722	10	%
2022	33	317,616	14,588	8	%
2023	30	165,175	6,861	4	%
2024	31	221,857	9,206	5	%
2025	22	134,265	6,710	4	%
Thereafter	29	486,457	18,710	10	%
Total	657	4,523,894	$183,010	100	%
Retail:					
2016	21	96,231	$2,916	6	%
2017	43	255,342	6,886	13	%
2018	37	334,958	4,876	9	%
2019	32	158,213	4,466	8	%
2020	37	407,969	7,363	14	%
2021	19	212,394	3,846	7	%
2022	21	139,650	3,530	7	%
2023	17	122,465	4,067	8	%
2024	24	164,413	4,643	9	%
2025	17	101,659	2,997	6	%
Thereafter	16	174,145	6,712	13	%
Total	284	2,167,439	$52,302	100	%

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 2015. Due to our geographic concentration in the Washington metro area, a significant amount of our tenants have historically been concentrated in the professional/business services and government sectors, although the exact amount will vary from time to time. As a result of this concentration, we are susceptible to business trends (both positive and negative) that affect the outlook for these sectors. In particular, a significant reduction in federal government spending could seriously impact these sectors.

No single tenant accounted for more than 5% of real estate rental revenue in 2015, 2014 or 2013. All federal government tenants in the aggregate accounted for less than 1% of our 2015 real estate rental revenue. Federal government tenants include the Department of Defense, Social Security Administration, Federal Bureau of Investigation and Office of Personnel Management.

Our ten largest tenants, in terms of real estate rental revenue for 2015, are as follows:

1. World Bank
2. Advisory Board Company
3. Booz Allen Hamilton, Inc.
4. Squire Patton Boggs (USA) LLP
5. Engility Corporation
6. Hughes Hubbard & Reed LLP
7. Epstein, Becker & Green, P.C.
8. Morgan Stanley, Smith Barney
9. General Services Administration
10. SunTrust Bank

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

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

We make capital improvements to our properties on an ongoing basis for the purpose of maintaining and increasing their value and income. Major improvements and/or renovations to the properties during the three years ended December 31, 2015 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 22, 2016, we had 174 employees including 99 persons engaged in property management functions and 75 persons engaged in corporate, financial, leasing, asset management and other functions.

REIT Tax Status

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

Generally, and subject to our ongoing qualification as a REIT, no provisions for income taxes are necessary except for taxes on undistributed taxable income and taxes on the income generated by our taxable REIT subsidiaries ("TRSs").

Our TRSs are subject to corporate federal, state and local income tax on their taxable income at regular statutory rates (see note 1 to the consolidated financial statements for further disclosure).

Tax Treatment of Recent Disposition Activity

We sold our interests in the following properties during the three years ended December 31, 2015:

Property	Type	# of units	Rentable Square Feet	Contract Sales Price (in thousands)	Gain on Sale (in thousands)
Country Club Towers	Multifamily	227	N/A	$ 37,800	$ 30,277
1225 First Street [(1)]	Multifamily	N/A	N/A	14,500	—
Munson Hill Towers	Multifamily	279	N/A	57,050	51,395
Montgomery Village Center	Retail	N/A	197,000	27,750	7,981
	Total 2015	506	197,000	$ 137,100	$ 89,653
Medical Office Portfolio Transactions III & IV [(2)]	Medical Office	N/A	427,000	$ 193,561	$ 105,985
5740 Columbia Road	Retail	N/A	3,000	1,600	570
	Total 2014		430,000	$ 195,161	$ 106,555
Atrium Building	Office	N/A	79,000	$ 15,750	$ 3,195
Medical Office Portfolio Transactions I & II [(2)]	Medical Office / Office	N/A	1,093,000	307,189	18,949
	Total 2013		1,172,000	$ 322,939	$ 22,144

(1) 95% interest in land held for future development.

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

All disclosed gains on sale are calculated in accordance with U.S. generally accepted accounting principles (“GAAP”). We reinvested a portion of the Medical Office Portfolio, Country Club Towers, Munson Hill Towers and Montgomery Village Center sales proceeds in replacement properties through deferred tax exchanges.

We distributed all of our ordinary taxable income for the three years ended December 31, 2015 to our shareholders.

Availability of Reports

Copies of this Annual Report on Form 10-K, as well as our Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to such reports are available, free of charge, on the Internet on our website www.washreit.com. All required reports are made available on the website as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission. The reference to our website address does not constitute incorporation by reference of the information contained in the website and such information should not be considered part of this document.

ITEM 1A: RISK FACTORS
Set forth below are the risks that we believe are material to our shareholders. We refer to the shares of beneficial interest in Washington REIT as our “common shares,” and the investors who own shares as our “shareholders.” This section includes or refers to certain forward-looking statements. You should refer to the explanation of the qualifications and limitations on such forward-looking statements beginning on page 45.

Risks Related to our Business and Operations

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

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

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

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

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

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

As a REIT operating exclusively in the Washington metro region, a significant portion of our properties is occupied by tenants that are directly or indirectly serving the United States Government as federal contractors or otherwise. A significant reduction in federal government spending, particularly a sudden decrease due to a sequestration process, such as occurred in recent years, could adversely affect the ability of these tenants to fulfill lease obligations or decrease the likelihood that they will renew their leases with us. Further, economic conditions in the Washington metro region are significantly dependent upon the level of federal government spending in the region as a whole. In the event of a significant reduction in federal government spending, there could be negative economic changes in our region which could adversely impact the ability of our tenants to perform their financial obligations under our leases or the likelihood of their lease renewals. As a result, if such a reduction in federal government spending were to occur, we could experience an adverse effect on our financial condition, results of operations, cash flows and ability to make distributions to our shareholders.

We face risks associated with property development/redevelopment.

We may, from time to time, engage in development and redevelopment activities, some of which may be significant. Developing or redeveloping properties presents a number of risks for us, including risks that:

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

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

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

We face risks associated with property acquisitions.

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

- we may have difficulty finding properties that are consistent with our strategies and that meet our standards;
- we may have difficulty negotiating with new or existing tenants;
- we may be unable to finance acquisitions on favorable terms or at all;
- the occupancy levels, lease-up timing and rental rates may not meet our expectations;
- 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;
- competition from other real estate investors may significantly increase the purchase price;
- we may be unable to acquire a desired property because of competition from other real estate investors, including publicly traded real estate investment trusts, institutional investment funds and private investors;
- even if we enter into an acquisition agreement for a property, it is subject to customary conditions to closing, including completion of due diligence investigations which may have findings that are unacceptable;
-

the timing of property acquisitions may lag the timing of property dispositions, leading to periods of time where projects' proceeds are not invested as profitably as we desire;

- 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 cost of capital;
- we may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into our existing operations;
- our estimates of capital expenditures required for an acquired property, including the costs of repositioning or redeveloping, may be inaccurate; and
- we could experience a decline in value of the acquired assets after acquisition.

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

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

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

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

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

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

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

Real estate investments can be difficult to sell and convert to cash quickly, especially if market conditions are not favorable. Such illiquidity could limit our ability to quickly change our portfolio of properties in response to changes in economic or other conditions. Moreover, the tax laws applicable to REITs require that we hold our properties for investment, rather than primarily for sale in the ordinary course of business, which may cause us to forego or defer sales of properties that otherwise would be in our best interest. Due to these factors, we may be unable to sell a property at an advantageous time which could negatively impact our profitability.

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

As of December 31, 2015, the percentage of leased square footage of our commercial properties classified as continuing operations will expire as set forth in the lease expiration tables on page 6.

