WASHINGTON REAL ESTATE INVESTMENT TRUST
Form 10-Q
July 31, 2013

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

FORM 10-Q

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

For quarterly period ended June 30, 2013

OR

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

COMMISSION FILE NO. 1-6622

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

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

6110 EXECUTIVE BOULEVARD, SUITE 800, ROCKVILLE, MARYLAND 20852
(Address of principal executive office) (Zip code)
Registrant's telephone number, including area code: (301) 984-9400

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

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

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

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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 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 July 30, 2013, 66,500,381 common shares were outstanding.

WASHINGTON REAL ESTATE INVESTMENT TRUST
INDEX

		Page
Part I: Financial Information		
Item 1.	Consolidated Financial Statements (Unaudited)	
	Consolidated Balance Sheets	4
	Condensed Consolidated Statements of Income	5
	Consolidated Statement of Shareholders' Equity	6
	Consolidated Statements of Cash Flows	7
	Notes to Consolidated Financial Statements	8
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	16
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	37
Item 4.	Controls and Procedures	37
Part II: Other Information		
Item 1.	Legal Proceedings	38
Item 1A.	Risk Factors	38
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	38
Item 3.	Defaults upon Senior Securities	38
Item 4.	Mine Safety Disclosures	38
Item 5.	Other Information	38
Item 6.	Exhibits	39
	Signatures	40

PART I
FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

The information furnished in the accompanying unaudited Consolidated Balance Sheets, Condensed Consolidated Statements of Income, Consolidated Statement of Shareholders' Equity and Consolidated Statements of Cash Flows reflects all adjustments, consisting of normal recurring items, which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods. The accompanying financial statements and notes thereto should be read in conjunction with the financial statements and notes for the three years ended December 31, 2012 included in WRIT’s 2012 Annual Report on Form 10-K.

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

	June 30, 2013 (Unaudited)	December 31, 2012
Assets		
Land	$483,198	$483,198
Income producing property	2,003,826	1,979,348
	2,487,024	2,462,546
Accumulated depreciation and amortization	(646,993)	(604,614)
Net income producing property	1,840,031	1,857,932
Properties under development or held for future development	55,262	49,135
Total real estate held for investment, net	1,895,293	1,907,067
Investment in real estate sold or held for sale, net	—	11,528
Cash and cash equivalents	5,919	19,324
Restricted cash	10,839	14,582
Rents and other receivables, net of allowance for doubtful accounts of $9,585 and $10,958, respectively	60,100	57,076
Prepaid expenses and other assets	108,591	114,541
Other assets related to properties sold or held for sale	—	258
Total assets	$2,080,742	$2,124,376
Liabilities		
Notes payable	$846,450	$906,190
Mortgage notes payable	312,211	342,970
Lines of credit	75,000	—
Accounts payable and other liabilities	51,715	52,823
Advance rents	14,239	16,096
Tenant security deposits	9,899	9,936
Other liabilities related to properties sold or held for sale	—	218
Total liabilities	1,309,514	1,328,233
Equity		
Shareholders' equity		
Preferred shares; $0.01 par value; 10,000 shares authorized; no shares issued or outstanding	—	—
Shares of beneficial interest; $0.01 par value; 100,000 shares authorized: 66,500 and 66,437 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively	665	664
Additional paid in capital	1,147,710	1,145,515
Distributions in excess of net income	(381,623)	(354,122)
Total shareholders' equity	766,752	792,057
Noncontrolling interests in subsidiaries	4,476	4,086
Total equity	771,228	796,143
Total liabilities and equity	$2,080,742	$2,124,376

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenue				
Real estate rental revenue	$78,272	$75,590	$155,196	$150,804
Expenses				
Real estate expenses	27,429	25,033	54,520	50,584
Depreciation and amortization	25,582	25,227	51,106	50,809
Acquisition costs	87	254	300	308
General and administrative	4,005	4,164	7,867	7,770
	57,103	54,678	113,793	109,471
Real estate operating income	21,169	20,912	41,403	41,333
Other income (expense)				
Interest expense	(16,152)	(15,470)	(32,670)	(31,301)
Other income	246	252	485	496
	(15,906)	(15,218)	(32,185)	(30,805)
Income from continuing operations	5,263	5,694	9,218	10,528
Discontinued operations:				
Income from operations of properties sold or held for sale	—	314	185	661
Gain on sale of real estate	—	—	3,195	—
Net income	5,263	6,008	12,598	11,189
Less: Net income attributable to noncontrolling interests in subsidiaries	—	—	—	—
Net income attributable to the controlling interests	$5,263	$6,008	$12,598	$11,189
Basic net income per share:				
Continuing operations	$0.08	$0.08	$0.14	$0.15
Discontinued operations	—	0.01	0.05	0.01
Net income per share	$0.08	$0.09	$0.19	$0.16
Diluted net income per share:				
Continuing operations	$0.08	$0.08	$0.14	$0.15
Discontinued operations	—	0.01	0.05	0.01
Net income per share	$0.08	$0.09	$0.19	$0.16
Weighted average shares outstanding – basic	66,405	66,241	66,399	66,218
Weighted average shares outstanding – diluted	66,556	66,380	66,537	66,354
Dividends declared per share	$0.3000	$0.4338	$0.6000	$0.8676

See accompanying notes to the consolidated financial statements.

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

	Shares Outstanding	Shares of Beneficial Interest at Par Value	Additional Paid in Capital	Distributions in Excess of Net Income Attributable to the Controlling Interests	Total Shareholders' Equity	Noncontrolling Interests in Subsidiaries	Total Equity
Balance, December 31, 2012	66,437	$ 664	$1,145,515	$ (354,122)	$ 792,057	$ 4,086	$796,143
Net income attributable to the controlling interests	—	—	—	12,598	12,598	—	12,598
Contributions from noncontrolling interests	—	—	—	—	—	390	390
Dividends	—	—	—	(40,099)	(40,099)	—	(40,099)
Share grants, net of share grant amortization and forfeitures	63	1	2,195	—	2,196	—	2,196
Balance, June 30, 2013	66,500	$ 665	$1,147,710	$ (381,623)	$ 766,752	$ 4,476	$771,228

See accompanying notes to the consolidated financial statements.

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

	Six Months Ended June 30,	
	2013	2012
Cash flows from operating activities		
Net income	$12,598	$11,189
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, including amounts in discontinued operations	51,106	51,585
Provision for losses on accounts receivable	2,291	2,013
Gain on sale of real estate	(3,195)	—
Amortization of share grants, net	2,390	2,763
Amortization of debt premiums, discounts and related financing costs	1,989	1,885
Changes in operating other assets	(1,515)	(4,609)
Changes in operating other liabilities	(2,671)	2,294
Net cash provided by operating activities	62,993	67,120
Cash flows from investing activities		
Real estate acquisitions, net	—	(52,142)
Net cash received for sale of real estate	15,161	—
Capital improvements to real estate	(25,069)	(21,525)
Development in progress	(6,505)	(2,218)
Real estate deposits	(3,900)	—
Non-real estate capital improvements	(109)	(415)
Net cash used in investing activities	(20,422)	(76,300)
Cash flows from financing activities		
Line of credit borrowings, net	75,000	122,000
Dividends paid	(40,099)	(57,807)
Net contributions from noncontrolling interests	390	88
Financing costs	—	(1,967)
Proceeds from dividend reinvestment program	—	1,345
Principal payments – mortgage notes payable	(31,267)	(2,900)
Notes payable repayments	(60,000)	(50,000)
Net proceeds from exercise of share options	—	23
Net cash (used in) provided by financing activities	(55,976)	10,782
Net (decrease) increase in cash and cash equivalents	(13,405)	1,602
Cash and cash equivalents at beginning of period	19,324	12,765
Cash and cash equivalents at end of period	$5,919	$14,367
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of amounts capitalized	$32,643	$29,995
Decrease (increase) in accrued capital improvements and development costs	$683	$(3,103)

See accompanying notes to the consolidated financial statements.

WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013
(UNAUDITED)

NOTE 1: NATURE OF BUSINESS

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

Federal Income Taxes

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

Generally, and subject to our ongoing qualification as a REIT, no provisions for income taxes are necessary except for taxes on undistributed REIT taxable income and taxes on the income generated by our taxable REIT subsidiaries ("TRSs"). Our TRSs are subject to corporate federal and state income tax on their taxable income at regular statutory rates. There were no material income tax provisions or material net deferred income tax items for our TRSs for the three and six months ended June 30, 2013 and 2012.

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

Significant Accounting Policies

We have prepared our consolidated financial statements using the accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2012.

Principles of Consolidation and Basis of Presentation

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

We have prepared the accompanying unaudited financial statements pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") have been condensed or omitted pursuant to those rules and regulations, although we believe that the disclosures made are adequate to make the information presented not misleading. In addition, in the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the results for the periods presented have been included. These unaudited financial statements should be read in conjunction with the financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2012.

