WASHINGTON REAL ESTATE INVESTMENT TRUST
Form 10-Q
November 06, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For quarterly period ended September 30, 2009

OR

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

COMMISSION FILE NO. 1-6622

WASHINGTON REAL ESTATE INVESTMENT TRUST

(Exact name of registrant as specified in its charter)

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

6110 EXECUTIVE BOULEVARD, SUITE 800, ROCKVILLE, MARYLAND 20852

(Address of principal executive office) (Zip code)

Registrant s telephone number, including area code: (301) 984-9400

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 ¨

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

Indicate by check mark 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	¨
Non-accelerated filer	¨	Smaller reporting company	¨

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

As of November 5, 2009, 59,728,786 common shares were outstanding.

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PART I

FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

The information furnished in the accompanying unaudited Consolidated Balance Sheets, Statements of Income, Statement of Changes in Shareholders Equity and 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, 2008 included in WRIT s 2008 Annual Report on Form 10-K and the Current Report on Form 8-K filed on July 10, 2009 with the Securities and Exchange Commission.

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WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT PER SHARE DATA)

(UNAUDITED)

	September 30, 2009	December 31, 2008[1]
Assets		
Land	$ 412,137	$ 410,833
Income producing property	1,890,505	1,854,008
	2,302,642	2,264,841
Accumulated depreciation and amortization	(454,407)	(394,902)
Net income producing property	1,848,235	1,869,939
Development in progress	24,611	23,732
Total real estate held for investment, net	1,872,846	1,893,671
Investment in real estate sold or held for sale, net	6,277	26,734
Cash and cash equivalents	7,119	11,874
Restricted cash	18,072	18,823
Rents and other receivables, net of allowance for doubtful accounts of $6,347 and $6,122, respectively	49,109	44,675
Prepaid expenses and other assets	104,421	112,284
Other assets related to properties sold or held for sale	553	1,346
Total assets	$ 2,058,397	$ 2,109,407
Liabilities		
Notes payable	$ 796,064	$ 890,679
Mortgage notes payable	406,377	421,286
Lines of credit	6,000	67,000
Accounts payable and other liabilities	64,462	70,538
Advance rents	9,792	8,926
Tenant security deposits	10,021	10,084
Other liabilities related to properties sold or held for sale	112	469
Total liabilities	1,292,828	1,468,982
Equity		
Shareholders equity		
Shares of beneficial interest; $0.01 par value; 100,000 shares authorized: 59,724 and 52,434 shares issued and outstanding, respectively	598	526
Additional paid in capital	942,884	777,375
Distributions in excess of net income	(179,639)	(138,936)
Accumulated other comprehensive income (loss)	(2,080)	(2,335)
Total shareholders equity	761,763	636,630
Noncontrolling interests in subsidiaries	3,806	3,795

Total equity	765,569	640,425
Total liabilities and shareholders equity	$ 2,058,397	$ 2,109,407

[(1)] As adjusted (see Current Report on Form 8-K filed July 10, 2009 and Note 3 to the consolidated financial statements)

See accompanying notes to the financial statements.

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WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(IN THOUSANDS, EXCEPT PER SHARE DATA)

(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Revenue				
Real estate rental revenue	$ 75,607	$ 69,798	$ 229,063	$ 206,405
Expenses				
Real estate expenses	25,868	23,790	78,409	68,283
Depreciation and amortization	23,643	21,240	70,095	62,213
General and administrative	3,834	2,731	10,732	8,812
	53,345	47,761	159,236	139,308
Real estate operating income	22,262	22,037	69,827	67,097
Other income (expense)				
Interest expense	(18,224)	(18,447)	(57,221)	(56,187)
Other income	262	338	921	796
Gain from non-disposal activities	62	17	62	17
Gain (loss) on extinguishment of debt, net	(133)		6,931	(8,449)
	(18,033)	(18,092)	(49,307)	(63,823)
Income from continuing operations	4,229	3,945	20,520	3,274
Discontinued operations:				
Gain on sale of real estate	5,147		11,821	15,275
Income from operations of properties held for sale	227	684	1,304	3,416
Net income	9,603	4,629	33,645	21,965
Less: Net income attributable to noncontrolling interests in subsidiaries	(53)	(48)	(154)	(158)
Net income attributable to the controlling interests	$ 9,550	$ 4,581	$ 33,491	$ 21,807
Basic net income attributable to the controlling interests per share				
Continuing operations	$ 0.07	$ 0.08	$ 0.36	$ 0.06
Discontinued operations, including gain on sale of real estate	0.09	0.01	0.24	0.39
Net income attributable to the controlling interests per share	$ 0.16	$ 0.09	$ 0.60	$ 0.45
Diluted net income attributable to the controlling interests per share				
Continuing operations	$ 0.07	$ 0.08	$ 0.36	$ 0.06
Discontinued operations, including gain on sale of real estate	0.09	0.01	0.24	0.39

Net income attributable to the controlling interests per share	$ 0.16	$ 0.09	$ 0.60	$ 0.45
Weighted average shares outstanding basic	58,556	49,599	55,936	48,057
Weighted average shares outstanding diluted	58,571	49,725	55,940	48,202
Dividends declared and paid per share	$ 0.4325	$ 0.4325	$ 1.2975	$ 1.2875

See accompanying notes to the financial statements.

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WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

(IN THOUSANDS)

(UNAUDITED)

	Shares	Shares of Beneficial Interest at Par Value	Additional Paid in Capital	Distributions in Excess of Net Income Attributable to the Controlling Interest	Accumulated Other Comprehensive Income	Total Shareholders Equity	Noncontrolling Interests in Subsidiaries	Total Equity
Balance, December 31, 2008[1]	52,434	$ 526	$ 777,375	$ (138,936)	$ (2,335)	$ 636,630	$ 3,795	$ 640,425
Comprehensive income:								
Net income attributable to the controlling interest				33,491		33,491		33,491
Net income attributable to noncontrolling interests							154	154
Change in fair value of interest rate hedge					255	255		255
Total comprehensive income						33,746	154	33,900
Distributions to noncontrolling interests							(143)	(143)
Dividends				(74,194)		(74,194)		(74,194)
Issuance of common shares, net of issuance costs	7,240	72	161,020			161,092		161,092
Issuance of common shares under Dividend Reinvestment Program	41		1,158			1,158		1,158
Share options exercised	1		16			16		16
Share grants, net of share grant amortization and forfeitures	8		3,315			3,315		3,315
Balance, September 30, 2009	59,724	$ 598	$ 942,884	$ (179,639)	$ (2,080)	$ 761,763	$ 3,806	$ 765,569

[1] As adjusted (see Current Report on Form 8-K filed July 10, 2009)

See accompanying notes to the financial statements.