Multifamily properties are leased under operating leases with terms of generally one year or less. For each the three years ended December 31, 2015, the multifamily tenant retention rate was 62%, 60% and 43%, 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 re-lease the space. If tenants decide to renew their leases, the terms of renewals, including the cost of required improvements or concessions, may be less favorable than current lease terms. If the rental rates of our properties decrease, our existing tenants do not renew their leases (refer to the list of our ten largest tenants as of December 31, 2015 on page 7) or we do not re-lease a significant portion of our available and soon-to-be-available space, our financial condition, results of operations, cash flow and our ability to satisfy our principal and interest obligations and to make distributions to our shareholders could be adversely affected.

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

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

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

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

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

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

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

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

- direct obligations issued by the U.S. Treasury;
- obligations issued or guaranteed by the U.S. government or its agencies;
- taxable municipal securities;
- obligations (including certificates of deposit) of banks and thrifts;
- commercial paper and other instruments consisting of short-term U.S. dollar denominated obligations issued by corporations and banks;
- repurchase agreements collateralized by corporate and asset-backed obligations;
- registered and unregistered money market funds; and
- other highly-rated short-term securities.

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

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

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

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

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

We carry insurance coverage on our properties of types and in amounts that we believe are in line with coverage customarily obtained by owners of similar properties. We believe all of our properties are adequately insured. The property insurance that we maintain for our properties has historically been on an “all risk” basis, which is in full force and effect until renewal in August 2016. There are other types of losses, such as from wars or catastrophic events, for which we cannot obtain insurance at all or at a reasonable cost.

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

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

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

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

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

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

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

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

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

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

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

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

The costs associated with these issues could be substantial and, in extreme cases, could exceed the value of the contaminated property. The presence of hazardous or toxic substances or petroleum products or the failure to properly remediate contamination may adversely affect our ability to borrow against, sell or rent an affected property. In addition, applicable environmental laws may create liens on contaminated sites in favor of the government for damages and costs it incurs in connection with a contamination. Moreover, if contamination is discovered on our properties, environmental laws may impose restrictions on the manner in which property may be used or businesses may be operated, and these restrictions may result in substantial expenditures or liabilities.

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

- the environmental assessments and updates did not identify all potential environmental liabilities;
- a prior owner created a material environmental condition that is not known to us or the independent consultants preparing the assessments;
- new environmental liabilities have developed since the environmental assessments were conducted; and

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- future uses or conditions or changes in applicable environmental laws and regulations could result in environmental liability to us.

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

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

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

We face risks associated with security breaches or disruptions, whether through cyber-attacks or cyber intrusions over the Internet, malware, computer viruses, attachments to emails, or persons inside our organization. The risk of a security breach or disruption, particularly through cyber-attacks or cyber intrusion, including by computer hackers, foreign governments, and cyber terrorists, has generally increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. In the normal course of business we and our service providers (including service providers engaged in providing property management, leasing, accounting and/or payroll services) collect and retain certain personal information provided by our tenants, employees and vendors. We also rely extensively on computer systems to process transactions and manage our business. While we and our service providers employ a variety of data security measures to protect confidential information on our systems and periodically review and improve our data security measures, we cannot assure that we or our service providers will be able to prevent unauthorized access to this personal information. There can be no assurance that our efforts to maintain the security and integrity of the information we and our service providers collect and our and their computer systems will be effective or that attempted security breaches or disruptions would not be successful or damaging. Even the most well protected information, networks, systems and facilities remain potentially vulnerable because the techniques used in such attempted security breaches evolve and generally are not recognized until launched against a target, and in some cases are designed not be detected and, in fact, may not be detected. Accordingly, we and our service providers may be unable to anticipate these techniques or to implement adequate security barriers or other preventative measures, and thus it is impossible for us and our service providers to entirely mitigate this risk. A security breach or other significant disruption involving computer networks and related systems could adversely impact our financial condition, cash flows and the market price of our common shares.

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

Natural disasters and severe weather such as earthquakes, hurricanes or floods may result in significant damage to our properties. The extent of our casualty losses and loss in operating income in connection with such events is a function of the severity of the event and the total amount of exposure in the affected area. Because our properties are concentrated in one region, a single catastrophe or destructive weather event affecting that region may have a significant negative effect on our financial condition and results of operations. As a result, our operating and financial results may vary significantly from one period to the next. We are also exposed to risks associated with inclement winter weather, including increased need for maintenance and repair of our buildings. In addition, climate change, to the extent it causes changes in weather patterns, could have effects on our business by increasing the cost of property insurance, energy and/or snow removal at our properties. As a result, the consequences of natural disasters, severe weather and climate change could increase our costs and reduce our cash flow.

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

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

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

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

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

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

Risks Related to Financing

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

We rely on borrowings under our credit facility 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. 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 facility or to refinance existing debt financing, our financial condition and results of operations would likely be adversely affected.

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

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

On February 22, 2016, our total consolidated debt was approximately $1.3 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 $26.14 per share of our common shares on February 22, 2016, multiplied by the number of our common shares, our consolidated debt to total consolidated market capitalization ratio was approximately 42% as of February 22, 2016.

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

Payments of principal and interest on borrowings may leave us with insufficient cash resources to operate our properties, fully implement our capital expenditure, acquisition and redevelopment activities, or meet the REIT distribution requirements imposed by the Internal Revenue Code of 1986, as amended (the "Code"). Our level of debt and the limitations imposed on us by our debt agreements could have significant adverse consequences, including the following:

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

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

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

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

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

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

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

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

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

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

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

Failure to comply with any of the covenants under our unsecured credit facility 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 facility, causing an event of default under the unsecured credit facility. Under those circumstances, other sources of capital may not be available to us or be available only on unattractive terms. In addition, if we breach covenants in our debt agreements, the lenders can declare a default and, if the debt is secured, take possession of the property securing the defaulted loan.

Alternatively, even if a secured debt instrument is below the cross-default threshold for non-recourse secured debt under our unsecured credit facility, a default under such secured debt instrument may still cause a cross default under our unsecured credit facility because such secured debt instrument may not qualify as “non-recourse” under the definition in our unsecured credit facility. Another possible cross default could occur between our unsecured credit facility 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.

Failure to effectively hedge against interest rate changes may adversely affect our financial condition, results of operations, cash flow, per share market price of our common shares and ability to make distributions to our shareholders.

We may enter into hedging transactions to protect ourselves from the effects of interest rate fluctuations on floating rate debt. Our hedging transactions may include entering into interest rate cap agreements or interest rate swap agreements. These agreements involve risks, such as the risk that such arrangements would not be effective in reducing our exposure to interest rate changes or that a court could rule that such an agreement is not legally enforceable. In addition, interest rate hedging can be expensive, particularly during periods of rising and volatile interest rates. Failure to hedge effectively against interest rate changes could materially adversely affect our financial condition, results of operations, cash flow, per share trading price of our common shares and ability to make distributions to our shareholders. In addition, while such agreements would be intended to lessen the impact of rising interest rates on us, they could also expose us to the risk that the other parties to the agreements would not perform, and that the hedging arrangements may not be effective in reducing our exposure to interest rate changes. In addition, the REIT provisions of the Code impose certain restrictions on our ability to utilize hedges, swaps and other types of derivatives to hedge our liabilities. Moreover, there can be no assurance that our hedging arrangements will qualify as highly effective cash flow hedges under Financial Accounting Standards Board ("FASB"), Accounting Standards Codification ("ASC") Topic 815, Derivatives and

Hedging, or that our hedging activities will have the desired beneficial impact on our results of operations. Should we desire to terminate a hedging agreement, there could be significant costs and cash requirements involved to fulfill our obligation under the hedging agreement.