Within these notes to the financial statements, we refer to the three months ended June 30, 2013 and June 30, 2012 as the "2013 Quarter" and the "2012 Quarter," respectively, and the six months ended June 30, 2013 and June 30, 2012 as the "2013 Period" and the "2012 Period," respectively.

Use of Estimates in the Financial Statements

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

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation due to the reclassification of certain properties as discontinued operations (see note 3).

NOTE 3: REAL ESTATE

Variable Interest Entities

In June 2011, we executed a joint venture operating agreement with a real estate development company to develop a mid-rise multifamily property at 650 North Glebe Road in Arlington, Virginia. We estimate the total cost of the project to be $49.9 million. During the first quarter of 2013, we secured third-party debt financing for approximately 70% of the project's cost. WRIT is the 90% owner of the joint venture, and will have management and leasing responsibilities when the project is completed and stabilized (defined as 90% of the residential units leased). The real estate development company owns 10% of the joint venture and is responsible for the development and construction of the property. The joint venture currently expects to complete this development project during the fourth quarter of 2014.

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

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

We include the joint venture land acquisitions on our consolidated balance sheets in properties under development or held for future development. As of June 30, 2013 and December 31, 2012, the land and capitalized development costs are as follows (in thousands):

	June 30, 2013	December 31, 2012
650 North Glebe	$19,904	$15,646
1225 First Street	21,576	19,807

As of June 30, 2013 and December 31, 2012, the accounts payable and accrued liabilities related to the joint ventures are as follows (in thousands):

	June 30, 2013	December 31, 2012
650 North Glebe	$1,089	$115
1225 First Street	394	1,676

On February 21, 2013, WRIT, through its consolidated joint venture to develop a mid-rise multifamily property at 650 North Glebe Road, entered into a construction loan agreement with Citizens Bank for $33.0 million. The loan bears interest at LIBOR plus 2.15%, which decreases to LIBOR plus 2.0% upon completion of construction and the joint venture not being in default. The loan matures on February 21, 2016, with two one year extension options exercisable by the joint venture, subject to fees and compliance with certain provisions in the loan agreement. As of June 30, 2013, the consolidated joint venture had $0.4 million outstanding on this construction loan agreement.

Discontinued Operations

We dispose of assets that no longer meet our long-term strategy or return objectives and where market conditions for sale are favorable. The proceeds from the sales may be reinvested into other properties, used to fund development operations or to support other corporate needs, or distributed to our shareholders. Properties are considered held for

sale when they meet the criteria specified (see "Discontinued Operations" in note 2 of the consolidated financial statements included in WRIT's Annual Report on Form 10-K for the year ended December 31, 2012). Depreciation on these properties is discontinued at that time, but operating revenues, other operating expenses and interest continue to be recognized until the date of sale.

We classified as held for sale or sold the following properties in 2013 and 2012:

Disposition Date	Property Name	Segment	Rentable Square Feet	Contract Purchase Price (In thousands)
March 19, 2013	Atrium Building	Office	79,000	$15,750
August 31, 2012	1700 Research Boulevard	Office	101,000	$14,250
December 20, 2012	Plumtree Medical Center	Medical Office	33,000	8,750
		Total 2012	134,000	$23,000

Income from operations of properties sold or held for sale for the three and six months ended June 30, 2013 and 2012 were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues	$—	$1,187	347	2,472
Property expenses	—	(446)	(162)	(908)
Depreciation and amortization	—	(364)	—	(776)
Interest expense	—	(63)	—	(127)
	$—	$314	$185	$661

Income from operations of properties sold or held for sale by property for the three and six months ended June 30, 2013 and 2012 were as follows (in thousands):

		Three Months Ended June 30,		Six Months Ended June 30,	
Property	Segment	2013	2012	2013	2012
1700 Research Boulevard	Office	$—	$74	—	118
Atrium Building	Office	—	225	185	514
Plumtree Medical Center	Medical Office	—	15	—	29
		$—	$314	$185	$661

NOTE 4: MORTGAGE NOTES PAYABLE

On January 11, 2013, we repaid without penalty the remaining $30.0 million of principal on the mortgage note secured by West Gude Drive.

NOTE 5: UNSECURED LINES OF CREDIT PAYABLE

As of June 30, 2013, we maintained a $100.0 million unsecured line of credit maturing in June 2015 ("Credit Facility No. 1") and a $400.0 million unsecured line of credit maturing in July 2016 ("Credit Facility No. 2"). Credit Facilities No. 1 and No. 2 have accordion features that allow us to increase the facilities to $200.0 million and $600.0 million, respectively, subject to additional lender commitments. The amounts of these lines of credit unused and available at June 30, 2013 are as follows (in thousands):

	Credit Facility No. 1	Credit Facility No. 2
Committed capacity	$100,000	$400,000
Borrowings outstanding	(15,000)	(60,000)
Unused and available	$85,000	$340,000

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

	Credit Facility No. 1	Credit Facility No. 2
Balance at December 31, 2012	$—	$—
Borrowings	30,000	60,000
Repayments	(15,000)	—
Balance at June 30, 2013	$15,000	$60,000

We made borrowings during the 2013 Period to pay off the West Gude mortgage note, repay our 5.125% unsecured notes and for general corporate purposes. We made repayments during the 2013 Period using proceeds from the sale of The Atrium Building and cash from operations.

NOTE 6: NOTES PAYABLE

We repaid without penalty the remaining $60.0 million of our 5.125% unsecured notes on their due date of March 15, 2013, using borrowings on our unsecured line of credit.

NOTE 7: STOCK BASED COMPENSATION

WRIT maintains short-term ("STIP") and long-term ("LTIP") incentive plans that allow for stock-based awards to officers and non-officer employees. Stock based awards are provided to officers and non-officer employees, as well as trustees, under the Washington Real Estate Investment Trust 2007 Omnibus Long-Term Incentive Plan which allows for awards in the form of restricted shares, restricted share units, options and other awards up to an aggregate of 2,000,000 shares over the ten year period in which the plan will be in effect. Restricted share units are converted into shares of our stock upon full vesting through the issuance of new shares.

Total Compensation Expense

Total compensation expense recognized in the consolidated financial statements for all outstanding share based awards was $1.4 million and $1.3 million for the 2013 and 2012 Quarters, respectively, and $2.4 million and $2.7 million for the 2013 and 2012 Periods, respectively.

Restricted Share Awards

During the 2013 Period, 102,966 restricted share grants were awarded at a weighted average grant date fair value of $26.98.

The total fair values of restricted share grants vested was $0.7 million and $0.3 million for the 2013 and 2012 Periods, respectively.

The total unvested restricted share awards at June 30, 2013 was 226,475 shares, which had a weighted average grant date fair value of $27.25 per share.

As of June 30, 2013, the total compensation cost related to non-vested restricted share awards was $2.8 million, which we expect to recognize over a weighted average period of 12 months.

During the first quarter of 2013, our president and Chief Executive Officer announced his intention to retire from WRIT at the end of 2013. As such, we have entered into a separation and general release agreement with the executive dated July 23, 2013, the terms of which were previously disclosed on a Current Report on Form 8-K dated January 28, 2013. The agreement includes a modification to certain of his stock awards. In addition, the agreement provides for the payment of consulting fees during 2014 and 2015 totaling $0.5 million, which will be expensed during the fourth quarter of 2013.

NOTE 8: FAIR VALUE DISCLOSURES

Assets and Liabilities Measured at Fair Value

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

Level 1: Quoted prices in active markets for identical assets

Level 2: Significant other observable inputs
Level 3: Significant unobservable inputs

The only assets or liabilities we had at June 30, 2013 and December 31, 2012 that are recorded at fair value on a recurring basis are the assets held in the Supplemental Executive Retirement Program ("SERP"). We base the valuations related to this asset on assumptions derived from significant other observable inputs and accordingly these valuations fall into Level 2 in the fair value hierarchy. The fair values of these assets at June 30, 2013 and December 31, 2012 were as follows (in thousands):

	June 30, 2013				December 31, 2012			
	Fair Value	Level 1	Level 2	Level 3	Fair Value	Level 1	Level 2	Level 3
Assets:								
SERP	$2,695	$—	$2,695	$—	$2,421	$—	$2,421	$—

Financial Assets and Liabilities Not Measured at Fair Value

The following disclosures of estimated fair value were determined by management using available market information and established valuation methodologies, including discounted cash flow. Many of these estimates involve significant judgment. The estimated fair value disclosed may not necessarily be indicative of the amounts we could realize on disposition of the financial instruments. The use of different market assumptions or estimation methodologies could have an effect on the estimated fair value amounts. In addition, fair value estimates are made at a point in time and thus, estimates of fair value subsequent to June 30, 2013 may differ significantly from the amounts presented. Following is a summary of significant methodologies used in estimating fair values and a schedule of fair values at June 30, 2013.

Cash and Cash Equivalents and Restricted Cash

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

Notes Receivable

We acquired a note receivable ("2445 M Street note") in 2008 with the purchase of 2445 M Street. We estimate the fair value of the 2445 M Street note based on a discounted cash flow methodology using market discount rates (Level 3 inputs).