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WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

(UNAUDITED)

	Nine Months Ended September 30, 2009	2008
Cash flows from operating activities		
Net income	$ 33,645	$ 21,965
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization, including amounts in discontinued operations	70,499	63,267
Provision for losses on accounts receivable	5,202	2,647
Amortization of share grants, net	2,640	1,659
Amortization of debt premiums, discounts and related financing costs	5,436	5,566
Gain on sale of real estate	(11,821)	(15,275)
Loss (gain) on extinguishment of debt, net	(6,931)	8,449
Changes in operating other assets	(12,616)	(25,690)
Changes in operating other liabilities	(4,732)	8,986
Net cash provided by operating activities	81,322	71,574
Cash flows from investing activities		
Real estate acquisitions, net	(19,877)	(76,002)
Net cash received for sale of real estate	32,658	40,231
Restricted cash tax free exchange escrow		(40,231)
Capital improvements to real estate	(19,040)	(26,866)
Development in progress	(1,725)	(14,907)
Non-real estate capital improvements	(208)	(612)
Net cash used in investing activities	(8,192)	(118,387)
Cash flows from financing activities		
Line of credit borrowings	90,000	58,000
Line of credit repayments	(151,000)	(203,500)
Dividends paid	(74,194)	(62,753)
Distributions to noncontrolling interests	(143)	(143)
Proceeds from equity offerings under dividend reinvestment program	1,158	3,901
Proceeds from mortgage notes payable	37,500	81,029
Principal payments mortgage notes payable	(52,928)	(2,944)
Proceeds from debt offering		100,000
Financing costs	(786)	(1,639)
Net proceeds from equity offerings	161,092	127,359
Notes payable repayments, including penalties for early extinguishment	(88,600)	(68,815)
Net proceeds from exercise of share options	16	2,643
Net cash provided by (used in) financing activities	(77,885)	33,138
Net increase decrease in cash and cash equivalents	(4,755)	(13,675)
Cash and cash equivalents at beginning of year	11,874	21,488

Cash and cash equivalents at end of the period	$	7,119	$	7,813
Supplemental disclosure of cash flow information:				
Cash paid for interest, net of amounts capitalized	$	52,315	$	52,584

See accompanying notes to the financial statements.

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WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

(UNAUDITED)

NOTE 1: NATURE OF BUSINESS

Washington Real Estate Investment Trust (we or 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 development of income-producing real estate properties in the greater Washington metro region. We own a diversified portfolio of office buildings, medical office buildings, industrial/flex centers, multifamily buildings and retail centers.

Federal Income Taxes

We believe that we qualify as a real estate investment trust (REIT) under Sections 856-860 of the Internal Revenue Code and intend to continue to qualify as such. To maintain our status as a REIT, we are required to distribute 90% of our ordinary taxable income to our shareholders. When selling properties, we have the option of (a) reinvesting the sale price 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. In June 2008, two industrial properties, Sullyfield Center and The Earhart Building, were sold for a gain of $15.3 million. The proceeds from the sale were treated as a distribution to shareholders. In May 2009, a multifamily property, Avondale, was sold for a gain of $6.7 million. In July 2009, an industrial property, Tech 100, and an office property, Brandywine Center, were sold for gains of $4.1 million and $1.0 million, respectively. We currently anticipate that the proceeds from these gains will be treated as a distribution to shareholders. Generally, no provisions for income taxes are necessary except for taxes on undistributed REIT taxable income and taxes on the income generated by our taxable REIT subsidiaries (TRS). A TRS is subject to corporate federal and state income tax on its taxable income at regular statutory rates. There were no income tax provisions or material deferred income tax items for our TRS for the nine month periods ended September 30, 2009 and 2008.

NOTE 2: ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared 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, 2008 and in our Current Report on Form 8-K filed July 10, 2009.

Within these notes to the financial statements, we refer to the three months ended September 30, 2009 and September 30, 2008 as the 2009 Quarter and the 2008 Quarter , respectively, and the nine months ended September 30, 2009 and September 30, 2008 as the 2009 Period and the 2008 Period , respectively.

New Accounting Pronouncements

In June 2009, the FASB issued FASB Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principals, a Replacement of FASB Statement No. 162* (FASB Accounting Standards Codification section 105-10-65). This statement establishes the Codification as the source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. The Codification is the culmination of a project to organize and simplify authoritative GAAP literature by reorganizing the various and dispersed GAAP pronouncements within a consistent structure. This statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The issuance of this statement and the Codification does not change GAAP and does not have any impact on our consolidated financial statements.

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On May 9, 2008, the FASB issued FASB Staff Position No. APB 14-1 (FASB Accounting Standards Codification section 470-20-65). This guidance clarifies the accounting for convertible debt instruments that may be settled in cash (including partial cash settlement) upon conversion. This guidance has significantly impacted the historical accounting of our convertible debt by requiring bifurcation of a component of the debt, classification of that component in shareholders equity, and then accretion of the resulting discount on the debt to result in interest expense equal to the issuer s nonconvertible debt borrowing rate. Other than the impact on net income from the debt discount amortization, the calculation of earnings-per-share will not be affected. We adopted this guidance on January 1, 2009. The adoption of this guidance affected the accounting for our 3.875% convertible notes issued in 2006 and 2007 and due September 15, 2026. This guidance required retrospective application, and has been applied to all periods presented in these historical consolidated financial statements. We further disclose the impact of the adoption on our consolidated financial statements in note 11.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (FASB Accounting Standards Codification section 810-10-65), which clarifies the classification of noncontrolling interests in consolidated statements of financial position and the accounting for and reporting of transactions between the reporting entity and holders of such noncontrolling interests. Under the new standard noncontrolling interests are considered a component of total equity and are reported as an element of consolidated equity. Net income encompasses the total income of all consolidated subsidiaries and there is a separate disclosure on the face of the income statement of the attribution of that income between the controlling and noncontrolling interests. Increases and decreases in the noncontrolling ownership interest amount are accounted for as equity transactions. We adopted this statement effective for the fiscal year beginning January 1, 2009. The statement required retrospective application, and has been applied to all periods presented in these historical consolidated financial statements. As a result, all previous references to minority interest within these consolidated financial statements have been replaced with noncontrolling interest. In addition, we have changed the presentation of noncontrolling interests in our consolidated financial statements in accordance with this guidance.

On June 16, 2008, the FASB issued FASB Staff Position No. EITF 03-6-1 (FASB Accounting Standards Codification section 260-10-65). This guidance clarifies the accounting for unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents by requiring that such awards be included in the computation of earnings per share (EPS) pursuant to the two-class method. We adopted this guidance for the fiscal year beginning January 1, 2009. This guidance required retrospective application, and has been applied to all periods presented in these consolidated financial statements. The adoption of this guidance did not have a material impact on our EPS calculation. However, we have updated the presentation of the details of the calculation of EPS included in this footnote in accordance with this guidance.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (FASB Accounting Standards Codification section 805-10-65), a revision of SFAS No. 141. This statement changes the accounting for acquisitions by specifically eliminating the step acquisition model, changing the recognition of contingent consideration from being recognized when it was probable to being recognized at the time of acquisition, disallowing the capitalization of pre-acquisition and transaction costs, and delaying when restructuring related to acquisitions can be recognized. We adopted the standard for the fiscal year beginning January 1, 2009, and the new standard impacts the accounting for acquisitions we make after our adoption. Upon adoption of this pronouncement, we wrote off to general and administrative expense $0.1 million of previously capitalized pre-acquisition costs. The impact of this statement on our financial statements is dependent on the volume of our acquisition activity in 2009 and beyond. We currently expect the most significant impact of this statement to be the treatment of transaction costs, which are expensed as a period cost due to the adoption of this statement.