Risks Related to Our Organizational Structure

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Our Common Shares

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

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

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

Our board of trustees considers, among other factors, trends in our levels of funds from operations, together with associated recurring capital improvements, tenant improvements, leasing commissions and incentives, and adjustments to straight-line rents to reflect cash rents received. If some or all of these factors were to trend downward for a sustained period of time, our board of trustees could determine to reduce our dividend rate. If we do not maintain or increase the dividend rate on our common shares in the future, it could have an adverse effect on the market price of our common shares.

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

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

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

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

- level of institutional interest in us;
- perceived attractiveness of investment in us, in comparison to other REITs;
- perceived attractiveness of the Washington metro region, particularly if investors have a negative sentiment about the impact of election results on the region's economy;
- attractiveness of securities of REITs in comparison to other asset classes taking into account, among other things, that a substantial portion of REITs' dividends are taxed as ordinary income;
- our financial condition and performance;
- the market's perception of our growth potential and potential future cash dividends;
- investor confidence in the stock and bond markets generally;
- national economic conditions and general stock and bond market conditions;
- government action or regulation, including changes in tax law;
- increases in market interest rates, which may lead investors to expect a higher annual yield from our distributions in relation to the price of our shares;

- changes in federal tax laws;
- changes in our credit ratings; and
- any negative change in the level of our dividend or the partial payment thereof in common shares.

Risks Related to our Status as a REIT

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

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

- maintaining ownership of specified minimum levels of real estate related assets;
- generating specified minimum levels of real estate related income;
- maintaining certain diversity of ownership with respect to our shares; and
- distributing at least 90% of our "REIT taxable income" (determined before the deduction for dividends paid and excluding net capital gains) on an annual basis.

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

Only limited judicial and administrative interpretations of the REIT rules exist. In addition, qualification as a REIT involves the determination of various factual matters and circumstances not entirely within our control. Future legislation, new regulations, administrative interpretations or court decisions may significantly change the tax laws or the application of the tax laws with respect to qualification as a REIT for U.S. federal income tax purposes or the U.S. federal income tax consequences of such qualification.

If we fail to qualify as a REIT, we could face serious tax consequences that could substantially reduce our funds available for payment of dividends for each of the years involved because:

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

This treatment would reduce net earnings available for investment or distribution to shareholders because of the additional tax liability for the year (or years) involved. To the extent that distributions to shareholders had been made based on the assumption of our qualification as a REIT, we might be required to borrow funds or to liquidate certain of our investments to pay the applicable tax. As a result of these factors, our failure to qualify as a REIT could have a material adverse impact on our results of operations, financial condition and liquidity. If we fail to qualify as a REIT but are eligible for certain relief provisions, then we may retain our status as a REIT but may be required to pay a penalty tax, which could be substantial.

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

To qualify as a REIT, we must ensure that we meet the REIT gross income tests annually. In addition, we must ensure that, at the end of each calendar quarter, at least 75% of the value of our total assets consists of cash, cash items, government securities and qualifying real estate assets, including certain mortgage loans (the "75% asset test"). The remainder of our investment in securities (other than government securities, securities treated as real estate assets and securities issued by a TRS) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than government securities, securities treated as real estate assets and securities issued by a TRS) can consist of the securities of any one issuer, and no more than 25% (20% for tax years beginning after December 31, 2017) of the value of our total securities can be represented by securities of one or more TRSs. Effective for taxable years beginning after December 31, 2015, debt instruments issued by publicly offered REITs, to the extent not secured by real property or interests in real property, are treated as "real estate assets" for purposes of the 75% test (and, thus, not subject to the 10% and 5% asset tests), but the total value of such debt instruments cannot exceed 25% of the value of our total assets. If we fail to comply with these asset requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences.

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

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

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

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

A REIT may own up to 100% of the stock of one or more TRSs. A TRS may hold assets and earn income that would not be qualifying assets or income if held or earned directly by a REIT. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. A corporation of which a TRS directly or indirectly owns more than 35% of the voting power or value of the stock will automatically be treated as a TRS. Overall, no more than 25% (20% for tax years beginning after December 31, 2017) of the value of a REIT's assets may consist of stock or securities of one or more TRSs. In addition, the rules applicable to TRSs limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. The rules also impose a 100% excise tax on the parent REIT with respect to certain transactions involving a TRS that are not conducted on an arm's length basis.

Our TRSs will pay federal, state and local income tax on its taxable income. The after-tax net income of our TRSs will be available for distribution to us but generally is not required to be distributed. We believe that the aggregate value of the stock and securities of our TRSs is less than 25% (20% for tax years beginning after December 31, 2017) of the value of our total assets (including the stock and securities of our TRS). Furthermore, we monitor the value of our respective investments in our TRSs for the purpose of ensuring compliance with the ownership limitations applicable to TRSs. We scrutinize all of our transactions involving our TRSs to ensure that they are entered into on arm's length terms to avoid incurring the 100% excise tax described above. There can be no assurance, however, that we will be able to comply with the 25% (20% for tax years beginning after December 31, 2017) limitation discussed above or avoid application of the 100% excise tax discussed above.

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

The REIT provisions of the Code may limit our ability to hedge our assets and operations. Under these provisions, income that we generate from transactions we enter into to manage risk of interest rate changes with respect to borrowings made or to be made to acquire or carry real estate assets (each such hedge, a "Borrowings Hedge"), or manage the risk of certain currency fluctuations (each such hedge, a "Currency Hedge"), and such instrument is properly identified under applicable Treasury Regulations, does not constitute "gross income" for purposes of the 75% or 95% gross income tests. Effective for taxable years beginning after December 31, 2015, this exclusion from the 95% and 75% gross income tests also will apply if we previously entered into a Borrowings Hedge or a Currency Hedge, a portion of the hedged indebtedness or property is disposed of, and in connection with such extinguishment or disposition we enter into a new "clearly identified" hedging transaction to offset the prior hedging position. As a result of these rules, we may have to limit our use of hedging techniques that might otherwise be advantageous or implement those hedges through a TRS. This could increase the cost of our hedging activities because our TRS would be subject to tax on gains or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear. In addition, losses in our TRS will generally not provide any current tax benefit, except to the extent that they may be carried back to prior years or forward to future years and offset against taxable income in the TRS.

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

The maximum tax rate applicable to income from "qualified dividends" payable by corporations to U.S. shareholders that are individuals, trusts and estates is 20% (excluding the 3.8% net investment income tax). Dividends payable by REITs, however, generally are not eligible for the reduced rates and will continue to be subject to tax at rates applicable to ordinary income. Although this does not adversely affect the taxation of REITs or dividends payable by REITs, the more favorable rates applicable to regular corporate qualified dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the shares of non-REIT corporations that pay dividends, which could adversely affect the value of the stock of REITs, including our common shares.

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

A REIT's net income from prohibited transactions is subject to a 100% penalty tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, held primarily for sale to customers in the ordinary course of business. Although we do not intend to hold any properties that would be characterized as held for sale to customers in the ordinary course of our business, unless a sale or disposition qualifies under certain statutory safe harbors, such characterization is a factual determination and no guarantee can be given that the IRS would agree with our characterization of our properties or that we will be able to make use of the otherwise available safe harbors.

