

WASHINGTON REAL ESTATE INVESTMENT TRUST
Form 10-K
February 19, 2019

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For fiscal year ended December 31, 2018

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

COMMISSION FILE NO. 001-06622

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

MARYLAND 53-0261100
(State of incorporation) (IRS Employer Identification Number)
1775 EYE STREET, NW, SUITE 1000, WASHINGTON, DC 20006
(Address of principal executive office) (Zip code)
Registrant's telephone number, including area code: (202) 774-3200

Securities registered pursuant to Section 12(b) of the Act:
Title of Each Class Name of exchange on which registered
Shares of Beneficial Interest New York Stock Exchange
Securities registered pursuant to Section 12(g) of the Act: None

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

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

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

Indicate by checkmark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES NO

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

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

As of June 29, 2018, the aggregate market value of such shares held by non-affiliates of the registrant was \$2,365,862,442 (based on the closing price of the stock on June 29, 2018).

As of February 14, 2019, 79,934,363 common shares were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our definitive Proxy Statement relating to the 2019 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission, are incorporated by reference in Part III, Items 10-14 of this Annual Report on Form 10-K as indicated herein.

WASHINGTON REAL ESTATE INVESTMENT TRUST
2018 FORM 10-K ANNUAL REPORT
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PART I

ITEM 1: BUSINESS

Washington REIT Overview

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

Our current strategy is to generate returns and maximize shareholder value through proactive asset management and prudent capital allocation decisions. Consistent with this strategy, we invest in additional income-producing properties through acquisitions, development and redevelopment. We invest in properties where we believe we will be able to improve the operating results and increase the value of the property. We focus on properties inside the Washington metro region’s Beltway, near major transportation nodes and in areas with strong employment drivers and superior growth demographics. We will seek to continue to upgrade our portfolio as opportunities arise, funding development and acquisitions with a combination of cash, equity, debt and proceeds from property sales.

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

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

Our Regional Economy and Real Estate Markets

The Washington metro region experienced strong job growth during 2018 with approximately 60,700 net job additions, according to Delta Associates / Transwestern Commercial Services (“Delta”), a national full service real estate firm that provides market research and evaluation services for commercial property. This job growth is higher than the region's 20-year annual average of 43,300 new jobs, with growth in the private sector partially offset by net job losses of 5,400 within the Federal government. Current estimates by Delta indicate that the region's unemployment rate was 3.2% as of October 2018, a decrease from the prior year and lower than the national average of 3.5%. Delta expects the job growth in the Washington metro region to continue in 2019 due to strong consumer spending and higher corporate profits in the private sector, partially offset by public sector uncertainty. Certain market statistics and information from several third party providers for the Washington metro region are set forth below:

Office

	2018	2017
Average asking rent per square foot	\$42.07	\$42.14
Total vacancy rate at year end	16.4 %	17.0 %
Net absorption (in millions of square feet) ⁽¹⁾	2.0	(0.1)
Office space under construction at year end (in millions of square feet)	11.1	11.8

Source: Jones Lang LaSalle (“JLL”), a commercial real estate services firm

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

According to JLL, the decrease in average asking rents in the Washington metro region was primarily due to new supply outpacing demand. The 2018 total vacancy rate is lower than the prior year, though above the national average of 14.9%. JLL projects downward pressure on occupancy and effective rents in 2019 due to the continuing addition of

new space into the region.

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Multifamily

	2018		2017	
Increase in net effective rents (Class A and B)	2.5	%	0.7	%
Increase (decrease) in net effective rents (Class A)	2.4	%	(0.3))%
Increase in net effective rents (Class B)	2.6	%	1.1	%
Stabilized vacancy rate (Class A and B)	4.5	%	5.0	%
Stabilized vacancy rate (Class A)	4.6	%	5.3	%
Stabilized vacancy rate (Class B)	4.4	%	4.9	%
New apartment deliveries (# of units)	11,401		13,618	

Source: RealPage Investment Analytics, a commercial real estate management software company that provides market research

According to RealPage Investment Analytics, the multifamily real estate market's low vacancy rate reflects the region's strong demand, though the large deliveries of new supply has kept rental rate growth below the national average. New apartment deliveries are projected to increase to approximately 17,500 units in 2019, which is expected to negatively impact occupancy and suppress rental rate growth, particularly for Class A properties.

Retail

	2018		2017	
Increase in rental rates at neighborhood centers	5.6	%	3.0	%
Vacancy at neighborhood centers at year-end	5.5	%	5.6	%
Net absorption (in millions of square feet)	0.3		(0.3)	

Source: CoStar, a provider of real estate market research and analytics

The retail real estate market in the Washington metro region was steady in 2018, with higher rental rates, lower vacancy and positive absorption. CoStar projects strong demand for retail space in the region to continue in 2019 due to increasing average household income in the Washington metro region.

Our Portfolio

As of December 31, 2018, we owned a diversified portfolio of 48 properties, totaling approximately 6.1 million square feet of commercial space and 4,268 residential units, and land held for development. These 48 properties consist of 19 office properties, 13 multifamily properties and 16 retail centers. The percentage of total real estate rental revenue by segment for the years ended December 31, 2018, 2017 and 2016, and the percent leased as of December 31, 2018, were as follows:

Percent Leased at December 31, 2018 ⁽¹⁾		% of Total Real Estate Rental Revenue		
		2018	2017	2016
94%	Office	53	% 52	% 53
97%	Multifamily	28	% 29	% 27
93%	Retail	19	% 19	% 20
		100%	100%	100%

Calculated as the percentage of physical net rentable area leased, except for multifamily, which is calculated as the ⁽¹⁾ percentage of units leased. The net rentable area leased for office and retail properties includes temporary lease agreements.

On a combined basis, our commercial portfolio (i.e., our office and retail properties) was 93%, 95% and 93% leased at December 31, 2018, 2017 and 2016, respectively.

Total real estate rental revenue for each of the three years ended December 31, 2018 was \$336.9 million, \$325.1 million and \$313.3 million, respectively. During the three years ended December 31, 2018, we acquired two office properties and one multifamily property (including a parcel for development) and substantially completed major construction activities at one office and one retail redevelopment project. During that same period, we sold eight office properties, one multifamily property and interests in land held for development. See note 14 to the consolidated financial statements for further discussion of our operating results by segment.

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

	# of Leases	Square Feet	Gross Annual Rent (in thousands)	Percentage of Total Gross Annual Rent	
Office:					
2019	77	486,722	\$ 19,784	12	%
2020	56	457,135	21,727	13	%
2021	52	276,533	11,296	7	%
2022	44	444,473	20,768	12	%
2023	50	320,676	15,857	9	%
2024	51	288,664	15,317	9	%
2025	32				