In March 2008 the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133* (FASB Accounting Standards Codification section 815-10-65). This statement requires entities to provide greater transparency about how and why an entity uses derivative instruments, and how derivative instruments and related hedged items affect an entity s financial position, results of operations, and cash flows. To meet these objectives, this statement requires (a) qualitative disclosures about objectives for using derivatives by primary underlying risk exposure and by purpose or strategy, (b) information about the volume of derivative activity, (c) tabular disclosures about balance sheet location and gross fair value amounts of derivative instruments, income statement and other comprehensive income location and amounts of gains and losses on derivative instruments by type of contract, and (d) disclosures about credit risk-related contingent features in derivative agreements. We adopted this statement effective for the fiscal year beginning January 1, 2009. This statement required us to provide expanded disclosures of our interest rate hedge contract and to present certain disclosures in tabular format (See note 2 to the consolidated financial statements).

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements* (FASB Accounting Standards Codification section 820-10-65). This statement defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. On February 12, 2007, the FASB issued FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157* (FASB Accounting Standards Codification section 820-10-65), which amends FASB Statement No. 157 to delay the effective date for all non-financial assets and non-financial liabilities, except for those that are recognized or disclosed at fair value in the financial statements on a recurring basis (i.e. at least annually) to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. We do not have significant assets or liabilities recorded at fair value on a recurring basis, and therefore the adoption of this statement for non-financial assets and non-financial liabilities on January 1, 2009 did not have a material impact on our financial statements. However, starting in 2009 we will apply FASB Statement No. 157 as a part of our fair value allocation to any properties acquired.

In April 2009, the FASB issued FASB Staff Position No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FASB Accounting Standards Codification section 820-10-65), which requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies, in addition to the previous requirement for annual statements only. We adopted this guidance effective for the quarter ending June 30, 2009. The required disclosures are in note 9 to the consolidated financial statements.

In May 2009, the FASB issued FASB Statement No. 165, *Subsequent Events* (FASB Accounting Standards Codification section 855-10-65). This statement requires disclosure of the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued. We adopted this statement effective for the quarter ending June 30, 2009. The required disclosure is in note 13 to the consolidated financial statements.

Revenue Recognition

Residential properties (our multifamily segment) are leased under operating leases with terms of generally one year or less, and commercial properties (our office, medical office, retail and industrial segments) are leased under operating leases with average terms of three to seven years. We recognize rental income and rental abatements from our residential and commercial leases when earned on a straight-line basis over the lease term. Recognition of rental income commences when control of the facility has been given to the tenant. We record a provision for losses on accounts receivable equal to the estimated uncollectible amounts. This estimate is based on our historical experience and a review of the current status of our receivables. Percentage rents, which represent additional rents based on gross tenant sales, are recognized when tenants sales exceed specified thresholds.

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

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

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable primarily represents amounts accrued and unpaid from tenants in accordance with the terms of the respective leases, subject to our revenue recognition policy. Receivables are reviewed monthly and reserves are established when, in the opinion of management, collection of the receivable is doubtful. Reserves are established for tenants whose rent payment history or financial condition casts doubt upon the tenants ability to perform under their lease obligations. When the collection of a receivable is deemed doubtful in the same quarter that the receivable was established, then the allowance for that receivable is recognized as an offset to real estate revenues. When a receivable that was initially established in a prior quarter is deemed doubtful, then the allowance is recognized as an operating expense. In addition to rents due currently, accounts receivable include amounts representing minimal rental income accrued on a straight-line basis to be paid by tenants over the remaining term of their respective leases.

Included in our accounts receivable balance as of September 30, 2009 and December 31, 2008, are notes receivable balances of $8.4 million and $8.6 million, respectively.

Noncontrolling Interests in Subsidiaries

We entered into an operating partnership agreement with a member of the entity that previously owned Northern Virginia Industrial Park in conjunction with the acquisition of this property in May 1998. This resulted in a noncontrolling ownership interest in this property based upon defined company ownership units at the date of purchase. The operating partnership agreement was amended and restated in 2002 resulting in a reduced noncontrolling ownership percentage interest. We account for this activity by applying the noncontrolling owner s percentage ownership interest to the net income of the property and reporting such amount in our net income attributable to noncontrolling interests.

In August 2007 we acquired a 0.8 acre parcel of land located at 4661 Kenmore Avenue, Alexandria, Virginia for future medical office development. The acquisition was funded by issuing operating partnership units in our operating partnership, which is a consolidated subsidiary of WRIT. This resulted in a noncontrolling ownership interest in this property based upon defined company operating partnership units at the date of purchase.

Net income from noncontrolling interests was $53,100 and $153,800 for the 2009 Quarter and Period, respectively, and $48,100 and $158,300 for the 2008 Quarter and Period, respectively. None of the income from noncontrolling interests is attributable to discontinued operations or accumulated other comprehensive income. Quarterly distributions are made to the noncontrolling owners equal to the quarterly dividend per share for each operating partnership unit.

Income attributable to the controlling interests from continuing operations was $4.2 million and $20.4 million for the 2009 Quarter and Period, respectively, and $3.9 million and $3.1 million for the 2008 Quarter and Period, respectively.

The operating partnership units could have a dilutive impact on our earnings per share calculation. They are not dilutive for the 2009 Quarter and Period and the 2008 Quarter and Period, and are not included in our earnings per share calculations.

Deferred Financing Costs

External costs associated with the issuance or assumption of mortgages, notes payable and fees associated with the lines of credit are capitalized and amortized using the effective interest rate method or the straight-line method which approximates the effective interest rate method over the term of the related debt. As of September 30, 2009 and December 31, 2008, deferred financing costs of $19.2 million and $21.3 million, respectively, net of accumulated amortization of $10.1 million and $9.0 million, were included in prepaid expenses and other assets on the balance sheets. The amortization is included in interest expense in the accompanying statements of income. The amortization of debt costs included in interest expense for properties classified as continuing operations totaled $0.8 million and $2.4 million for the 2009 Quarter and Period, respectively, and $0.9 million and $2.7 million for the 2008 Quarter and Period, respectively.

Deferred Leasing Costs

Costs associated with the successful negotiation of leases, both external commissions and internal direct costs, are capitalized and amortized on a straight-line basis over the terms of the respective leases. If an applicable lease terminates prior to the expiration of its initial lease term, the carrying amount of the costs are written-off to amortization expense. As of September 30, 2009 and December 31, 2008, deferred leasing costs of $32.4 million and $31.0 million, respectively, net of accumulated amortization of $10.9 million and $10.2 million, were included in prepaid expenses and other assets on the balance sheets. The amortization of deferred leasing costs included in amortization expense for properties classified as continuing operations totaled $1.3 million and $3.5 million for the 2009 Quarter and Period, respectively, and $0.9 million and $2.6 million for the 2008 Quarter and Period, respectively.