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

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

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

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

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

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

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

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

The Internal Revenue Service, the United States Treasury Department and Congress frequently review U.S. federal income tax legislation, regulations and other guidance. For example, several REIT rules were recently amended under the Protecting Americans from Tax Hikes Act of 2015, which was enacted on December 18, 2015. Among other provisions, this legislation contained changes, with differing effective dates, to tax law impacting REIT restrictions and requirements, including modifying one of the REIT income tests and the REIT asset tests to permit certain investments in debt securities to be treated as qualified real estate assets, modifying the calculation methodology related to the prohibited transactions safe harbor, modifying the treatment of ancillary personal property leased with real property so as to permit it to be treated as real property for one of the REIT asset tests and, effective for tax years beginning after December 31, 2017, reducing the percentage of gross assets a REIT can hold as securities of a TRS. We cannot predict whether, when or to what extent new federal tax laws, regulations, interpretations or rulings will be adopted. Any legislative action may prospectively or retroactively modify our tax treatment and, therefore, may adversely affect taxation of us and/or our investors.

ITEM 1B: UNRESOLVED STAFF COMMENTS

None.

ITEM 2: PROPERTIES

The schedule on the following pages lists our real estate investment portfolio as of December 31, 2015, which consisted of 54 properties and land held for development.

As of December 31, 2015, the percent leased is (i) for commercial properties, the percentage of net rentable area for which fully executed leases exist and may include signed leases for space not yet occupied by the tenant, and (ii) for multifamily properties, the percentage of units leased. Cost information is included in Schedule III to our financial statements included in this Annual Report on Form 10-K.

Schedule of Properties

Properties	Location	Year Acquired	Year Constructed/Renovated	Net Rentable Square Feet (1)	Percent Leased, as of December 31, 2015	
Office Buildings						
1901 Pennsylvania Avenue	Washington, D.C.	1977	1960	101,000	86	%
51 Monroe Street	Rockville, MD	1979	1975	224,000	95	%
515 King Street	Alexandria, VA	1992	1966	75,000	96	%
6110 Executive Boulevard	Rockville, MD	1995	1971	203,000	83	%
1220 19thStreet	Washington, D.C.	1995	1976	104,000	99	%
1600 Wilson Boulevard	Arlington, VA	1997	1973	168,000	90	%
Silverline Center	Tysons, VA	1997	1972/1986/1999/ 2015	531,000	92	%
600 Jefferson Plaza	Rockville, MD	1999	1985	113,000	93	%
Wayne Plaza	Silver Spring, MD	2000	1970	99,000	85	%
Courthouse Square	Alexandria, VA	2000	1979	116,000	92	%
One Central Plaza	Rockville, MD	2001	1974	267,000	94	%
1776 G Street	Washington, D.C.	2003	1979	265,000	94	%
West Gude Drive	Rockville, MD	2006	1984/1986/1988	277,000	87	%
Monument II	Herndon, VA	2007	2000	208,000	92	%
2000 M Street	Washington, D.C.	2007	1971	231,000	96	%
2445 M Street	Washington, D.C.	2008	1986	290,000	100	%
925 Corporate Drive	Stafford, VA	2010	2007	134,000	68	%
1000 Corporate Drive	Stafford, VA	2010	2009	136,000	89	%
1140 Connecticut Avenue	Washington, D.C.	2011	1966	183,000	95	%
1227 25th Street	Washington, D.C.	2011	1988	135,000	95	%
Braddock Metro Center	Alexandria, VA	2011	1985	350,000	98	%
John Marshall II	Tysons, VA	2011	1996/2010	223,000	100	%
Fairgate at Ballston	Arlington, VA	2012	1988	143,000	81	%
Army Navy Club Building	Washington, DC	2014	1912/1987	108,000	97	%
1775 Eye Street, NW	Washington, DC	2014	1964	185,000	97	%
Subtotal				4,869,000	92	%

Properties	Location	Year Acquired	Year Constructed/Renovated	# of Units	Net Rentable Square Feet (1)	Percent Leased, as of December 31, 2015	
Retail Centers							
Takoma Park	Takoma Park, MD	1963	1962		51,000	100	%
Westminster	Westminster, MD	1972	1969		150,000	98	%
Concord Centre	Springfield, VA	1973	1960		76,000	94	%
Wheaton Park	Wheaton, MD	1977	1967		74,000	92	%
Bradlee Shopping Center	Alexandria, VA	1984	1955		171,000	97	%
Chevy Chase Metro Plaza	Washington, D.C.	1985	1975		50,000	87	%
Shoppes of Foxchase	Alexandria, VA	1994	1960/2006		134,000	98	%
Frederick County Square	Frederick, MD	1995	1973		227,000	97	%
800 S. Washington Street	Alexandria, VA	1998/2003	1955/1959		46,000	93	%
Centre at Hagerstown	Hagerstown, MD	2002	2000		332,000	96	%
Frederick Crossing	Frederick, MD	2005	1999/2003		295,000	99	%
Randolph Shopping Center	Rockville, MD	2006	1972		84,000	65	%
Montrose Shopping Center	Rockville, MD	2006	1970		145,000	78	%
Gateway Overlook	Columbia, MD	2010	2007		220,000	98	%
Olney Village Center	Olney, MD	2011	1979/2003		199,000	99	%
Spring Valley Retail Center	Washington, DC	2014	1941/1950		75,000	97	%
Subtotal					2,329,000	95	%
Multifamily Buildings							
3801 Connecticut Avenue	Washington, D.C.	1963	1951	307	178,000	96	%
Roosevelt Towers	Falls Church, VA	1965	1964	191	170,000	94	%
Park Adams	Arlington, VA	1969	1959	200	173,000	97	%
The Ashby at McLean	McLean, VA	1996	1982	256	274,000	95	%
Walker House Apartments	Gaithersburg, MD	1996	1971/2003	212	157,000	96	%
Bethesda Hill Apartments	Bethesda, MD	1997	1986	195	225,000	96	%
Bennett Park	Arlington, VA	2007	2007	224	214,000	97	%
Clayborne	Alexandria, VA	2008	2008	74	60,000	95	%
Kenmore	Washington, D.C.	2008	1948	374	268,000	95	%
The Paramount	Arlington, VA	2013	1984	135	141,000	97	%

Yale West	Washington, DC	2014	2011	216	173,000	96	%
The Maxwell	Arlington, VA	2014	2014	163	139,000	96	%
The Wellington	Arlington, VA	2015	1960	711	842,000	95	%
Subtotal				3,258	3,014,000	96	%
TOTAL					10,212,000		

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

ITEM 3: LEGAL PROCEEDINGS

None.

ITEM 4: MINE SAFETY DISCLOSURES

N/A.

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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 22, 2016, there are 4,213 shareholders of record.

The high and low sales price for our shares for 2015 and 2014, by quarter, and the amount of dividends we declared per share are as follows:

Quarter		Dividends Per Share	Quarterly Share Price Range High	Low
2015				
	Fourth	0.30000	$28.14	$24.76
	Third	0.30000	$27.28	$23.78
	Second	0.30000	$28.11	$24.28
	First	0.30000	$30.15	$26.39
2014				
	Fourth	0.30000	$28.48	$25.35
	Third	0.30000	$28.44	$25.33
	Second	0.30000	$26.95	$23.41
	First	0.30000	$25.69	$22.30

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

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

During the period covered by this report, we did not sell equity securities without registration under the Securities Act.

A summary of our repurchases of shares of our common stock for the three months ended December 31, 2015 was as follows:

Period	Total Number of Shares Purchased [1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased
October 1 - October 31, 2015	2,541	$25.08	N/A	N/A
November 1 - November 30, 2015	28	27.49	N/A	N/A
December 1 - December 31, 2015	19,900	27.06	N/A	N/A
Total	22,469	26.84	N/A	N/A

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

ITEM 6: SELECTED FINANCIAL DATA

The following table sets forth our selected financial data on a historical basis, which has been revised for the presentation of debt issuance costs (see note 2 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.