Debt

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

As of June 30, 2013 and December 31, 2012, the carrying values and estimated fair values of our financial instruments were as follows (in thousands):

	June 30, 2013		December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	$5,919	$5,919	$19,324	$19,324
Restricted cash	10,839	10,839	14,582	14,582
2445 M Street note	6,091	7,311	6,617	6,654
Mortgage notes payable	312,211	337,949	342,970	374,591
Lines of credit	75,000	75,000	—	—
Notes payable	846,450	865,556	906,190	968,040

NOTE 9: EARNINGS PER COMMON SHARE

We determine “Basic earnings per share” using the two-class method as our unvested restricted share awards have non-forfeitable rights to dividends, and are therefore considered participating securities. We compute basic earnings per share by dividing net income attributable to the controlling interest less the allocation of undistributed earnings to unvested restricted share awards by the weighted-average number of common shares outstanding for the period. We also determine “Diluted earnings per share” under the two-class method with respect to the unvested restricted share awards. We further evaluate any other potentially dilutive securities at the end of the period and adjust the basic earnings per share calculation for the impact of those securities that are dilutive. Our diluted earnings per share calculation includes the dilutive impact of employee stock options based on the treasury stock method and our incentive share awards with performance or market conditions under the contingently issuable method. The diluted earnings per share calculation also considers our operating partnership units under the if-converted method.

The computations of basic and diluted earnings per share for the three and six months ended June 30, 2013 and 2012 were as follows (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Numerator:				
Income from continuing operations	$5,263	$5,694	$9,218	$10,528
Allocation of undistributed earnings to unvested restricted share awards	(142)	(167)	(192)	(342)
Adjusted income from continuing operations attributable to the controlling interests	5,121	5,527	9,026	10,186
Income from discontinued operations, including gain on sale of real estate, net of taxes	—	314	3,380	661
Allocation of undistributed earnings to unvested restricted share awards	—	(9)	(70)	(21)
Adjusted income from discontinuing operations attributable to the controlling interests	—	305	3,310	640
Adjusted net income attributable to the controlling interests	$5,121	$5,832	$12,336	$10,826
Denominator:				
Weighted average shares outstanding – basic	66,405	66,241	66,399	66,218
Effect of dilutive securities:				
Operating partnership units	117	117	117	117
Employee stock options and restricted share awards	34	22	21	19
Weighted average shares outstanding – diluted	66,556	66,380	66,537	66,354
Earnings per common share, basic:				
Continuing operations	$0.08	$0.08	$0.14	$0.15
Discontinued operations	—	0.01	0.05	0.01
	$0.08	$0.09	$0.19	$0.16
Earnings per common share, diluted:				
Continuing operations	$0.08	$0.08	$0.14	$0.15
Discontinued operations	—	0.01	0.05	0.01
	$0.08	$0.09	$0.19	$0.16

NOTE 10: SEGMENT INFORMATION

We have four reportable segments: office, medical office, retail and multifamily. Office buildings provide office space for various types of businesses and professions. Medical office buildings provide offices and facilities for a variety of medical services. Retail centers are typically neighborhood grocery store or drug store anchored retail centers. Multifamily properties provide rental housing for individuals and families throughout the Washington metropolitan area.

We evaluate performance based upon operating income from the combined properties in each segment. Our reportable operating segments are consolidations of similar properties. GAAP requires that segment disclosures present the measure(s) used by the

chief operating decision maker for purposes of assessing segments' performance. Net operating income is a key measurement of our segment profit and loss. Net operating income is defined as segment real estate rental revenue less segment real estate expenses.

The following tables present revenues, net operating income, capital expenditures and total assets for the 2013 and 2012 Quarters and Periods from these segments, and reconciles net operating income of reportable segments to net income attributable to the controlling interests as reported (in thousands):

	Three Months Ended June 30, 2013					
	Office	Medical Office	Retail	Multifamily	Corporate and Other	Consolidated
Real estate rental revenue	$39,582	$11,010	$14,281	$13,399	$—	$78,272
Real estate expenses	15,024	3,316	3,583	5,506	—	27,429
Net operating income	$24,558	$7,694	$10,698	$7,893	$—	$50,843
Depreciation and amortization						(25,582)
General and administrative						(4,005)
Acquisition costs						(87)
Interest expense						(16,152)
Other income						246
Net income						5,263
Less: Net income attributable to noncontrolling interests in subsidiaries						—
Net income attributable to the controlling interests						5,263
Capital expenditures	$9,663	$1,453	$1,768	$1,983	$102	$14,969
Total assets	$1,116,570	$321,532	$349,937	$251,604	$41,099	$2,080,742

	Three Months Ended June 30, 2012					
	Office	Medical Office	Retail	Multifamily	Corporate and Other	Consolidated
Real estate rental revenue	$37,451	$11,073	$13,970	$13,096	$—	$75,590
Real estate expenses	13,175	3,730	3,030	5,098	—	25,033
Net operating income	$24,276	$7,343	$10,940	$7,998	$—	$50,557
Depreciation and amortization						(25,227)
Acquisition costs						(254)
General and administrative						(4,164)
Interest expense						(15,470)
Other income						252
Discontinued operations:						
Income from operations of properties sold or held for sale						314
Net income						6,008
Less: Net income attributable to noncontrolling interests in subsidiaries						—
Net income attributable to the controlling interests						$6,008
Capital expenditures	$7,278	$1,148	$1,154	$1,486	$205	$11,271
Total assets	$1,158,617	$343,557	$360,012	$245,947	$45,538	$2,153,671

	Six Months Ended June 30, 2013					
	Office	Medical Office	Retail	Multifamily	Corporate and Other	Consolidated
Real estate rental revenue	$78,311	$22,038	$28,115	$26,732	$—	$155,196
Real estate expenses	29,102	7,374	7,148	10,896	—	54,520
Net operating income	$49,209	$14,664	$20,967	$15,836	$—	$100,676
Depreciation and amortization						(51,106)
General and administrative						(7,867)
Acquisition costs						(300)
Interest expense						(32,670)
Other income						485
Discontinued operations:						
Income from operations of properties sold or held for sale						185
Gain on sale of real estate						3,195
Net income						12,598
Less: Net income attributable to noncontrolling interests in subsidiaries						—
Net income attributable to the controlling interests						$12,598
Capital expenditures	$17,238	$2,530	$2,534	$2,767	$109	$25,178

	Six Months Ended June 30, 2012					
	Office	Medical Office	Retail	Multifamily	Corporate and Other	Consolidated
Real estate rental revenue	$74,998	$22,298	$27,416	$26,092	$—	$150,804
Real estate expenses	26,652	7,429	6,474	10,029	—	50,584
Net operating income	$48,346	$14,869	$20,942	$16,063	$—	$100,220
Depreciation and amortization						(50,809)
General and administrative						(7,770)
Acquisition costs						(308)
Interest expense						(31,301)
Other income						496
Discontinued operations:						
Income from operations of properties sold or held for sale						661
Net income						11,189
Less: Net income attributable to noncontrolling interests in subsidiaries						—
Net income attributable to the controlling interests						$11,189
Capital expenditures	$15,018	$2,621	$1,414	$2,472	$415	$21,940

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

The following discussion should be read in conjunction with our consolidated financial statements and the notes thereto appearing in Item 1 of this report and the more detailed information contained in our Annual Report on Form 10-K for the year ended December 31, 2012 filed with the Securities and Exchange Commission on February 27, 2013.

We refer to the three months ended June 30, 2013 and June 30, 2012 as the "2013 Quarter" and the "2012 Quarter," respectively, and the the six months ended June 30, 2013 and June 30, 2012 as the "2013 Period" and the "2012 Period," respectively.

Forward-Looking Statements

This Form 10-Q contains forward-looking statements which involve risks and uncertainties. Forward-looking statements include statements in this report preceded by, followed by or that include the words "believe," "expect," "intend," "anticipate," "potential," "project," "will" and other similar expressions. We claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for these statements.

The following important factors, in addition to those discussed elsewhere in this Form 10-Q, could affect our future results and could cause those results to differ materially from those expressed in the forward-looking statements: (a) the effect of credit and financial market conditions; (b) the availability and cost of capital; (c) fluctuations in interest rates; (d) the economic health of our tenants; (e) the timing and pricing of lease transactions; (f) the economic health of the greater Washington metro region, or other markets we may enter; (g) the effects of changes in Federal government spending; (h) the supply of competing properties; (i) consumer confidence; (j) unemployment rates; (k) consumer tastes and preferences; (l) our future capital requirements; (m) inflation; (n) compliance with applicable laws, including those concerning the environment and access by persons with disabilities; (o) governmental or regulatory actions and initiatives; (p) changes in general economic and business conditions; (q) terrorist attacks or actions; (r) acts of war; (s) weather conditions; (t) the effects of changes in capital available to the technology and biotechnology sectors of the economy, and (u) other factors discussed under the caption "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2012 filed with the Securities and Exchange Commission on February 27, 2013 and our subsequent Quarterly Reports on Form 10-Q. We undertake no obligation to update our forward-looking statements or risk factors to reflect new information, future events, or otherwise.