Real Estate and Depreciation

We depreciate buildings on a straight-line basis over estimated useful lives ranging from 28 to 50 years. We capitalize all capital improvement expenditures associated with replacements, improvements or major repairs to real property that extend its useful life and depreciate them using the straight-line method over their estimated useful lives ranging from 3 to 30 years. We also capitalize costs incurred in connection with our development projects, including capitalizing interest and other internal costs during periods in which qualifying expenditures have been made and activities necessary to get the development projects ready for their intended use are in progress. In

addition, we capitalize tenant leasehold improvements when certain criteria are met, including when we supervise construction and will own the improvements. We depreciate all tenant improvements over the shorter of the useful life of the improvements or the term of the related tenant lease. Real estate depreciation expense from continuing operations was $19.1 million and $56.7 million for the 2009 Quarter and Period, respectively, and $17.2 million and $50.5 million for the 2008 Quarter and Period, respectively. Maintenance and repair costs that do not extend an asset s life are charged to expense as incurred.

We capitalize interest costs incurred on borrowing obligations while qualifying assets are being readied for their intended use. Total interest expense capitalized to real estate assets related to development and major renovation activities was $0.3 million and $1.0 million for the 2009 Quarter and Period, respectively, and $0.5 million and $2.0 million for the 2008 Quarter and Period, respectively. Interest capitalized is amortized over the useful life of the related underlying assets upon those assets being placed into service.

We recognize impairment losses on long-lived assets used in operations and held for sale, development assets or land held for future development, if indicators of impairment are present and the net undiscounted cash flows estimated to be generated by those assets are less than the assets carrying amount and estimated undiscounted cash flows associated with future development expenditures. If such carrying amount is in excess of the estimated cash flows from the operation and disposal of the property, we would recognize an impairment loss equivalent to an amount required to adjust the carrying amount to the estimated fair value. The estimated fair value would be calculated in accordance with current GAAP fair value provisions. There were no property impairments recognized during the 2009 and 2008 Quarters and Periods.

We record real estate acquisitions as business combinations in accordance with GAAP. Acquired or assumed assets, including physical assets and in-place leases, and liabilities are recorded based on their fair values. Goodwill is recorded when the purchase price exceeds the fair value of the assets and liabilities acquired. The estimated fair values of the assets and liabilities are determined in accordance with current GAAP fair value provisions. The fair values of acquired buildings are determined on an as-if-vacant basis considering a variety of factors, including the physical condition and quality of the buildings, estimated rental and absorption rates, estimated future cash flows and valuation assumptions consistent with current market conditions. The as-if-vacant fair value is allocated to land, building and tenant improvements based on property tax assessments and other relevant information obtained in connection with the acquisition of the property.

The fair value of in-place leases consists of the following components (a) the estimated cost to us to replace the leases, including foregone rents during the period of finding a new tenant and foregone recovery of tenant pass-throughs (referred to as absorption cost), (b) the estimated cost of tenant improvements, and other direct costs associated with obtaining a new tenant (referred to as tenant origination cost); (c) estimated leasing commissions associated with obtaining a new tenant (referred to as leasing commissions); (d) the above/at/below market cash flow of the leases, determined by comparing the projected cash flows of the leases in place to projected cash flows of comparable market-rate leases (referred to as net lease intangible); and (e) the value, if any, of customer relationships, determined based on our evaluation of the specific characteristics of each tenant s lease and our overall relationship with the tenant (referred to as customer relationship value). We have attributed no value to customer relationship value as of September 30, 2009 or December 31, 2008.

The amounts used to calculate net lease intangibles are discounted using an interest rate which reflects the risks associated with the leases acquired. Tenant origination costs are included in income producing property on our balance sheet and are amortized as depreciation expense on a straight-line basis over the remaining life of the underlying leases. Leasing commissions and absorption costs are classified as other assets and are amortized as amortization expense on a straight-line basis over the remaining life of the underlying leases. Net lease intangible assets are classified as other assets and are amortized on a straight-line basis as a decrease to real estate rental revenue over the remaining term of the underlying leases. Net lease intangible liabilities are classified as other liabilities and are amortized on a straight-line basis as an increase to real estate rental revenue over the remaining term of the underlying leases. Should a tenant terminate its lease, the unamortized portion of the tenant origination cost, leasing commissions, absorption costs and net lease intangible associated with that lease are written off.

Balances, net of accumulated depreciation or amortization, as appropriate, of the components of the fair value of in-place leases at September 30, 2009 and December 31, 2008 are as follows (in millions):

	September 30, 2009			December 31, 2008		
	Gross Carrying Value	Accumulated Amortization	Net	Gross Carrying Value	Accumulated Amortization	Net
Tenant origination costs	$ 40.4	$ 19.9	$ 20.5	$ 40.9	$ 16.1	$ 24.8
Leasing commissions/absorption costs	$ 50.1	$ 21.3	$ 28.8	$ 50.7	$ 16.3	$ 34.4
Below-market ground lease asset	$ 12.1	$ 0.3	$ 11.8	$ 12.1	$ 0.2	$ 11.9
Net lease intangible assets	$ 9.7	$ 6.2	$ 3.5	$ 9.8	$ 5.4	$ 4.4
Net lease intangible liabilities	$ 32.6	$ 13.7	$ 18.9	$ 33.0	$ 10.3	$ 22.7

Amortization of these components combined was $2.2 million and $7.0 million for the 2009 Quarter and Period, respectively, and $2.5 million and $7.3 million for the 2008 Quarter and Period.

Discontinued Operations

We classify properties as held for sale when they meet the necessary criteria, which include: (a) senior management commits to and actively embarks upon a plan to sell the assets, (b) the sale is expected to be completed within one year under terms usual and customary for such sales and (c) actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. Depreciation on these properties is discontinued, but operating revenues, operating expenses and interest expense continue to be recognized until the date of sale.

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

Cash and Cash Equivalents

Cash and cash equivalents include investments readily convertible to known amounts of cash with original maturities of 90 days or less.

Restricted Cash

Restricted cash at September 30, 2009 and December 31, 2008 consisted of $18.1 million and $18.8 million, respectively, in funds escrowed for tenant security deposits, real estate tax, insurance and mortgage escrows and escrow deposits required by lenders on certain of our properties to be used for future building renovations or tenant improvements.

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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. The only assets or liabilities we had at September 30, 2009 and December 31, 2008 that are recorded at fair value on a recurring basis are the assets held in the Supplemental Executive Retirement Program (SERP) and the interest rate hedge contracts. We base the valuations related to these items on assumptions derived from significant other observable inputs and accordingly fall into Level 2 in the fair value hierarchy. The fair values of these assets and liabilities at September 30, 2009 and December 31, 2008 are as follows (in millions):

	September 30, 2009				December 31, 2008			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:								
SERP	$ 1.0	$	$ 1.0	$	$ 0.6	$	$ 0.6	$
Liabilities:								
Derivatives	$ 2.1	$	$ 2.1	$	$ 2.3	$	$ 2.3	$

Derivative Instruments

In February 2008, we entered into an interest rate swap with a notional amount of $100 million that qualifies as a cash flow hedge. In May 2009, we entered into a forward interest rate swap with a notional amount of $100 million that qualifies as a cash flow hedge (see Note 6 to the consolidated financial statements for further details). We enter into interest rate swaps to manage our exposure to variable rate interest risk. We do not purchase derivatives for speculation. Our cash flow hedges are recorded at fair value. The effective portion of changes in fair value of cash flow hedges is recorded in other comprehensive income. The ineffective portion of changes in fair value of cash flow hedges is recorded in earnings in the period affected. We assess the effectiveness of our cash flow hedges both at inception and on an ongoing basis. The hedges were deemed effective for the 2009 and 2008 Quarters and Periods, as applicable.