	2015	2014	2013	2012	2011
	(in thousands, except per share data)				
Real estate rental revenue	$306,427	$288,637	$263,024	$254,794	$234,733
Income (loss) from continuing operations	$89,187	$5,070	$(193)	$7,768	$(14,389)
Discontinued operations:					
Income from operations of properties sold or held for sale	$—	$546	$15,395	$10,816	$23,414
Gain on sale of real estate	$—	$105,985	$22,144	$5,124	$97,491
Net income	$89,187	$111,601	$37,346	$23,708	$105,378
Net income attributable to the controlling interests	$89,740	$111,639	$37,346	$23,708	$104,884
Income (loss) from continuing operations attributable to the controlling interests per share – diluted	$1.31	$0.08	$—	$0.11	$(0.22)
Net income attributable to the controlling interests per share – diluted	$1.31	$1.67	$0.55	$0.35	$1.58
Total assets	$2,191,168	$2,108,317	$1,969,343	$2,117,496	$2,115,129
Lines of credit payable	$105,000	$50,000	$—	$—	$99,000
Mortgage notes payable, net	$418,052	$417,194	$293,307	$317,914	$341,486
Notes payable, net	$743,181	$743,149	$841,917	$900,532	$653,500
Shareholders' equity	$835,649	$819,555	$754,959	$792,057	$859,044
Cash dividends declared	$82,003	$80,277	$80,104	$97,734	$115,045
Cash dividends declared per share	$1.20	$1.20	$1.20	$1.47	$1.74

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

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

- Overview. Discussion of our operating results, investment activity, financing activity and capital requirements to provide context for the remainder of MD&A.
- Results of Operations. Discussion of our financial results comparing 2015 to 2014 and comparing 2014 to 2013.
- Liquidity and Capital Resources. Discussion of our financial condition and analysis of changes in our capital structure and cash flows.
- Critical Accounting Policies and Estimates. Descriptions of accounting policies that reflect significant judgments and estimates used in the preparation of our consolidated financial statements.

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

- Net operating income ("NOI"), calculated as 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 ("NAREIT FFO"), calculated as set forth below under the caption "Funds from Operations." NAREIT 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 office and retail 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 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 Outlook

We generally expect steady to improved performance in each of our segments in 2016 due to the Washington metro region's forecasted job growth (see Item 1: Business - Our Regional Economy and Real Estate Markets on page 4).

Operating Results

NOI, net income attributable to the controlling interests and NAREIT FFO for the years ended December 31, 2015 and 2014 were as follows (in thousands):

	Year Ended December 31,		
	2015	2014	Change
NOI [1]	$194,193	$184,942	$9,251
Net income attributable to the controlling interests	$89,740	$111,639	$(21,899)
NAREIT FFO [2]	$108,469	$101,057	$7,412

[1] See pages 31 and 35 of the MD&A for reconciliations of NOI to net income.
[2] See page 46 of the MD&A for reconciliations of NAREIT FFO to net income.

The NOI increase is primarily due to acquisitions ($9.5 million), higher NOI from same-store properties ($0.8 million) and placing The Maxwell, a multifamily development property, into service ($0.6 million), partially offset by property dispositions ($2.0 million). NOI from same-store properties increased primarily due to higher occupancy ($1.9 million) and rental rates ($1.9 million), partially offset by higher property administrative and management ($1.4 million), real estate tax ($1.3 million) and bad debt ($0.4 million) expenses.

The decrease in net income attributable to the controlling interests is primarily due to lower gains on sale of real estate ($15.5 million) and a real estate impairment charge ($5.9 million).

The increase in NAREIT FFO primarily reflects the higher NOI ($9.3 million) and lower acquisition costs ($3.7 million), partially offset by the real estate impairment charge ($5.9 million).

Investment Activity

Significant investment transactions during 2015 included the following:

- The disposition of Country Club Towers, a 227-unit multifamily building in Arlington, Virginia, for a contract sale price of $37.8 million, resulting in a gain on sale of $30.3 million.
- The acquisition of The Wellington, a multifamily property with three buildings totaling 711 units in Arlington, Virginia, and an adjacent undeveloped land parcel, for a contract purchase price of $167.0 million. We incurred $1.9 million of acquisition costs related to this transaction.
- The disposition of our 95% interest in the 1225 First Street joint venture for a contract sale price of $14.5 million.
- The disposition of Munson Hill Towers, a 279-unit multifamily building in Arlington, Virginia, for a contract sale price of $57.1 million, resulting in a gain on sale of $51.4 million.
- The disposition of Montgomery Village, a 197,000 square foot retail property in Gaithersburg, Maryland, for a contract sale price of $27.8 million, resulting in a gain on sale of $8.0 million.

During 2016, we currently anticipate asset sales totaling approximately $250.0 million, primarily suburban office properties.

Financing Activity

Significant financing transactions during 2015 included the following:

- The execution of a new $600.0 million unsecured credit agreement ("New Credit Facility") that replaced our $100.0 million unsecured line of credit maturing in June 2015 ("Prior Credit Facility No. 1") and our $400.0 million unsecured line of credit maturing in July 2016 ("Prior Credit Facility No. 2"). See page 40 for a description of the New Credit Facility.
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The execution of a new $150.0 million unsecured term loan by exercising a portion of the accordion feature under the New Credit Facility. The term loan has a 5.5 year term maturing on March 15, 2021 and currently has an interest rate of one month LIBOR plus 110 basis points, based on our unsecured debt ratings. We entered into two interest rate swap arrangements with a total notional amount of $150.0 million to swap the floating interest rate to an all-in fixed interest rate of 2.7% starting on October 15, 2015 and extending until the maturity of the term loan on March 15, 2021.

- The repayment of $150.0 million of our 5.35% unsecured notes on their maturity date of May 1, 2015 using borrowings on Prior Credit Facility No. 2.

As of December 31, 2015, the interest rate on the New Credit Facility was one month LIBOR plus 1.00% and the facility fee is

0.20%. As of February 22, 2016, our New Credit Facility has a borrowing capacity of $412.0 million.

Capital Requirements

During 2016, we have mortgage notes totaling approximately $160.0 million scheduled to mature. We currently intend to repay these maturities using a combination of proceeds from expected property sales and borrowings on our New Credit Facility. We also expect to have the additional capital requirements as set forth on page 38 (Liquidity and Capital Resources - Capital Structure).

Results of Operations

The discussion that follows is based on our consolidated results of operations for the three years ended December 31, 2015. The ability to compare one period to another is significantly affected by acquisitions completed and dispositions made during those years (see note 3 to the consolidated financial statements).

Net Operating Income

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. 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. A reconciliation of NOI to net income follows.

2015 Compared to 2014

The following tables reconcile NOI to net income attributable to the controlling interests and provide the basis for our discussion of our consolidated results of operations and NOI in 2015 compared to 2014. All amounts are in thousands except percentage amounts.