General

Introductory Matters

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

- Overview. Discussion of our business, operating results, investment activity and capital requirements, and summary of our significant transactions to provide context for the remainder of MD&A.
- Results of Operations. Discussion of our financial results comparing the 2013 Quarter to the 2012 Quarter and the 2013 Period to the 2012 Period.
- 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 ("FFO"), calculated as set forth below under the caption "Funds from Operations." FFO is a non-GAAP supplemental measure to net income;
- Occupancy, calculated as occupied square footage as a percentage of total square footage as of the last day of that period;
-

Leased percentage, calculated as the percentage of available physical net rentable area leased for our commercial segments and percentage of apartments leased for our multifamily segment;
- Rental rates;

- Leasing activity, including new leases, renewals and expirations.

For purposes of evaluating comparative operating performance, we categorize our properties as "same-store," "non-same-store" or discontinued operations. A "same-store" property is one that was owned for the entirety of the periods being evaluated, is stabilized from an occupancy standpoint and is included in continuing operations. We consider newly constructed properties to be stabilized when they achieve 90% occupancy. A "non-same-store" property is one that was acquired or placed into service during either of the periods being evaluated or is not stabilized from an occupancy standpoint, and is included in continuing operations. We classify results for properties sold or held for sale during any of the periods evaluated as discontinued operations.

Overview

Business

Our revenues are derived primarily from the ownership and operation of income-producing properties in the greater Washington metro region. As of June 30, 2013, we owned a diversified portfolio of 69 properties, totaling approximately 8.5 million square feet of commercial space and 2,540 multifamily units, and land held for development. These 69 properties consisted of 25 office properties, 17 medical office properties, 16 retail centers and 11 multifamily properties.

Operating Results

Real estate rental revenue, NOI, net income and FFO for the three months ended June 30, 2013 and 2012 were as follows (in thousands):

	Three Months Ended June 30,			
	2013	2012	$ Change	% Change
Real estate rental revenue	$78,272	$75,590	$2,682	3.5 %
NOI [1]	$50,843	$50,557	$286	0.6 %
Net income	$5,263	$6,008	$(745)	(12.4)%
FFO [2]	$30,845	$31,599	$(754)	(2.4)%

[1] See page 22 of the MD&A for reconciliations of NOI to net income.
[2] See page 36 of the MD&A for reconciliations of FFO to net income.

The increase in NOI is primarily due to the acquisition made in 2012 and higher rental rates at same-store properties, partially offset by lower occupancy and higher real estate taxes at same-store properties. Occupancy decreased to 89.1% from 89.5% one year ago, as decreases in the medical office, retail and multifamily segments were partially offset by a small increase occupancy in the office segment.

Investment Activity

We are pursuing the potential sale of all or a portion of our medical office segment during 2013. We believe that this sale would enhance our focus on the office, multifamily and retail segments, while providing funds to upgrade our portfolio. However, we may not receive acceptable offers for these properties. If we did receive an offer we considered acceptable, the completion of a definitive transaction with respect to such offer would still require the successful negotiation of a sale agreement and the approval of our Board of Trustees. Lastly, if we identify a potential purchaser of all or a portion of the medical office segment, negotiate an acceptable sale agreement and receive approval from the Board of Trustees to execute any such sale, there could still be conditions to the closing of such transaction that may not be achieved, or we or the potential purchaser otherwise may not be successful in completing such transaction. We may also not be successful in reinvesting all or a portion of the proceeds of any such sale on a substantially concurrent basis. If we do sell all or a portion of the medical office segment during 2013, the resulting decrease in 2013's net income attributable to the controlling interests may not be completely offset by income from the reinvestment of disposition proceeds.

Capital Requirements

There are no debt maturities for the remainder of 2013, though we will continue to make recurring principal amortization payments. As of June 30, 2013, our unsecured lines of credit had $75.0 million of borrowings outstanding, leaving a remaining borrowing capacity of $425.0 million.

Significant Transactions

Our significant transactions during the 2013 and 2012 Periods are summarized as follows:

2013 Period

- The disposition of the Atrium Building, an 79,000 square foot office building, for a contract sales price of $15.75 million, resulting in a gain on sale of $3.2 million.
- The execution of new leases for 0.8 million square feet of commercial space, with an average rental rate increase of 9.7% over expiring leases.

2012 Period

- The acquisition of Fairgate at Ballston, a 142,000 square foot office building, for $52.3 million. We incurred $0.2 million in acquisition costs related to this transaction.
- The execution of an amended and restated credit agreement for our Credit Facility No. 1 to expand the facility from $75.0 million to $100.0 million, with an accordion feature that allows us to increase the facility to $200.0 million, subject to additional lender commitments. The amended and restated facility matures June 2015, with a one-year extension option, and bears interest at a rate of LIBOR plus a margin, based on our credit rating.
- The execution of an amended and restated credit agreement for Credit Facility No. 2, our $400.0 million unsecured line of credit, to extend the maturity date of the facility to July 2016, with a one-year extension option, and bears interest at a rate of LIBOR plus a margin, based on our credit rating.
- The execution of new leases for 0.5 million square feet of commercial space, with an average rental rate increase of 12.5% over expiring leases.

Results of Operations

The discussion that follows is based on our consolidated results of operations for the 2013 and 2012 Quarters and Periods. The ability to compare one period to another may be significantly affected by acquisitions completed and dispositions made during those periods. To provide more insight into our operating results, we divide our discussion into two main sections:

- Consolidated Results of Operations: Overview analysis of results on a consolidated basis.
- Net Operating Income: Detailed analysis of same-store and non-same-store NOI results by segment.

Consolidated Results of Operations

Real Estate Rental Revenue

Real estate rental revenue for properties classified as continuing operations for the three and six months ended June 30, 2013 and 2012 were as follows (in thousands):

	Three Months Ended June 30,		Change			Six Months Ended June 30,		Change		
	2013	2012	$	%		2013	2012	$	%	
Minimum base rent	$67,735	$66,206	$1,529	2.3	%	$134,909	$132,283	$2,626	2.0	%
Recoveries from tenants	8,009	7,470	539	7.2	%	15,603	14,375	1,228	8.5	%
Provisions for doubtful accounts	(1,137)	(1,472)	335	(22.8)	%	(2,256)	(2,538)	282	(11.1)	%
Parking and other tenant charges	3,665	3,386	279	8.2	%	6,940	6,684	256	3.8	%
	$78,272	$75,590	$2,682	3.5	%	$155,196	$150,804	$4,392	2.9	%

Minimum Base Rent: Minimum base rent increased by $1.5 million in the 2013 Quarter primarily due to acquisitions ($1.0 million) and higher rental rates ($1.8 million) at same-store properties, partially offset by lower occupancy ($0.9 million) and higher rent abatements ($0.3 million) at same-store properties.

Minimum base rent increased by $2.6 million in the 2013 Period primarily due to acquisitions ($2.3 million) and higher rental rates ($3.6 million) at same-store properties, partially offset by lower occupancy ($2.7 million) and higher rent abatements ($0.4 million) at same-store properties.

Recoveries from Tenants: Recoveries from tenants increased by $0.5 million in the 2013 Quarter primarily due to higher reimbursements for real estate taxes at same-store properties.

18

Recoveries from tenants increased by $1.2 million in the 2013 Period primarily due to higher reimbursements for operating expenses ($0.6 million) and real estate taxes ($0.4 million) at same-store properties and reimbursements for real estate taxes ($0.1 million) at acquisitions.

Provisions for Doubtful Accounts: Provisions for doubtful accounts decreased by $0.3 million in the 2013 Quarter due to lower net provisions in the retail ($0.4 million) segment, partially offset by higher net provisions in the medical office segment ($0.1 million).

Provisions for doubtful accounts decreased by $0.3 million in the 2013 Period due to lower net provisions in the retail segment ($0.6 million), partially offset by higher net provisions in the office ($0.2 million) and medical office ($0.1 million) segments.

Parking and Other Tenant Charges: Parking and other tenant charges increased by $0.3 million in the 2013 Quarter primarily due to acquisitions ($0.2 million) and higher parking income ($0.1 million) from same-store properties.

Parking and other tenant charges increased by $0.3 million in the 2013 Period primarily due to acquisitions ($0.3 million) and higher parking income ($0.2 million) from same-store properties, partially offset by lower lease termination fees ($0.2 million) from same-store properties.

Occupancy for properties classified as continuing operations by segment as of June 30, 2013 and 2012 was as follows:

	As of June 30,					
	2013		2012		Change	
Office	86.3	%	86.0	%	0.3	%
Medical Office	84.8	%	86.1	%	(1.3	)%
Retail	93.2	%	93.3	%	(0.1	)%
Multifamily	93.1	%	94.8	%	(1.7	)%
Total	89.1	%	89.5	%	(0.4	)%

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

A detailed discussion of occupancy by segment can be found in the Net Operating Income section.