The fair value and balance sheet locations of the interest rate swaps as of September 30, 2009 and December 31, 2008, are as follows (in millions):

	September 30, 2009 Fair Value	December 31, 2008 Fair Value
Accounts payable and other liabilities	$ 2.1	$ 2.3

The interest rate swaps have been effective since inception. The gain or loss on the effective swaps is recognized in other comprehensive income, as follows (in millions):

	Quarters Ended September 30,		Periods Ended September 30,	
	2009	2008	2009	2008
	Fair Value	Fair Value	Fair Value	Fair Value
Change in other comprehensive income (loss)	$ (0.3)	$ (0.1)	$ 0.2	$ 0.3

Derivative instruments expose us to credit risk in the event of non-performance by the counterparty under the terms of the interest rate hedge agreement. We believe that we minimize our credit risk on these transactions by dealing with major, creditworthy financial institutions. As part of our on-going control procedures, we monitor the credit ratings of counterparties and our exposure to any single entity, thus minimizing our credit risk concentration.

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Stock Based Compensation

We previously maintained a Share Grant Plan and Incentive Stock Option Plans as described in Note 7, and pursuant to those plans we made restricted share grants and granted share options to officers, eligible employees and trustees in 2006 and prior. In March 2007, the WRIT Board of Trustees adopted, and in July 2007 WRIT shareholders approved, the Washington Real Estate Investment Trust 2007 Omnibus Long-Term Incentive Plan (2007 Plan). This plan replaced the Share Grant Plan, which formally expired on December 15, 2007, as well as the Incentive Stock Option Plans. The 2007 Plan provides for the award to WRIT s trustees, officers and non-officer employees 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. The shares and options granted pursuant to the Share Grant Plan and the Incentive Stock Option Plan were not affected by the adoption of the 2007 Plan.

Under the plans above, officer and non-officer employee share grants vesting over five years vest in annual installments commencing one year after the date of grant, and share grants vesting over three years vest 25% from date of grant in years one and two and 50% in year three. Officer performance share units, granted under an amendment to the Share Grant Plan, cliff vest at the end of a three year performance period. Trustee share grants are fully vested immediately upon date of share grant and are restricted from transferability for the period of the trustee s service.

If an award under the Share Grant Plan is forfeited or an award of options granted under the Incentive Stock Option Plan expires without being exercised, the shares covered by those awards will not be available for issuance under the 2007 Plan. If an award under the 2007 Plan of restricted shares or restricted share units is forfeited or an award of options or any other rights granted under the 2007 Plan expires without being exercised, the shares covered by any such award would again become available for issuance under new awards.

Compensation expense is recognized for share grants over the vesting period equal to the fair market value of the shares on the date of grant. Compensation cost for restricted performance share units is initially measured at fair value at the issuance date as payouts are probable, is remeasured at subsequent reporting dates until all award conditions are established and a grant date has occurred, and is amortized to expense over the service period. Compensation expense for the trustee grants, which fully vest immediately, is fully recognized upon issuance based upon the fair market value of the shares on the date of grant. The unvested portion of officer and non-officer employee share grants is recognized in compensation cost over the vesting period. Compensation cost for awards with market conditions is based on the grant date, as determined using a Monte Carlo simulation, and recognized over the service period, regardless of whether the market conditions are achieved and the awards ultimately vest.

Unvested shares are forfeited upon an employee s termination except for employees eligible for retirement whose unvested shares fully vest upon retirement. For shares granted to employees who are eligible for retirement or will become eligible for retirement during the vesting period, compensation cost is recognized through the date that the employee is no longer required to provide service to earn the award (e.g. the date the employee is eligible to retire).

As noted above, stock options were historically issued to officers, non-officer key employees and trustees under the Incentive Stock Option Plans. They were last issued to officers in 2002, to non-officer key employees in 2003 and to trustees in 2004. The options vested over a 2-year period in annual installments commencing one year after the date of grant, except for trustee options which vested immediately upon the date of grant. All stock options were issued prior to the adoption of SFAS No. 123(R) and were accounted for in accordance with APB No. 25, whereby if options are priced at fair market value or above at the date of grant and if other requirements are met then the plans are considered fixed and no compensation expense is recognized. Accordingly, we have recognized no compensation cost for stock options.

Earnings per Common Share

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

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Diluted earnings per share is also determined under the two-class method with respect to the unvested restricted share awards and is further evaluated for any other potentially diluted securities at the end of the period and adjusts the basic earnings per share calculation for the impact of those securities that are dilutive. Our dilutive earnings per share calculation includes the dilutive impact of employee stock options based on the treasury stock method. The dilutive earnings per share calculation also considers our operating partnership units and senior convertible notes under the if-converted method and our performance share units under the contingently issuable method. The operating partnership units, senior convertible notes and performance share units were anti-dilutive for the 2009 and 2008 Quarters and Periods, respectively.

The following table sets forth the computation of basic and diluted earnings per share (amounts in thousands; except per share data):

	Quarter Ended September 30, 2009		
	Income (Numerator)	**Shares (Denominator)**	**Per Share Amount**
Basic earnings:			
Income from continuing operations	$ 4,229	58,556	$ 0.07
Less: Net income attributable to noncontrolling interests	(53)	58,556	
Allocation of undistributed earnings to unvested restricted share awards and units	(17)	58,556	
Adjusted income from continuing operations attributable to the controlling interests	4,159	58,556	0.07
Income from discontinued operations, including gain on sale of real estate	5,374	58,556	0.09
Adjusted net income attributable to the controlling interests	9,533	58,556	0.16
Effect of dilutive securities:			
Employee stock options		15	
Diluted earnings:			
Adjusted income from continuing operations attributable to the controlling interests	4,159	58,571	0.07
Income from discontinued operations, including gain on sale of real estate	5,374	58,571	0.09
Adjusted net income attributable to the controlling interests	$ 9,533	58,571	$ 0.16

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	Quarter Ended September 30, 2008		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings:			
Income from continuing operations	$ 3,945	49,599	$ 0.08
Less: Net income attributable to noncontrolling interests	(48)	49,599	
Allocation of undistributed earnings to unvested restricted share awards and units	(3)	49,599	
Adjusted income from continuing operations attributable to the controlling interests	3,894	49,599	0.08
Income from discontinued operations	684	49,599	0.01
Adjusted net income attributable to the controlling interests	4,578	49,599	0.09
Effect of dilutive securities:			
Employee stock options		87	
Unvested restricted share awards	3	40	
Diluted earnings:			
Adjusted income from continuing operations attributable to the controlling interests	3,897	49,726	0.08
Income from discontinued operations, including gain on sale of real estate	684	49,726	0.01
Adjusted net income attributable to the controlling interests	$ 4,581	49,726	$ 0.09