					Non-Same-Store								
	Same-Store				Acquisitions [1]		Development/Redevelopment [2]		Dispositions [3] (continuing operations)		All Properties		
	2015	2014	$ Change	% Change	2015	2014	2015	2014	2015	2014	2015	2014	$ Cha
Real estate rental revenue	$255,165	$250,956	$4,209	1.7%	$31,643	$16,260	$11,229	$9,090	$8,390	$12,331	$306,427	$288,637	$17
Real estate expenses	89,690	86,328	3,362	3.9%	12,651	6,754	6,569	5,302	3,324	5,311	112,234	103,695	8,53
NOI	$165,475	$164,628	$847	0.5%	$18,992	$9,506	$4,660	$3,788	$5,066	$7,020	$194,193	$184,942	$9,

Reconciliation to net income attributable to the controlling interests:			
Depreciation and amortization	(108,935)	(96,011)	(12
Acquisition costs	(2,056)	(5,710)	3,6
General and administrative expenses	(20,257)	(19,761)	(49
Real estate impairment	(5,909)	—	(5,
Gain on sale of real estate	91,107	570	90,
Interest expense	(59,546)	(59,785)	239
Other income	709	825	(11
Loss on extinguishment of debt	(119)	—	(11
Discontinued operations [4]:			
Income from properties sold or held for sale	—	546	(54
Gain on sale of real estate	—	105,985	(10
Net income	89,187	111,601	(22
Less: Net income attributable to noncontrolling interests	553	38	515
Net income attributable to the controlling interests	$89,740	$111,639	(21

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(1) Acquisitions:
2015 Multifamily – The Wellington
2014 Multifamily – Yale West
2014 Office – The Army Navy Club Building and 1775 Eye Street, NW
2014 Retail– Spring Valley Retail Center

(2) Development/redevelopment properties:
Multifamily development property – The Maxwell
Office redevelopment property – Silverline Center

(3) Dispositions (classified as continuing operations):
2015 Multifamily – Country Club Towers and Munson Hill Towers
2015 Retail – Montgomery Village Center
2014 Retail – 5740 Columbia Road (parcel at Gateway Overlook)

(4) Discontinued operations include gains on sale and income from operations for:
2014 Medical Office – Woodburn Medical Office Park I and II and Prosperity Medical Center I, II and III

Real Estate Rental Revenue

Real estate rental revenue is comprised of (a) minimum base rent, which includes rental revenues recognized on a straight-line basis, (b) revenue from the recovery of operating expenses from our tenants, (c) provisions for doubtful accounts in the same quarter that we established the receivable, 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.

Real estate rental revenue for same-store properties for the two years ended December 31, 2015 was as follows (in thousands, except percentage amounts):

	Year Ended December 31,			
	2015	2014	$ Change	% Change
Minimum base rent	$215,692	$213,479	$2,213	1.0 %
Recoveries from tenants	27,374	26,900	474	1.8 %
Provision for doubtful accounts	(1,651)	(1,698)	47	(2.8)%
Lease termination fees	1,297	622	675	108.5 %
Parking and other tenant charges	12,453	11,653	800	6.9 %
Total same-store real estate rental revenue	$255,165	$250,956	$4,209	1.7 %

- Minimum base rent: Increase primarily due to higher rental rates ($1.9 million) and occupancy ($1.9 million), partially offset by higher amortization of capitalized lease incentives ($0.9 million), rent abatements ($0.5 million) and amortization of intangible lease assets ($0.2 million).
- Recoveries from tenants: Increase primarily due to higher reimbursements for real estate taxes ($0.6 million).
- Provision for doubtful accounts: Decrease primarily due to lower provisions in the retail segment ($0.1 million).
- Lease termination fees: Increase primarily due to higher fees in the office ($0.4 million), retail ($0.2 million) and multifamily ($0.1 million) segments.
- Parking and other tenant charges: Increase primarily due to higher parking income ($0.5 million) in the office segment, short term lease income ($0.1 million) in the retail segment and business interruption insurance proceeds ($0.1 million) in the multifamily segment.

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

	Year Ended December 31,				
	2015	2014	$ Change	% Change	
Office	$149,664	$146,542	$3,122	2.1	%
Multifamily	48,739	48,286	453	0.9	%
Retail	56,762	56,128	634	1.1	%
Total same-store real estate rental revenue	$255,165	$250,956	$4,209	1.7	%

- Office: Increase primarily due to higher occupancy ($1.7 million), higher rental rates ($1.3 million), higher reimbursements for real estate taxes ($0.6 million), higher parking income ($0.5 million) and higher lease termination fees ($0.4 million), partially offset by higher rent abatements ($1.7 million).
- Multifamily: Increase primarily due to higher occupancy ($1.0 million) and lower rent abatements ($0.3 million), partially

offset by lower rental rates ($0.8 million).

- Retail: Increase primarily due to higher rental rates ($1.4 million), partially offset by lower occupancy ($0.7 million).

Real estate rental revenue from acquisitions increased due to the acquisition of The Wellington in 2015 and having the full year impact of the acquisitions executed in 2014. Real estate rental revenue from development/redevelopment properties increased primarily due to placing The Maxwell into service ($2.0 million).

Occupancy represents occupied square footage indicated as a percentage of total square footage as of the last day of that period. Occupancy for properties classified as continuing operations by segment for the two years ended December 31, 2015 was as follows:

	December 31, 2015			December 31, 2014			Increase (decrease)		
Segment	Same-Store	Non-Same-Store	Total	Same-Store	Non-Same-Store	Total	Same-Store	Non-Same-Store	Total
Office	90.8 %	71.9 %	87.6 %	92.1 %	61.4 %	86.9 %	(1.3)%	10.5 %	0.7 %
Multifamily	94.2 %	92.2 %	93.4 %	93.7 %	94.0 %	93.8 %	0.5 %	(1.8)%	(0.4)%
Retail	91.4 %	96.6 %	91.5 %	95.1 %	88.7 %	94.4 %	(3.7)%	7.9 %	(2.9)%
Total	91.8 %	84.2 %	90.2 %	93.3 %	77.3 %	90.5 %	(1.5)%	6.9 %	(0.3)%

- Office: The decrease in same-store occupancy was primarily due to lower occupancy at 1776 G Street and Quantico Corporate Center, partially offset by higher occupancy at 1600 Wilson Boulevard. The increase in non-same-store occupancy was primarily due to higher occupancy at Silverline Center and 1775 Eye Street.
- Multifamily: The increase in same-store occupancy was primarily due to higher occupancy at The Kenmore and The Paramount. The decrease in non-same-store occupancy was primarily due placing The Maxwell into service, which was 89.3% occupied at the end of 2015.
- Retail: The decrease in same-store occupancy was primarily due to lower occupancy at Chevy Chase Metro Center, Montrose Shopping Center and Bradlee Shopping Center, partially offset by higher occupancy at Concord Centre. The increase in non-same-store occupancy reflects higher occupancy at Spring Valley Retail Center and the disposition of Montgomery Village Center during the fourth quarter of 2015.

During 2015, we executed new and renewal leases in our office and retail segments as follows:

	Square Feet (in millions)	Average Rental Rate (per square foot)	% Rental Rate Increase	Incentives [1] (per square foot)	Retention Rate
Office	0.9	$36.32	9.0 %	$53.64	66.3 %
Retail	0.4	23.97	18.5 %	24.28	76.2 %
Total	1.3	32.36	11.1 %	44.23	70.7 %

[1] Incentives include tenant improvements, leasing commissions and leasing incentives, including free rent.

Real Estate Expenses

Real estate expenses as a percentage of revenue for the two years ended December 31, 2015 were 36.6% and 35.9%, respectively.

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

	Year Ended December 31,			
	2015	2014	$ Change	% Change
Office	$55,486	$54,266	$1,220	2.2 %
Multifamily	20,412	19,370	1,042	5.4 %

Retail	13,792	12,692	1,100	8.7	%
Total same-store real estate expenses	$89,690	$86,328	$3,362	3.9	%

- Office: Increase primarily due to higher real estate taxes ($1.0 million), custodial services ($0.2 million), repairs and maintenance expenses ($0.1 million) and administrative expenses ($0.1 million), partially offset by lower utilities expenses ($0.6 million) due to lower usage of electricity.
- Multifamily: Increase primarily due to higher property management expenses ($0.5 million), advertising expenses ($0.1

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million), lease commissions ($0.1 million) and real estate taxes ($0.1 million).