Real Estate Expenses

Real estate expenses for properties classified as continuing operations for the three and six months ended June 30, 2013 and 2012 were as follows (in thousands):

	Three Months Ended June 30,		Change			Six Months Ended June 30,		Change		
	2013	2012	$	%		2013	2012	$	%	
Property operating expenses	$18,961	$17,564	$1,397	8.0	%	$38,022	$35,384	$2,638	7.5	%
Real estate taxes	8,468	7,469	999	13.4	%	16,498	15,200	1,298	8.5	%
	$27,429	$25,033	$2,396	9.6	%	$54,520	$50,584	$3,936	7.8	%

Real estate expenses as a percentage of revenue were 35.0% and 33.1% for the 2013 and 2012 Quarters, respectively, and 35.1% and 33.5% for the 2013 and 2012 Periods, respectively.

Property Operating Expenses: Property operating expenses include utilities, repairs and maintenance, property administration and management, operating services, common area maintenance, property insurance, bad debt and other operating expenses.

Property operating expenses increased by $1.4 million in the 2013 Quarter primarily due to acquisitions ($0.3 million) and higher repairs and maintenance ($0.3 million), administrative ($0.3 million), bad debt ($0.2 million) and utilities ($0.1 million) expenses from same-store properties.

Property operating expenses increased by $2.6 million in the 2013 Period primarily due to acquisitions ($0.6 million), and higher bad debt ($0.6 million), administrative ($0.5 million), repairs and maintenance ($0.4 million) and snow removal ($0.3 million) expenses from same-store properties.

19

Real Estate Taxes: Real estate taxes increased by $1.0 million in the 2013 Quarter primarily due to higher assessments at same-store properties.

Real estate taxes increased by $1.3 million in the 2013 Period primarily due to higher assessments at same-store properties ($1.0 million) and acquisitions ($0.3 million).

Other Operating Expenses

Other operating expenses for the three and six months ended June 30, 2013 and 2012 were as follows (in thousands):

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2013	2012	$	%	2013	2012	$	%
Depreciation and amortization	$25,582	$25,227	$355	1.4 %	$51,106	$50,809	$297	0.6 %
Interest expense	16,152	15,470	682	4.4 %	32,670	31,301	1,369	4.4 %
Acquisition costs	87	254	(167)	(65.7)%	300	308	(8)	(2.6)%
General and administrative	4,005	4,164	(159)	(3.8)%	7,867	7,770	97	1.2 %
	$45,826	$45,115	$711	1.6 %	$91,943	$90,188	$1,755	1.9 %

Interest Expense: Interest expense by debt type for the three and six months ended June 30, 2013 and 2012 was as follows (in thousands):

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2013	2012	$	%	2013	2012	$	%
Notes payable	$10,647	$8,597	$2,050	23.8 %	$21,890	$17,630	$4,260	24.2 %
Mortgages	4,854	6,425	(1,571)	(24.5)%	9,730	12,873	(3,143)	(24.4)%
Lines of credit	841	881	(40)	(4.5)%	1,533	1,656	(123)	(7.4)%
Capitalized interest	(190)	(433)	243	(56.1)%	(483)	(858)	375	(43.7)%
Total	$16,152	$15,470	$682	4.4 %	$32,670	$31,301	$1,369	4.4 %

Interest expense from notes payable increased in the 2013 Quarter and Period primarily due to the issuance of $300.0 million of 3.95% unsecured notes in September 2012, partially offset by the paydown of $50.0 million of 5.05% notes.

Interest expense from mortgage notes decreased primarily due to the repayments of various mortgage notes during 2012 and 2013. Interest expense from our unsecured lines of credit decreased due to lower borrowings. Capitalized interest decreased because we stopped capitalizing interest on expenditures on our joint venture to develop a multifamily property at 1225 First Street during the 2013 Quarter because there was no qualified development activity. We decided to delay commencement of construction at this development due to market conditions and concerns of oversupply.

General and Administrative Expense: General and administrative expense decreased by $0.2 million in the 2013 Quarter, primarily due to lower provisions for incentive compensation.

General and administrative expense increased by $0.1 million in the 2013 Period, primarily due to recruitment fees associated with the search for a new chief executive officer.

Discontinued Operations

We sold the following properties in 2013 and 2012:

Disposition Date	Property	Type	Rentable Square Feet	Contract Sales Price (in thousands)
March 19, 2013	Atrium Building	Office	79,000	$15,750
August 31, 2012	1700 Research Boulevard	Office	101,000	$14,250
December 20, 2012	Plumtree Medical Center	Medical Office	33,000	$8,750
		Total 2012	134,000	$23,000

20

Operating results of the properties classified as discontinued operations for the three and six months ended June 30, 2013 and 2012 were as follows (in thousands):

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2013	2012	$	%	2013	2012	$	%
Revenues	$—	$1,187	$(1,187)	(100.0)%	$347	$2,472	$(2,125)	(86.0)%
Property expenses	—	(446)	446	100.0 %	(162)	(908)	746	(82.2)%
Depreciation and amortization	—	(364)	364	100.0 %	—	(776)	776	(100.0)%
Interest expense	—	(63)	63	100.0 %	—	(127)	127	(100.0)%
Total	$—	$314	$(314)	(100.0)%	$185	$661	$(476)	(72.0)%

Net Operating Income

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

2013 Quarter Compared to 2012 Quarter

The following tables of selected operating data reconcile NOI to net income and provide the basis for our discussion of NOI in the 2013 Quarter compared to the 2012 Quarter (in thousands).

	Three Months Ended June 30,			
	2013	2012	$ Change	% Change
Real Estate Rental Revenue				
Same-store	$76,534	$75,197	$1,337	1.8 %
Non-same-store [1]	1,738	393	1,345	342.2 %
Total real estate rental revenue	$78,272	$75,590	$2,682	3.5 %
Real Estate Expenses				
Same-store	$26,745	$24,782	$1,963	7.9 %
Non-same-store [1]	684	251	433	172.5 %
Total real estate expenses	$27,429	$25,033	$2,396	9.6 %
NOI				
Same-store	$49,789	$50,415	$(626)	(1.2)%
Non-same-store [1]	1,054	142	912	642.3 %
Total NOI	$50,843	$50,557	$286	0.6 %
Reconciliation to Net Income				
NOI	$50,843	$50,557		
Depreciation and amortization	(25,582)	(25,227)		
General and administrative expenses	(4,005)	(4,164)		
Interest expense	(16,152)	(15,470)		
Other income	246	252		
Acquisition costs	(87)	(254)		
Discontinued operations:				
Income from operations of properties sold or held for sale [2]	—	314		
Net income	5,263	6,008		
Less: Net income attributable to noncontrolling interests	—	—		
Net income attributable to the controlling interests	$5,263	$6,008		

(1)Non-same-store properties include:

2012 Office acquisition – Fairgate at Ballston

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

2013 disposition – The Atrium Building

2012 dispositions – Plumtree Medical Center and 1700 Research Boulevard

Real estate rental revenue from same-store properties increased by $1.3 million in the 2013 Quarter primarily due to higher rental rates ($1.8 million) and higher reimbursements for real estate taxes ($0.4 million), partially offset by lower occupancy ($0.9 million).

Real estate expenses from same-store properties increased by $2.0 million in the 2013 Quarter due to higher real estate taxes ($0.9 million), administrative expenses ($0.3 million), repairs and maintenance expenses ($0.3 million), bad debt expense ($0.2 million) and utilities expense ($0.1 million).

	As of June 30,			
Occupancy	2013		2012	
Same-store	89.5	%	89.9	%
Non-same-store	70.2	%	65.6	%
Total	89.1	%	89.5	%

The decrease in same-store occupancy reflects declines in all segments except office, which had a small increase. The increase in non-same-store occupancy reflects the acquisition made during 2012. During the 2013 Quarter, 62.3% of the commercial square footage expiring was renewed as compared to 51.8% in the 2012 Quarter, excluding properties sold or classified as held for sale. During the 2013 Quarter, we executed new leases (excluding first generation leases at recently-built properties) for 417,615 commercial square feet at an average rental rate of $22.53 per square foot, an increase of 8.2%, with average tenant improvements and leasing commissions and incentives (including free rent) of $17.86 per square foot.

An analysis of NOI by segment follows.

Office Segment:

	Three Months Ended June 30,			
	2013	2012	$ Change	% Change
Real Estate Rental Revenue				
Same-store	$38,200	$37,317	$883	2.4 %
Non-same-store [1]	1,382	134	1,248	931.3 %
Total real estate rental revenue	$39,582	$37,451	$2,131	5.7 %
Real Estate Expenses				
Same-store	$14,492	$13,093	$1,399	10.7 %
Non-same-store [1]	532	82	450	548.8 %
Total real estate expenses	$15,024	$13,175	$1,849	14.0 %
NOI				
Same-store	$23,708	$24,224	$(516)	(2.1)%
Non-same-store [1]	850	52	798	1,534.6 %
Total NOI	$24,558	$24,276	$282	1.2 %

(1) Non-same-store properties include:
2012 acquisition - Fairgate at Ballston

Real estate rental revenue from same-store properties increased by $0.9 million in the 2013 Quarter primarily due to higher rental rates ($0.7 million) and higher reimbursements for real estate taxes ($0.4 million), partially offset by lower occupancy ($0.2 million).