	Period Ended September 30, 2009		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings:			
Income from continuing operations	$ 20,520	55,936	$ 0.36
Less: Net income attributable to noncontrolling interests	(154)	55,936	
Allocation of undistributed earnings to unvested restricted share awards and units	(99)	55,936	
Adjusted income from continuing operations attributable to the controlling interests	20,267	55,936	$ 0.36
Income from discontinued operations, including gain on sale of real estate	13,125	55,936	0.24
Adjusted net income attributable to the controlling interests	33,392	55,936	0.60
Effect of dilutive securities:			
Employee stock options		4	
Diluted earnings:			
Adjusted income from continuing operations attributable to the controlling interests	20,267	55,940	0.36
Income from discontinued operations, including gain on sale of real estate	13,125	55,940	0.24
Adjusted net income attributable to the controlling interests	$ 33,392	55,940	$ 0.60

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	Period Ended September 30, 2008		
	Income (Numerator)	**Shares (Denominator)**	**Per Share Amount**
Basic earnings:			
Income from continuing operations	$ 3,274	48,057	$ 0.07
Less: Net income attributable to noncontrolling interests	(158)	48,057	(0.01)
Allocation of undistributed earnings to unvested restricted share awards and units	(10)	48,057	
Adjusted income from continuing operations attributable to the controlling interests	3,106	48,057	0.06
Income from discontinued operations, including gain on sale of real estate	18,691	48,057	0.39
Adjusted net income attributable to the controlling interests	21,797	48,057	0.45
Effect of dilutive securities:			
Employee stock options		96	
Unvested restricted share awards	10	49	
Diluted earnings:			
Adjusted income from continuing operations attributable to the controlling interests	3,116	48,202	0.06
Income from discontinued operations, including gain on sale of real estate	18,691	48,202	0.39
Adjusted net income attributable to the controlling interests	$ 21,807	48,202	$ 0.45

Accounting for Uncertainty in Income Taxes

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

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

Tax returns filed for 2005 through 2008 tax years are subject to examination by taxing authorities. We classify interest and penalties related to uncertain tax positions, if any, in our financial statements as a component of general and administrative expense.

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.

Other Comprehensive Income (Loss)

We recorded other comprehensive loss of $2.1 million and $2.3 million as of September 30, 2009 and December 31, 2008, respectively, to account for the changes in valuation of the interest rate swaps.

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NOTE 3: REAL ESTATE INVESTMENTS

Continuing Operations

Our real estate investment portfolio, at cost, consists of properties located in Maryland, Washington, D.C. and Virginia as follows (in thousands):

	September 30, 2009	December 31, 2008
Office	$ 1,021,427	$ 1,011,722
Medical office	390,335	367,651
Retail	268,123	266,897
Multifamily	318,880	316,837
Industrial/flex	303,877	301,734
	$ 2,302,642	$ 2,264,841

The amounts above reflect properties classified as continuing operations, which means they are to be held and used in rental operations (income producing property).

The cost of our real estate portfolio in development is as follows (in thousands):

	September 30, 2009	December 31, 2008
Office	$ 19,145	$ 18,453
Medical office	5,073	4,815
Retail	322	239
Multifamily	71	225
Industrial/flex		
	$ 24,611	$ 23,732

Our results of operations are dependent on the overall economic health of our markets, tenants and the specific segments in which we own properties. These segments include general purpose office, medical office, retail, multifamily and industrial. All segments are affected by external economic factors, such as inflation, consumer confidence, unemployment rates, etc. as well as changing tenant and consumer requirements. Because the properties are located in the Washington metro region, we are subject to a concentration of credit risk related to these properties.

As of September 30, 2009, no single property or tenant accounted for more than 10% of total assets or total real estate rental revenue.

Discontinued Operations

We dispose of assets (sometimes using tax-deferred exchanges) that no longer meet our long-term strategy or return objectives and where market conditions for sale are favorable. The proceeds from the sales may be reinvested into other properties, used to fund development operations or to support other corporate needs, or distributed to our shareholders. Properties are considered held for sale when they meet specified criteria (see Note 2 Discontinued Operations). 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 have five properties classified as held for sale or sold, as follows (in thousands):

	September 30, 2009	December 31, 2008
Office	$	$ 3,050
Multifamily		17,227
Industrial	8,682	17,796
Less accumulated depreciation	(2,405)	(11,339)
	$ 6,277	$ 26,734

We sold two industrial properties in 2008. The two sold properties, Sullyfield Center and The Earhart Building, were classified as held for sale in November 2007, and sold on June 6, 2008. They were sold for a contract sales price of $41.1 million, and we recognized a gain on sale of $15.3 million.

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We sold three properties and classified two properties as held for sale in 2009. A multifamily property, Avondale, was sold on May 13, 2009 for a contract sales price of $19.8 million that resulted in a gain on sale of $6.7 million. An industrial property, Tech 100, was sold on July 23, 2009 for a contract sales price of $10.5 million that resulted in a gain on sale of $4.1 million. An office property, Brandywine Center, was sold on August 3, 2009 for a contract sales price of $3.3 million that resulted in a gain on sale of $1.0 million.

Two industrial properties, Charleston Business Center and Crossroads Distribution Center, met the criteria necessary for classification as held for sale in March and August, 2009, respectively. Senior management has committed to, and actively embarked upon, plans to sell the assets, and the sales are expected to be completed within one year under terms usual and customary for such sales, with no indication that the plans will be significantly altered or abandoned. Depreciation on these properties has been discontinued as of the dates they were classified as held for sale, but operating revenues and other operating expenses continue to be recognized until their respective dates of sale. Under GAAP, revenues and expenses of properties that are classified as held for sale or sold are treated as discontinued operations for all periods presented in the statements of income.

Operating results of the properties classified as discontinued operations are summarized as follows (in thousands):

	Quarters Ended September 30,		Periods Ended September 30,	
	2009	2008	2009	2008
Revenues	$ 411	$ 1,598	$ 3,066	$ 6,966
Property expenses	(138)	(609)	(1,358)	(2,496)
Depreciation and amortization	(46)	(305)	(404)	(1,054)
	$ 227	$ 684	$ 1,304	$ 3,416

Operating income by each property classified as discontinued operations is summarized below (in thousands):

		Quarters Ended September 30,		Periods Ended September 30,	
Property	Segment	2009	2008	2009	2008
Sullyfield Center	Industrial	$	$	$	$ 1,065
The Earhart Building	Industrial				421
Avondale	Multifamily		266	392	513
Tech 100	Industrial	23	197	261	529
Brandywine Center	Office	16	17	85	156
Crossroads Distribution Center	Industrial	7	31	79	188
Charleston	Industrial	181	173	487	544
		$ 227	$ 684	$ 1,304	$ 3,416

WRIT acquired the following property during the 2009 Quarter:

Acquisition Date	Property Name	Property Type	Rentable Square Feet	Purchase Price (in thousands)
August 13, 2009	Lansdowne Medical Office Building	Medical Office	87,400	$ 19,900

As discussed in Note 2 to the consolidated financial statements, we record the acquired physical assets (land, building and tenant improvements), in-place leases (absorption, tenant origination costs, leasing commissions, and net lease intangible assets/liabilities), and any other liabilities at their fair values. Lansdowne Medical Office Building was vacant as of the acquisition date, therefore we did not acquire any absorption costs, leasing commissions, tenant origination costs or net intangible lease assets/liabilities. The results of operations from this acquired property are included in the income statement as of its acquisition date.