- Retail: Increase primarily due to higher bad debt expense ($0.7 million), real estate taxes ($0.2 million) and legal fees ($0.1 million).

Other Expenses

Depreciation and Amortization: Increase primarily due to acquisitions ($9.6 million) and placing development/redevelopment properties into service ($3.8 million).

Acquisition Costs: Decrease primarily due to one acquisition ($167.0 million) in 2015, as compared to four acquisitions ($297.0 million) in 2014.

General and Administrative Expenses: Increase primarily due to higher professional fees ($1.7 million), partially offset by lower administrative depreciation ($0.7 million) due to accelerated depreciation of leasehold improvements in 2014 related to the relocation of the corporate headquarters to Washington, DC and lower severance expense ($0.6 million).

Real Estate Impairment: 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 in Alexandria, Virginia. During the second quarter of 2015, we determined that we would not develop 1225 First Street and began negotiations to sell our 95% interest in the joint venture that owns the property, and recognized a $5.9 million impairment charge in order to reduce the carrying value of the property to its estimated fair value. We based this fair value on the $14.5 million sale price in the purchase and sale agreement to sell our 95% interest in the joint venture that we executed during the third quarter of 2015.

Interest Expense: Interest expense by debt type for the two years ended December 31, 2015 was as follows (in thousands, except percentage amounts):

	Year Ended December 31,			
Debt Type	2015	2014	$ Change	% Change
Notes payable	$32,730	$37,424	$(4,694)	(12.5)%
Mortgage notes payable	22,684	21,916	768	3.5%
Lines of credit	4,790	2,587	2,203	85.2%
Capitalized interest	(658)	(2,142)	1,484	(69.3)%
Total	$59,546	$59,785	$(239)	(0.4)%

- Notes payable: Decrease primarily due to the repayment of $150.0 million of our 5.35% senior notes in May 2015, partially offset by executing the $150.0 million term loan in September 2015.
- Mortgage notes payable: Increase primarily due to the full-year impact of the assumption of mortgages totaling $107.1 million with the acquisitions of Yale West and The Army Navy Club Building in 2014.
- Lines of credit: Increase primarily due to weighted average daily borrowings of $167.6 million during 2015, as compared to $12.8 million during 2014.
- Capitalized interest: Decrease primarily due to placing into service our development project at The Maxwell and redevelopment project at Silverline Center.

Discontinued Operations

Income from operations of properties classified as discontinued operations for the two years ended December 31, 2015 were as follows (in thousands, except for percentages):

Year Ended December 31,

	2015	2014	$ Change	% Change
Revenues	$—	$892	$(892)	(100.0)%
Property expenses	—	(346)	346	100.0%
Total	$—	$546	$(546)	(100.0)%

The decrease is due to the completion of the sale of the former medical office segment during the first quarter of 2014.

2014 Compared to 2013

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

	Same-Store				Non-Same-Store Acquisitions [1]		Development/Redevelopment [2]		Dispositions [3] (continuing operations)		All Properties			
	2014	2013	$ Change	% Change	2014	2013	2014	2013	2014	2013	2014	2013	$ Change	% C
Real estate rental revenue	$259,607	$248,914	$10,693	4.3%	$19,894	$908	$9,090	$13,069	$46	$133	$288,637	$263,024	$25,613	9
Real estate expenses	89,892	87,760	2,132	2.4%	8,322	286	5,462	5,226	19	21	103,695	93,293	10,402	1
NOI	$169,715	$161,154	$8,561	5.3%	$11,572	$622	$3,628	$7,843	$27	$112	$184,942	$169,731	$15,211	9
Reconciliation to net income attributable to the controlling interests:														
Depreciation and amortization											(96,011)	(85,740)	(10,271)	1
Acquisition costs											(5,710)	(1,265)	(4,445)	3
General and administrative expenses											(19,761)	(17,535)	(2,226)	1
Gain on sale of real estate											570	—	570	–
Interest expense											(59,785)	(63,573)	3,788	(
Other income											825	926	(101)	(
Loss on extinguishment of debt											—	(2,737)	2,737	(
Discontinued operations [4]:														
Income from properties sold or held for sale											546	15,395	(14,849)	(
Gain on sale of real estate											105,985	22,144	83,841	3
Net income											111,601	37,346	74,255	1
Less: Net income attributable to noncontrolling interests											38	—	38	–
Net income attributable to the controlling interests											$111,639	$37,346	74,293	1

[1] Acquisitions:
2014 Multifamily – Yale West
2014 Office – The Army Navy Club Building and 1775 Eye Street, NW
2014 Retail– Spring Valley Retail Center
2013 Multifamily – The Paramount

[2] Development/redevelopment property:
2013 Office redevelopment property – Silverline Center

[3] Disposition (classified as continuing operations):

2014 Retail – 5740 Columbia Road (parcel at Gateway Overlook)

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

Real Estate Rental Revenue

Real estate rental revenue for same-store properties for the two years ended December 31, 2014 was as follows (in thousands, except percentage amounts):

	Year Ended December 31,			
	2014	2013	$ Change	% Change
Minimum base rent	$220,892	$214,214	$6,678	3.1 %
Recoveries from tenants	27,955	26,055	1,900	7.3 %
Provision for doubtful accounts	(1,963)	(3,589)	1,626	45.3 %
Lease termination fees	636	541	95	17.6 %
Parking and other tenant charges	12,087	11,693	394	3.4 %
Total same-store real estate rental revenue	$259,607	$248,914	$10,693	4.3 %

- Minimum base rent: Increase primarily due to higher occupancy ($6.9 million) and rental rates ($1.9 million), partially offset by higher rent abatements ($1.2 million), amortization of capitalized lease incentives ($0.5 million) and amortization of intangible lease assets ($0.5 million).

- Recoveries from tenants: Increase primarily due to higher reimbursements for operating expenses in all segments.
- Provision for doubtful accounts: Decrease primarily due to lower provisions in the retail ($1.2 million) and office ($0.4 million) segments.
- Lease termination fees: Increase primarily due to higher fees in the office segment.
- Parking and other tenant charges: Increase primarily due to higher parking income in the office segment.

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

	Year Ended December 31,			
	2014	2013	$ Change	% Change
Office	$146,542	$139,270	$7,272	5.2 %
Multifamily	53,647	53,589	58	0.1 %
Retail	59,418	56,055	3,363	6.0 %
Total same-store real estate rental revenue	$259,607	$248,914	$10,693	4.3 %

- Office: Increase primarily due to higher occupancy ($5.4 million), higher rental rates ($1.9 million), higher reimbursements ($0.7 million), lower reserves for uncollectible revenue ($0.4 million) and higher parking income ($0.2 million), partially offset by higher rent abatements ($1.5 million).
- Multifamily: Increase primarily due to higher occupancy ($0.4 million), partially offset by lower rental rates ($0.2 million) and higher rent abatements ($0.2 million).
- Retail: Increase primarily due to lower reserves for uncollectible revenue ($1.2 million), higher occupancy ($1.1 million), higher reimbursements ($0.9 million) and higher rental rates ($0.3 million).

Real estate rental revenue from acquisitions increased due to the acquisitions of Yale West, Army Navy Club Building, 1775 Eye Street, NW and Spring Valley Retail Center in 2014 and having the full year impact of the acquisition of The Paramount, which was executed in 2013. Real estate rental revenue from development/redevelopment properties decreased primarily due to lower occupancy at Silverline Center, which was which was under redevelopment.