Real estate expenses from same-store properties increased by $1.4 million due to higher real estate taxes ($0.6 million), administrative ($0.2 million), utilities ($0.2 million) and repairs and maintenance ($0.2 million) expenses.

	As of June 30,	
Occupancy	2013	2012
Same-store	86.3 %	86.0 %
Non-same-store	86.6 %	83.0 %
Total	86.3 %	86.0 %

The increase in same-store occupancy was primarily due to higher occupancy at 2000 M Street and 1140 Connecticut Avenue, partially offset by lower occupancy at Braddock Metro Center. During the 2013 Quarter, 50.5% of the square footage that expired was renewed compared to 59.8% in the 2012 Quarter, excluding properties sold or classified as held for sale. During the 2013 Quarter, we executed new leases for 186,436 square feet of office space at an average rental rate of $31.41 per square foot, an increase of 6.5%, with average tenant improvements and leasing commissions and incentives (including free rent) of $33.49 per square foot.

Medical Office Segment:

	Three Months Ended June 30,			
	2013	2012	$ Change	% Change
Real Estate Rental Revenue				
Same-store	$10,654	$10,814	$(160)	(1.5)%
Non-same-store [1]	356	259	97	37.5 %
Total real estate rental revenue	$11,010	$11,073	$(63)	(0.6)%
Real Estate Expenses				
Same-store	$3,164	$3,561	$(397)	(11.1)%
Non-same-store [1]	152	169	(17)	(10.1)%
Total real estate expenses	$3,316	$3,730	$(414)	(11.1)%
NOI				
Same-store	$7,490	$7,253	$237	3.3 %
Non-same-store [1]	204	90	114	126.7 %
Total NOI	$7,694	$7,343	$351	4.8 %

(1) Non-same-store properties include:
2009 acquisition – 19500 at Riverside Office Park (formerly Lansdowne Medical Office Building)
Real estate rental revenue from same-store properties decreased by $0.2 million in the 2013 Quarter due to lower occupancy ($0.4 million), partially offset by higher reimbursements for real estate taxes ($0.2 million).
Real estate expenses from same-store properties decreased by $0.4 million in the 2013 Quarter primarily due to lower bad debt expense.

	As of June 30,	
Occupancy	2013	2012
Same-store	87.8 %	89.7 %
Non-same-store	43.6 %	35.9 %
Total	84.8 %	86.1 %

The decrease in same-store occupancy was driven by lower occupancy at 8501 Arlington Boulevard and 15005 Shady Grove Road, partially offset by higher occupancy at Woodholme Medical Center. The increase in non-same-store occupancy reflects the continued lease-up of 19500 at Riverside Office Park, which was newly-constructed and vacant when purchased during the fourth quarter of 2009. During the 2013 Quarter, 71.6% of the square footage that expired was renewed compared to 31.3% in the 2012 Quarter. During the 2013 Quarter, we executed new leases (excluding first generation leases) for 52,465 square feet of medical office space at an average rental rate of $34.98, an increase of 10.7%, with average tenant improvements and leasing commissions and incentives (including free rent) of $16.68 per square foot.

Retail Segment:

	Three Months Ended June 30,			
	2013	2012	$ Change	% Change
Real Estate Rental Revenue	$14,281	$13,970	$311	2.2 %
Real Estate Expenses	$3,583	$3,030	$553	18.3 %
NOI	$10,698	$10,940	$(242)	(2.2)%

Real estate rental revenue increased by $0.3 million in the 2013 Quarter primarily due to higher rental rates ($0.5 million) and lower provisions for uncollectible revenue ($0.4 million), partially offset by lower occupancy ($0.2 million) and lower reimbursements for real estate taxes ($0.2 million) and operating expenses ($0.2 million).

Real estate expenses increased by $0.6 million in the 2013 Quarter primarily due to higher bad debt expense ($0.4 million) and vacant space preparation ($0.1 million).

	As of June 30,	
Occupancy	2013	2012
Total	93.2 %	93.3 %

The decrease in occupancy was driven by lower occupancy at Concord Center and Randolph Shopping Center, partially offset by higher occupancy at the Centre at Hagerstown and Gateway Overlook. During the 2013 Quarter, 84.6% of the square footage that expired was renewed compared to 53.0% in the 2012 Quarter. During the 2013 Quarter, we executed new leases for 178,714 square feet of retail space at an average rental rate of $9.60, an increase of 11.6%, with average tenant improvements and leasing commissions and incentives (including free rent) of $1.90 per square foot.

Multifamily Segment:

	Three Months Ended June 30,			
	2013	2012	$ Change	% Change
Real Estate Rental Revenue	$13,399	$13,096	$303	2.3 %
Real Estate Expenses	$5,506	$5,098	$408	8.0 %
NOI	$7,893	$7,998	$(105)	(1.3)%

Real estate rental revenue increased by $0.3 million in the 2013 Quarter due to higher rental rates ($0.5 million), partially offset by lower occupancy ($0.2 million).

Real estate expenses increased by $0.4 million in the 2013 Quarter primarily due to higher real estate taxes ($0.1 million), administrative expenses ($0.1 million), repairs and maintenance expenses ($0.1 million) and bad debt expense ($0.1 million).

	As of June 30,	
Occupancy	2013	2012
Total	93.1 %	94.8 %

The decrease in occupancy was driven by lower occupancy at the Kenmore and 3801 Connecticut Avenue.

2013 Period Compared to 2012 Period

The following tables of selected operating data reconcile NOI to net income and provide the basis for our discussion of NOI in the 2013 Period compared to the 2012 Period (in thousands).

	Six Months Ended June 30,			
	2013	2012	$ Change	% Change
Real Estate Rental Revenue				
Same-store	$151,828	$150,181	$1,647	1.1 %
Non-same-store [1]	3,368	623	2,745	440.6 %
Total real estate rental revenue	$155,196	$150,804	$4,392	2.9 %
Real Estate Expenses				
Same-store	$53,143	$50,124	$3,019	6.0 %
Non-same-store [1]	1,377	460	917	199.3 %
Total real estate expenses	$54,520	$50,584	$3,936	7.8 %
NOI				
Same-store	$98,685	$100,057	$(1,372)	(1.4)%
Non-same-store [1]	1,991	163	1,828	1,121.5 %
Total NOI	$100,676	$100,220	$456	0.5 %
Reconciliation to Net Income				
NOI	$100,676	$100,220		
Depreciation and amortization	(51,106)	(50,809)		
General and administrative expenses	(7,867)	(7,770)		
Interest expense	(32,670)	(31,301)		
Other income	485	496		
Acquisition costs	(300)	(308)		
Discontinued operations:				
Income from operations of properties sold or held for sale [2]	185	661		
Gain on sale of real estate	3,195	—		
Net income	12,598	11,189		
Less: Net income attributable to noncontrolling interests	—	—		
Net income attributable to the controlling interests	$12,598	$11,189		

(1)Non-same-store properties include:

2012 Office acquisition – Fairgate at Ballston

2009 Medical Office acquisition – 19500 at Riverside Office Park (formerly Lansdowne Medical Office Building)

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

2013 disposition – The Atrium Building

2012 dispositions – Plumtree Medical Center and 1700 Research Boulevard

Real estate rental revenue from same-store properties increased by $1.6 million in the 2013 Period primarily due to higher rental rates ($3.6 million), higher reimbursements for real estate taxes ($0.4 million) and lower provisions for uncollectible revenue ($0.3 million), partially offset by lower occupancy ($2.7 million).

Real estate expenses from same-store properties increased by $3.0 million in the 2013 Period due to higher real estate taxes ($1.0 million), bad debt expense ($0.6 million), administrative expenses ($0.5 million), snow removal costs ($0.3 million) and repairs and maintenances expenses ($0.4 million).

During the 2013 Period, 66.7% of the commercial square footage expiring was renewed as compared to 59.6% in the 2012 Period, excluding properties sold or classified as held for sale. During the 2013 Period, we executed new leases (excluding first generation leases at recently-built properties) for 805,271 commercial square feet at an average rental rate of $26.49 per square foot, an

28

increase of 9.7%, with average tenant improvements and leasing commissions and incentives (including free rent) of $21.94 per square foot.

An analysis of NOI by segment follows.