The purchase was funded with cash on hand and borrowings on one of our lines of credit.

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NOTE 4: MORTAGE NOTES PAYABLE

	(in thousands)	
	September 30, 2009	**December 31, 2008**
On September 27, 1999, we executed a $50.0 million mortgage note payable secured by Munson Hill Towers, Country Club Towers, Roosevelt Towers, Park Adams Apartments and the Ashby of McLean. The mortgage bore interest at 7.14% per annum and interest only was payable monthly until October 1, 2009, at which time all unpaid principal and interest would have been payable in full. On July 1, 2009, we prepaid this mortgage note payable in its entirety without any prepayment penalties.	$	$ 50,000
On October 9, 2003, we assumed a $36.1 million mortgage note payable and a $13.7 million mortgage note payable as partial consideration for our acquisition of Prosperity Medical Center. The mortgages bear interest at 5.36% per annum and 5.34% per annum respectively. Principal and interest are payable monthly until May 1, 2013, at which time all unpaid principal and interest are payable in full.	45,222	45,811
On August 12, 2004, we assumed a $10.1 million mortgage note payable with an estimated fair value* of $11.2 million, as partial consideration for our acquisition of Shady Grove Medical Village II. The mortgage bears interest at 6.98% per annum. Principal and interest are payable monthly until December 1, 2011, at which time all unpaid principal and interest are payable in full.	9,765	9,992
On December 22, 2004, we assumed a $15.6 million mortgage note payable with an estimated fair value* of $17.8 million, and a $3.9 million mortgage note payable with an estimated fair value* of $4.2 million as partial consideration for our acquisition of Dulles Business Park. The mortgages bear interest at 7.09% per annum and 5.94% per annum, respectively. Principal and interest are payable monthly until August 10, 2012, at which time all unpaid principal and interest are payable in full.	19,130	19,610
On March 23, 2005, we assumed a $24.3 million mortgage note payable with an estimated fair value* of $25.0 million as partial consideration for our acquisition of Frederick Crossing. The mortgage bears interest at 5.95% per annum. Principal and interest are payable monthly until January 1, 2013, at which time all unpaid principal and interest are payable in full.	22,928	23,304
On April 13, 2006, we assumed a $5.7 million mortgage note payable as partial consideration for the acquisition of 9707 Medical Center Drive. The mortgage bears interest at 5.32% per annum. Principal and interest are payable monthly until July 1, 2028, at which time all unpaid principal and interest are payable in full.	5,161	5,278
On June 22, 2006, we assumed a $4.9 million mortgage note payable as partial consideration for the acquisition of Plumtree Medical Center. The mortgage bears interest at 5.68% per annum. Principal and interest are payable monthly until March 11, 2013, at which time all unpaid principal and interest are payable in full.	4,622	4,684
On July 12, 2006, we assumed an $8.8 million mortgage note payable as partial consideration for the acquisition of 15005 Shady Grove Road. The mortgage bears interest at 5.73% per annum. Principal and interest are payable monthly until March 11, 2013, at which time all unpaid principal and interest are payable in full.	8,353	8,468
On August 25, 2006, we assumed a $34.2 million mortgage note payable as partial consideration for the acquisition of 20-50 West Gude Drive. The mortgage bears interest at 5.86% per annum. Principal and interest are payable monthly until February 11, 2013, at which time all unpaid principal and interest are payable in full.	32,336	32,815
On August 25, 2006, we assumed a $23.1 million mortgage note payable as partial consideration for the acquisition of The Crescent and The Ridges. The mortgage bears interest at 5.82%** per annum. Principal and interest are payable monthly until August 11, 2033** at which time all unpaid principal and interest are payable in full. The note may be	21,988	22,277

repaid without penalty on August 11, 2010.

On June 1, 2007, we assumed a $21.2 million mortgage note payable as partial consideration for the acquisition of Woodholme Medical Office Building. The mortgage bears interest at 5.29% per annum. Principal and interest are payable monthly until November 1, 2015, at which time all unpaid principal and interest are payable in full.	20,676	20,897

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On June 1, 2007, we assumed a $3.1 million mortgage note payable and a $3.0 million mortgage note payable as partial consideration for our acquisition of the Ashburn Farm Office Park. The mortgages bear interest at 5.56% per annum and 5.69% per annum, respectively. Principal and interest are payable monthly until May 31, 2025 and July 31, 2023, respectively, at which time all unpaid principal and interest are payable in full.	5,129	5,291
On May 29, 2008, we executed three mortgage notes payable totaling $81.0 million secured by 3801 Connecticut Avenue, Walker House and Bethesda Hill. The mortgages bear interest at 5.71% per annum and interest only is payable monthly until May 31, 2016, at which time all unpaid principal and interest are payable in full.	81,029	81,029
On December 2, 2008, we assumed a $101.9 million mortgage note payable with an estimated fair value* of $91.7 million as partial consideration for the acquisition of 2445 M Street. The mortgage bears interest at 5.62% per annum. Interest is payable monthly until January 6, 2017, at which time all unpaid principal and interest are payable in full.	92,771	91,830
On February 17, 2009, we executed a $37.5 million mortgage note payable secured by Kenmore Apartments. The mortgage bears interest at 5.37% per annum. Principal and interest are payable monthly until March 1, 2019, at which time all unpaid principal and interest are payable in full.	37,267	
	$ 406,377	$ 421,286

* *The fair value of the mortgage notes payable was estimated upon acquisition by WRIT based upon market information and data, such as dealer quotes for instruments with similar terms and maturities. There is no notation when the fair value at the inception of the mortgage is the same as the carrying value.*

** *If the loan is not repaid on August 11, 2010, from and after August 11, 2010, the interest rate adjusts to one of the following rates: (i) the greater of (A) 10.82% or (B) the Treasury Rate (determined as of August 11, 2010, and defined as the yield calculated using linear interpolation approximating the period from August 11, 2010 to August 11, 2033 on the basis of Federal Reserve Stat. Release H.15-Selected Interest Rates under the heading U.S. Governmental Security/Treasury Constant Maturities) plus 5%; or (ii) if the Note is an asset of an entity formed for purposes of securitization and pursuant thereto securities rated by a rating agency have been issued, then the rate will equal: the greater of (A) 7.82% or (B) the Treasury Rate plus 2%. Due to the probability that the mortgage will not be paid off on August 11, 2010, the date reflected in the future maturities schedule is August 11, 2033.*

Total carrying amount of the above mortgaged properties was $644.5 million and $666.0 million at September 30, 2009 and December 31, 2008, respectively. Scheduled principal payments for the remaining three months in 2009 and the remaining years subsequent to December 31, 2009 are as follows (in thousands):

	Principal Payments
2009	$ 1,153
2010	4,458
2011	13,788
2012	21,823
2013	107,123
Thereafter	265,617
	413,962
Net discounts/premiums	(7,585)
Total	$ 406,377

NOTE 5: UNSECURED LINES OF CREDIT PAYABLE

As of September 30, 2009, we maintained a $75.0 million unsecured line of credit maturing in June 2011 (Credit Facility No. 1) and a $262.0 million unsecured line of credit maturing in November 2010 (Credit Facility No. 2).