Occupancy represents occupied square footage indicated as a percentage of total square footage as of the last day of that period. Occupancy for properties classified as continuing operations by segment for the two years ended December 31, 2014 was as follows:

	December 31, 2014			December 31, 2013			Increase (decrease)		
Segment	Same-Store	Non-Same-Store	Total	Same-Store	Non-Same-Store	Total	Same-Store	Non-Same-Store	Total
Office	92.1 %	61.4 %	86.9 %	86.6 %	78.9 %	85.7 %	5.5 %	(17.5)%	1.2 %
Multifamily	94.1 %	91.6 %	93.8 %	92.6 %	85.4 %	92.1 %	1.5 %	6.2 %	1.7 %
Retail	94.5 %	92.8 %	94.4 %	91.3 %	100.0 %	91.3 %	3.2 %	(7.2)%	3.1 %
Total	93.3 %	71.2 %	90.5 %	89.4 %	80.4 %	88.8 %	3.9 %	(9.2)%	1.7 %

- Office: The increase in same-store occupancy was primarily due to higher occupancy at Braddock Metro Center. The decrease in non-same-store occupancy was primarily due to lower occupancy at Silverline Center, which went into redevelopment during the fourth quarter of 2013.
- Multifamily: The increase in same-store occupancy was primarily due to higher occupancy at 3801 Connecticut Avenue. The increase in non-same-store occupancy was primarily due to the acquisition of Yale West.
- Retail: The increase in same-store occupancy was primarily due to higher occupancy at Bradlee Shopping Center and Westminster Shopping Center. The decrease in non-same-store occupancy reflects the acquisition of Spring Valley Retail Center during the fourth quarter of 2014, which was 96.2% occupied at acquisition.

During 2014, we executed new and renewal leases in our office and retail segments as follows:

	Square Feet (in millions)	Average Rental Rate (per square foot)	% Rental Rate Increase	Incentives [1] (per square foot)	Retention Rate
Office	1.0	$37.15	8.9 %	$47.14	64.2 %
Retail	0.3	24.44	12.8 %	10.49	72.5 %
Total	1.3	33.99	9.5 %	38.13	65.2 %

[1] Incentives include tenant improvements, leasing commissions and leasing incentives, including free rent.

Real Estate Expenses

Real estate expenses as a percentage of revenue for the two years ended December 31, 2014 were 35.9% and 35.5%, respectively.

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

	Year Ended December 31,			
	2014	2013	$ Change	% Change
Office	$54,266	$52,212	$2,054	3.9 %
Multifamily	21,825	21,801	24	0.1 %
Retail	13,801	13,747	54	0.4 %
Total same-store real estate expenses	$89,892	$87,760	$2,132	2.4 %

- Office: Increase primarily due to higher utilities expenses ($0.8 million), real estate taxes ($0.4 million), custodial services ($0.3 million) and administrative expenses ($0.3 million).
- Multifamily: Increase primarily due to higher real estate taxes ($0.4 million), partially offset by lower bad debt expense ($0.3 million).
- Retail: Increase primarily due to higher snow removal costs ($0.6 million), partially offset by higher recoveries of bad debt ($0.5 million).

Other Expenses

Depreciation and Amortization: Increase primarily due to acquisitions ($10.9 million), partially offset by lower depreciation and amortization at same-store properties ($0.4 million).

Acquisition Costs: Increase due to four acquisitions ($297.0 million) in 2014, compared to one acquisition ($48.2 million) in 2013.

General and Administrative Expenses: Increase primarily due to higher severance expense ($0.8 million), higher short-term incentive compensation expense ($0.5 million), and higher accelerated depreciation of leasehold improvements ($0.5 million) related to the relocation of the corporate headquarters to Washington, DC.

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

	Year Ended December 31,			
Debt Type	2014	2013	$ Change	% Change
Notes payable	$37,424	$43,174	$(5,750)	(13.3)%
Mortgage notes payable	21,916	18,378	3,538	19.3 %
Lines of credit	2,587	3,257	(670)	(20.6)%
Capitalized interest	(2,142)	(1,236)	(906)	73.3 %
Total	$59,785	$63,573	$(3,788)	(6.0)%

- Notes payable: Decrease primarily due to the repayment of $100.0 million of our 5.25% senior notes in January 2014.
- Mortgage notes payable: Increase primarily due to the assumption of mortgages totaling $107.1 million with the acquisitions of Yale West and The Army Navy Club Building, partially offset by the repayments of several mortgage notes totaling $53.4 million during 2013.
- Lines of credit: Decrease primarily due to weighted average daily borrowings of $12.8 million during 2014, as compared to $61.5 million during 2013.

- Capitalized interest: Increase primarily due to expenditures totaling $43.3 million on our development/redevelopment projects at The Maxwell and Silverline Center.

Discontinued Operations

Income from operations of properties classified as discontinued operations for the two years ended December 31, 2014 were as follows (in thousands, except for percentages):

	Year Ended December 31,			
	2014	2013	$ Change	% Change
Revenues	$892	$45,791	$(44,899)	(98.1)%
Property expenses	(346)	(17,039)	16,693	(98.0)%
Depreciation and amortization	—	(12,161)	12,161	(100.0)%
Interest expense	—	(1,196)	1,196	(100.0)%
Total	$546	$15,395	$(14,849)	(96.5)%

Income from operations of properties sold or held for sale decreased primarily due to the completion of the sale of the former medical office segment during the first quarter of 2014.

Liquidity and Capital Resources

Capital Structure

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

As of February 22, 2016, we had cash and cash equivalents of approximately $14.1 million and availability under our New Credit Facility of $412.0 million. 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 New Credit Facility or other short-term facilities;
- Issuances of our equity securities and/or common units in operating partnerships;
- Issuances of preferred shares;
- Proceeds from long-term secured or unsecured debt financings, including construction loans;
- Investment from joint venture partners; and
- Net proceeds from the sale of assets.

During 2016, we expect that we will have significant capital requirements, including the following items:

- Funding dividends and distributions to our shareholders;
- $160.0 million to repay or refinance our secured notes scheduled to mature in 2016, plus $101.9 million to prepay without penalty a secured loan scheduled to mature in 2017;
- Approximately $65 - $70 million to invest in our existing portfolio of operating assets, including approximately $40 - $45 million to fund tenant-related capital requirements and leasing commissions;
- Approximately $10 - $15 million to invest in our development and redevelopment projects; and

- Funding for potential property acquisitions throughout the remainder of 2016, offset by proceeds from potential property dispositions.

There can be no assurance that our capital requirements will not be materially higher or lower than the above expectations. We currently believe that we will generate sufficient cash flow from operations and expected property sales and have access to the capital resources necessary to fund our requirements in 2016. However, as a result of general market conditions in the greater Washington metro region, economic conditions affecting the ability to attract and retain tenants, potentially rising interest rates or declines in our share price, unfavorable changes in the supply of competing properties, or our properties not performing as expected, we may not generate sufficient cash flow from operations and property sales or otherwise have access to capital on favorable terms, or at all. If we are unable to obtain capital from other sources, we may need to alter capital spending to be materially different than what is stated in the prior paragraph. If capital were not available, we may be unable to satisfy the distribution requirement applicable to REITs, make required principal and interest payments, make strategic acquisitions or make necessary and/or routine capital improvements or undertake improvement/redevelopment opportunities with respect to our existing portfolio of operating assets.

Debt Financing

We generally use secured or unsecured, corporate-level debt, including unsecured notes, our New Credit Facility, bank term loans and mortgages, to meet our borrowing needs. Long-term, we generally use fixed rate debt instruments in order to match the returns from our real estate assets. 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, 2015 and 2014, our debt was as follows (in thousands):

	December 31,	
	2015	2014
Mortgage notes payable, net (1)	$418,052	$417,194
Unsecured lines of credit payable (1)		