Office Segment:

	Six Months Ended June 30,				
	2013	2012	$ Change	% Change	
Real Estate Rental Revenue					
Same-store	$75,593	$74,864	$729	1.0	%
Non-same-store [1]	2,718	134	2,584	1,928.4	%
Total real estate rental revenue	$78,311	$74,998	$3,313	4.4	%
Real Estate Expenses					
Same-store	$28,065	$26,525	$1,540	5.8	%
Non-same-store [1]	1,037	127	910	716.5	%
Total real estate expenses	$29,102	$26,652	$2,450	9.2	%
NOI					
Same-store	$47,528	$48,339	$(811)	(1.7)	%
Non-same-store [1]	1,681	7	1,674	23,914.3	%
Total NOI	$49,209	$48,346	$863	1.8	%

(1) Non-same-store properties include:

2012 acquisition - Fairgate at Ballston

Real estate rental revenue from same-store properties increased by $0.7 million in the 2013 Period primarily due to higher rental rates ($1.4 million) and higher reimbursements for real estate taxes ($0.5 million), partially offset by lower occupancy ($1.0 million) and higher reserves for uncollectible revenue ($0.2 million).

Real estate expenses from same-store properties increased by $1.5 million due to higher real estate taxes ($0.4 million), bad debt expense ($0.3 million), administrative expenses ($0.3 million) and repairs and maintenance expenses ($0.3 million).

During the 2013 Period, 52.5% of the square footage that expired was renewed compared to 56.1% in the 2012 Period, excluding properties sold or classified as held for sale. During the 2013 Period, we executed new leases for 444,945 square feet of office space at an average rental rate of $31.66 per square foot, an increase of 7.2%, with average tenant improvements and leasing commissions and incentives (including free rent) of $28.58 per square foot.

Medical Office Segment:

	Six Months Ended June 30,			
	2013	2012	$ Change	% Change
Real Estate Rental Revenue				
Same-store	$21,388	$21,809	$(421)	(1.9)%
Non-same-store [1]	650	489	161	32.9 %
Total real estate rental revenue	$22,038	$22,298	$(260)	(1.2)%
Real Estate Expenses				
Same-store	$7,034	$7,096	$(62)	(0.9)%
Non-same-store [1]	340	333	7	2.1 %
Total real estate expenses	$7,374	$7,429	$(55)	(0.7)%
NOI				
Same-store	$14,354	$14,713	$(359)	(2.4)%
Non-same-store [1]	310	156	154	98.7 %
Total NOI	$14,664	$14,869	$(205)	(1.4)%

(1) Non-same-store properties include:
2009 acquisition – 19500 at Riverside Office Park (formerly Lansdowne Medical Office Building)
Real estate rental revenue from same-store properties decreased by $0.4 million in the 2013 Period due to lower occupancy ($0.8 million), partially offset by higher rental rates ($0.3 million).
Real estate expenses from same-store properties decreased by $0.1 million in the 2013 Period primarily due to lower bad debt ($0.2 million) and utilities expenses ($0.1 million), partially offset by higher real estate taxes ($0.2 million).
During the 2013 Period, 72.8% of the square footage that expired was renewed compared to 54.5% in the 2012 Period.
During the 2013 Period, we executed new leases (excluding first generation leases) for 89,388 square feet of medical office space at an average rental rate of $36.31, an increase of 8.6%, with average tenant improvements and leasing commissions and incentives (including free rent) of $21.55 per square foot.

Retail Segment:

	Six Months Ended June 30,				
	2013	2012	$ Change	% Change	
Real Estate Rental Revenue	$28,115	$27,416	$699	2.5	%
Real Estate Expenses	$7,148	$6,474	$674	10.4	%
NOI	$20,967	$20,942	$25	0.1	%

Real estate rental revenue increased by $0.7 million in the 2013 Period primarily due to higher rental rates ($0.9 million) and lower provisions for uncollectible revenue ($0.6 million), partially offset by lower occupancy ($0.5 million) and lower reimbursements for real estate taxes ($0.2 million).

Real estate expenses increased by $0.7 million in the 2013 Period primarily due to higher bad debt expense ($0.3 million), snow removal costs ($0.2 million) and real estate taxes ($0.1 million).

During the 2013 Period, 88.7% of the square footage that expired was renewed compared to 70.9% in the 2012 Period.

During the 2013 Period, we executed new leases for 270,938 square feet of retail space at an average rental rate of $14.76, an increase of 20.7%, with average tenant improvements and leasing commissions and incentives (including free rent) of $11.17 per square foot.

Multifamily Segment:

	Six Months Ended June 30,				
	2013	2012	$ Change	% Change	
Real Estate Rental Revenue	$26,732	$26,092	$640	2.5	%
Real Estate Expenses	$10,896	$10,029	$867	8.6	%
NOI	$15,836	$16,063	$(227)	(1.4)	%

Real estate rental revenue increased by $0.6 million in the 2013 Period due to higher rental rates ($0.9 million) and lower rent abatements ($0.1 million), partially offset by lower occupancy ($0.4 million).
Real estate expenses increased by $0.9 million in the 2013 Period primarily due to higher real estate taxes ($0.3 million), higher bad debt expense ($0.2 million) and the true-up of certain utility reimbursements ($0.2 million).

Liquidity and Capital Resources

Capital Requirements

We expect that we will have the capital requirements in 2013 listed below. There can be no assurance that our capital requirements will not be materially higher or lower than these expectations.

- Funding dividends on our common shares and noncontrolling interest distributions to third party unit holders;
- Approximately $55 - $65 million to invest in our existing portfolio of operating assets, including approximately $25 - $35 million to fund tenant-related capital requirements and leasing commissions;
- Approximately $30 - $35 million to invest in our development projects; and
- Funding for potential property acquisitions and related costs throughout the remainder of 2013, offset by proceeds from potential property dispositions (including the potential disposition of our medical office segment).

Debt Financing

Our total debt at June 30, 2013 and December 31, 2012 is as follows (in thousands):

	June 30, 2013	December 31, 2012
Mortgage notes payable	$312,211	$342,970
Unsecured credit facilities	75,000	—
Unsecured notes payable	846,450	906,190
	$1,233,661	$1,249,160

Mortgage Debt

At June 30, 2013, our $312.2 million in mortgage notes payable, which include a net $3.0 million in unamortized discounts due to fair value adjustments, bore an effective weighted average fair value interest rate of 6.1% and had a weighted average maturity of 4.0 years. We may either initiate secured mortgage debt or assume mortgage debt from time-to-time in conjunction with property acquisitions.

Unsecured Credit Facilities

Our primary external sources of liquidity are our two revolving credit facilities.

Credit Facility No. 1 is a four-year, $100.0 million unsecured credit facility maturing in June 2015, and may be extended by one year at our option. We had $15.0 million in borrowings outstanding as of June 30, 2013, related to Credit Facility No. 1. Borrowings under the facility bear interest at LIBOR plus a spread based on the credit rating on our publicly issued debt. The interest rate spread is currently 120 basis points. All outstanding advances are due and payable upon maturity in June 2015, and may be extended by one year at our option. Interest only payments are due and payable generally on a monthly basis. In addition, we pay a facility fee based on the credit rating of our publicly issued debt which currently equals 0.25% per annum of the $100.0 million committed capacity, without regard to usage. Rates and fees may be increased or decreased based on changes in our senior unsecured credit ratings. These fees are payable quarterly.

Credit Facility No. 2 is a four-year $400.0 million unsecured credit facility maturing in July 2016, and may be extended for one year at our option. We had $60.0 million in borrowings outstanding as of June 30, 2013 related to Credit Facility No. 2. Advances under this agreement bear interest at LIBOR plus a spread based on the credit rating of our publicly issued debt. The interest rate spread is currently 120 basis points. All outstanding advances are due and payable upon maturity in July 2016, and may be extended for one year at our option. Interest only payments are due and payable generally on a monthly basis. In addition, we pay a facility fee based on the credit rating of our publicly issued debt which currently equals 0.25% per annum of the $400.0 million committed capacity, without regard to usage. Rates and fees may be increased or decreased based on changes in our senior unsecured credit ratings. These fees are payable quarterly.

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

- A minimum tangible net worth;
- A maximum ratio of total liabilities to gross asset value, calculated using an estimate of fair market value of our assets;
- A maximum ratio of secured indebtedness to gross asset value, calculated using an estimate of fair market value of our assets;

- A minimum ratio of quarterly EBITDA (earnings before interest, taxes, depreciation, amortization and extraordinary and nonrecurring gains and losses) to fixed charges, including interest expense;
- A minimum ratio of unencumbered asset value, calculated using a fair value of our assets, to unsecured indebtedness;

- A minimum ratio of net operating income from our unencumbered properties to unsecured interest expense; and
- A maximum ratio of permitted investments to gross asset value, calculated using an estimate of fair market value of our assets.

Failure to comply with any of the covenants under our unsecured credit facilities or other debt instruments could result in a default under one or more of our debt instruments. This could cause our lenders to accelerate the timing of payments and would therefore have a material adverse effect on our business, operations, financial condition and liquidity. In addition, our ability to draw on our unsecured credit facilities or incur other unsecured debt in the future could be restricted by the loan covenants. As of June 30, 2013, we were in compliance with our loan covenants.

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

Unsecured Notes

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

As of June 30, 2013, our unsecured notes have maturities ranging from January 2014 through February 2028, as follows (in thousands):

5.25% notes due 2014	$100,000
5.35% notes due 2015	150,000
4.95% notes due 2020	250,000
3.95% notes due 2022	300,000
7.25% notes due 2028	50,000
	$850,000

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

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

Failure to comply with any of the covenants under our unsecured notes could result in a default under one or more of our debt instruments. This could cause our debt holders to accelerate the timing of payments and would therefore have a material adverse effect on our business, operations, financial condition and liquidity. As of June 30, 2013, we were in compliance with our unsecured notes covenants.

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

Common Equity

We have authorized for issuance 100.0 million common shares, of which 66.5 million shares were outstanding at June 30, 2013.

We are party to a sales agency financing agreement with BNY Mellon Capital Markets, LLC relating to the issuance and sale of up to $250.0 million of our common shares from time to time over a period of no more than 36 months from June 2012. Sales of our common shares are made at market prices prevailing at the time of sale. We would use net proceeds from the sale of common shares under this program for general corporate purposes. As of June 30, 2013, we have not issued any common shares under this program.

We have a dividend reinvestment program, whereby shareholders may use their dividends and optional cash payments to purchase common shares. The common shares sold under this program may either be common shares issued by us or common shares purchased in the open market. We did not issue any shares under this program during the 2013 Period.

34

Preferred Equity

WRIT's Board of Trustees can, at its discretion, authorize the issuance of up to 10.0 million shares of preferred stock. The ability to issue preferred equity provides WRIT an additional financing tool that may be used to raise capital for future acquisitions or other business purposes. As of June 30, 2013, no shares of preferred stock had been issued.

Dividends

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

Our dividend and distribution payments for the three and six months ended June 30, 2013 and 2012 are as follows (in thousands):

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2013	2012	$	%	2013	2012	$	%
Common dividends	$20,065	$28,907	$(8,842)	(30.6)%	$40,099	$57,807	$(17,708)	(30.6)%
Distributions to noncontrolling interests	—	7	(7)	(100.0)%	—	14	(14)	(100.0)%
	$20,065	$28,914	$(8,849)	(30.6)%	$40,099	$57,821	$(17,722)	(30.6)%

Dividends paid for the 2013 Quarter and Period decreased due to the reduction of our quarterly dividend rate from $0.43375 per share to $0.30 per share in September 2012.

Historical Cash Flows

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

	Six Months Ended June 30,		Change	
	2013	2012	$	%
Net cash provided by operating activities	$63.0	$67.1	$(4.1)	(6.1)%
Net cash used in investing activities	(20.4)	(76.3)	55.9	(73.3)%
Net cash (used in) provided by financing activities	(56.0)	10.8	(66.8)	(618.5)%

Cash provided by operating activities decreased primarily due to higher interest payments due to the issuance of $300.0 million of 3.95% unsecured notes in September 2012.

Cash used in investing activities decreased primarily due to the acquisition of Fairgate at Ballston during the 2012 Quarter and the sale of the Atrium Building during the 2013 Period, partially offset by higher spending on our development projects.

Cash used in financing activities increased primarily due to the repayments of the remaining $60.0 million of our 5.125% unsecured notes and the remaining $30.0 million of the mortgage note secured by West Gude Drive, partially offset by $75.0 million in net borrowings on our unsecured lines of credit and lower dividends paid due to the reduction of our quarterly dividend rate during 2012.

Ratios of Earnings to Fixed Charges and Debt Service Coverage

The following table sets forth our ratios of earnings to fixed charges and debt service coverage for the three and six months ended June 30, 2013 and 2012:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Earnings to fixed charges	1.31 x	1.33 x	1.26 x	1.30 x
Debt service coverage	2.78 x	2.80 x	2.73 x	2.76 x

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

We computed the debt service coverage ratio by dividing Adjusted EBITDA (which is earnings before interest expense, taxes, depreciation, amortization, real estate impairment, gain on sale of real estate, gain/loss from the extinguishment of debt and gain/loss on non-disposal activities) by interest expense and principal amortization. We believe that Adjusted EBITDA is appropriate for use in our debt service coverage ratio because it provides an estimate of the cash available to pay down long term debt. Adjusted EBITDA does not represent net income calculated in accordance with GAAP. As such, it should not be considered an alternative to net income as an indication of our operating performance. A reconciliation of Adjusted EBITDA to net income attributable to the controlling interests is in Exhibit 12 – Computation of Ratios.

Funds From Operations

FFO is a widely used measure of operating performance for real estate companies. We provide FFO as a supplemental measure to net income calculated in accordance with GAAP. Although FFO is a widely used measure of operating performance for REITs, FFO does not represent net income calculated in accordance with GAAP. As such, it should not be considered an alternative to net income as an indication of our operating performance. In addition, FFO does not represent cash generated from operating activities in accordance with GAAP, nor does it represent cash available to pay distributions and should not be considered as an alternative to cash flow from operating activities, determined in accordance with GAAP, as a measure of our liquidity. The National Association of Real Estate Investment Trusts, Inc. (“NAREIT”) defines FFO (April, 2002 White Paper) as net income (computed in accordance with GAAP) excluding gains (or losses) from sales of property and impairments of depreciable real estate, if any, plus real estate depreciation and amortization. We consider FFO to be a standard supplemental measure for REITs because it facilitates an understanding of the operating performance of our properties without giving effect to real estate depreciation and amortization, which historically assumes that the value of real estate assets diminishes predictably over time. Since real estate values have instead historically risen or fallen with market conditions, we believe that FFO more accurately provides investors an indication of our ability to incur and service debt, make capital expenditures and fund other needs. Our FFO may not be comparable to FFO reported by other REITs. These other REITs may not define the term in accordance with the current NAREIT definition or may interpret the current NAREIT definition differently.

The following table provides the calculation of our FFO and a reconciliation of FFO to net income for the three and six months ended June 30, 2013 and 2012 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income attributable to the controlling interests	$5,263	$6,008	$12,598	$11,189
Adjustments:				
Depreciation and amortization	25,582	25,227	51,106	50,809
Discontinued operations:				
Depreciation and amortization	—	364	—	776
Gain on sale of real estate	—	—	(3,195)	—
FFO as defined by NAREIT	$30,845	$31,599	$60,509	$62,774

Critical Accounting Policies and Estimates

We base the discussion and analysis of our financial condition and results of operations upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. We discuss the most critical estimates in our Annual Report on Form 10-K for the year ended December 31, 2012 filed with the Securities and Exchange Commission on February 27, 2013.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The principal material financial market risk to which we are exposed is interest-rate risk. Our exposure to market risk for changes in interest rates relates primarily to refinancing long-term fixed rate obligations, the opportunity cost of fixed rate obligations in a falling interest rate environment and our variable rate lines of credit. We primarily enter into debt obligations to support general corporate purposes including acquisition of real estate properties, capital improvements and working capital needs.

As the majority of our outstanding debt is long-term, fixed rate debt, our interest rate risk has not changed significantly from what was disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012 filed with the Securities and Exchange Commission on February 27, 2013. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Debt Financing.”

ITEM 4: CONTROLS AND PROCEDURES

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

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer, Chief Financial Officer and Executive Vice President of Accounting, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on the foregoing, our Chief Executive Officer, Chief Financial Officer and Executive Vice President of Accounting concluded that our disclosure controls and procedures were effective at the reasonable assurance level. There have been no changes in WRIT’s internal control over financial reporting (as defined by Rule 13a-15(f)) that occurred during the period covered by the report that have materially affected, or are reasonably likely to materially affect, WRIT’s internal control over financial reporting.

PART II
OTHER INFORMATION
ITEM 1: LEGAL PROCEEDINGS
None.
ITEM 1A: RISK FACTORS
None.
ITEM 2: UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS
None.
ITEM 3: DEFAULTS UPON SENIOR SECURITIES
None.
ITEM 4: MINE SAFETY DISCLOSURES
None.
ITEM 5: OTHER INFORMATION

None.

ITEM 6: EXHIBITS

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File Number	Exhibit	Filing Date	
10.48*	Separation Agreement and General Release between George F. McKenzie and Washington Real Estate Investment Trust dated July 23, 2013					X
12	Computation of Ratios					X
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended ("the Exchange Act")					X
31.2	Certification of the Executive Vice President – Accounting and Administration pursuant to Rule 13a-14(a) of the Exchange Act					X
31.3	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act					X
32	Certification of the Chief Executive Officer, Executive Vice President – Accounting and Administration and Chief Financial Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101	The following materials from our Quarterly Report on Form 10–Q for the quarter ended June 30, 2013 formatted in eXtensible Business Reporting Language ("XBRL"): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Shareholders' Equity, (iv) the Consolidated Statements of Cash Flows, and (v) notes to these consolidated financial statements					X

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

SIGNATURES

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

WASHINGTON REAL ESTATE INVESTMENT TRUST

/s/ George F. McKenzie
George F. McKenzie
President and Chief Executive Officer

/s/ Laura M. Franklin
Laura M. Franklin
Executive Vice President
Accounting, Administration and Corporate Secretary
(Principal Accounting Officer)

/s/ William T. Camp
William T. Camp
Executive Vice President and Chief Financial Officer
(Principal Finance Officer)

DATE: July 31, 2013