Credit Facility No. 1

We had $6.0 million outstanding as of September 30, 2009 related to Credit Facility No. 1, and $1.4 million in letters of credit issued, with $67.6 million unused and available for subsequent acquisitions or capital improvements. We had no balance outstanding under this facility at December 31, 2008. We borrowed $24.0 million during the 2009 Quarter to fund repurchases of convertible debt and the acquisition of Lansdowne Medical Office Building. We repaid the $18.0 million during the 2009 Quarter using proceeds from equity issued under a Sales Agency Financing Agreement. During the 2008 Quarter we had no borrowings and repaid $15.0 million using proceeds from the September 2008 equity offering.

Borrowings under the facility bear interest at our option of LIBOR plus a spread based on the credit rating on our publicly issued debt or the higher of SunTrust Bank s prime rate and the Federal Funds Rate in effect plus 0.5%. The interest rate spread is currently 42.5 basis points. All outstanding advances are due and payable upon maturity in June, 2011. Interest only payments are due and payable generally on a monthly basis. For the 2009 Quarter and Period, we recognized interest expense (excluding facility fees) of $23,200 and $28,500, respectively, representing an average interest rate of 0.71% and 0.75%, respectively. For the 2008 Quarter and Period, we recognized interest expense (excluding facility fees) of $182,500 and $1.6 million, respectively, representing an average interest rate of 5.03% and 5.24%, respectively.

In addition, we pay a facility fee based on the credit rating of our publicly issued debt which currently equals 0.15% per annum of the $75.0 million committed capacity, without regard to usage. Rates and fees may be adjusted up or down based on changes in our senior unsecured credit ratings. For the 2009 Quarter and Period, we incurred facility fees of $28,800 and $85,300, respectively. For the 2008 Quarter and Period, we incurred facility fees of $28,800 and $75,100, respectively.

Credit Facility No. 2

We had no outstanding as of September 30, 2009 related to Credit Facility No. 2, and $0.9 million in letters of credit issued, with $261.1 million unused and available for subsequent acquisitions or capital improvements. $67.0 million was outstanding under this facility at December 31, 2008. During the 2009 Quarter, we repaid $15.0 million with proceeds from the sale of Tech 100 and Brandywine Center and with proceeds from common shares issued under our sales agency financing agreement (see Note 12 to the consolidated financial statements). During the 2008 Quarter we borrowed $58.0 million and repaid $11.0 million using proceeds from the September 2008 offering.

Borrowings under the facility bear interest at our option of LIBOR plus a spread based on the credit rating on our publicly issued debt or the higher of Wells Fargo Bank s prime rate and the Federal Funds Rate in effect plus 0.5%. The interest rate spread is currently 42.5 basis points. All outstanding advances are due and payable upon maturity in November, 2010. Interest only payments are due and payable generally on a monthly basis. For the 2009 Quarter and Period, we recognized interest expense (excluding facility fees) of $13,100 and $193,300, respectively, representing an average interest rate of 0.76% and 0.98%, respectively. For the 2008 Quarter and Period, we recognized interest expense (excluding facility fees) of $140,800 and $3.0 million, respectively, representing an average interest rate of 3.14% and 5.16%, respectively.

In addition, we pay a facility fee based on the credit rating of our publicly issued debt which currently equals 0.15% per annum of the $262.0 million committed capacity, without regard to usage. Rates and fees may be adjusted up or down based on changes in our senior unsecured credit ratings. For the 2009 Quarter and Period, we incurred facility fees of $100,400 and $296,500, respectively. For the 2008 Quarter and Period, we incurred facility fees of $100,400 and $292,900, respectively.

Credit Facility No. 1 and No. 2 contain certain financial and non-financial covenants, all of which we have met as of September 30, 2009.

NOTE 6: NOTES PAYABLE

On February 20, 1998, we issued $50.0 million of 7.25% unsecured notes due February 25, 2028 at 98.653% to yield approximately 7.36%.

On March 17, 2003, we issued $60.0 million of 5.125% unsecured notes due March 2013. The notes bear an effective interest rate of 5.23%. Our total proceeds, net of underwriting fees, were $59.1 million. We used portions of the proceeds of these notes to repay advances on our lines of credit and to fund general corporate purposes.

On December 11, 2003, we issued $100.0 million of 5.25% unsecured notes due January 2014. The notes bear an effective interest rate of 5.34%. Our total proceeds, net of underwriting fees, were $99.3 million. We used portions of the proceeds of these notes to repay advances on our lines of credit.

On April 26, 2005, we issued $50.0 million of 5.05% unsecured notes due May 1, 2012 and $50.0 million of 5.35% unsecured notes due May 1, 2015, at effective yields of 5.064% and 5.359% respectively. The net proceeds from the sale of the notes of $99.1 million were used to repay borrowings under our lines of credit totaling $90.5 million and the remainder was used for general corporate purposes.

On October 6, 2005, we issued an additional $100.0 million of the series of 5.35% unsecured notes due May 1, 2015, at an effective yield of 5.49%. $93.5 million of the $98.1 million net proceeds from the sale of these notes was used to repay borrowings under our lines of credit and the remainder was used to fund general corporate purposes.

On June 6, 2006, we issued $100.0 million of 5.95% unsecured notes due June 15, 2011 at 99.951% of par, resulting in an effective interest rate of 5.96%. Our total proceeds, net of underwriting fees, were $99.4 million. We used the proceeds of these notes to repay advances on one of our lines of credit.

On July 26, 2006, we issued an additional $50.0 million of the series of 5.95% unsecured notes due June 15, 2011 at 100.127% of par, resulting in an effective yield of 5.92%. Our total proceeds, net of underwriting fees, were $50.2 million. We used the proceeds of these notes to repay borrowings under our lines of credit and to fund general corporate purposes.

On September 11, 2006, we issued $100.0 million of 3.875% convertible notes due September 15, 2026. On September 22, 2006, we issued an additional $10.0 million of the 3.875% convertible notes due September 15, 2026, upon the exercise by the underwriter of an over-allotment option granted by WRIT. The notes were issued at 99.5% of par. The adoption of FSP 14-1 (see Note 2 to the consolidated financial statements) resulted in a discount on the 3.875% convertible notes that is amortized as an increase to interest expense over the expected life of the debt. This increases the effective interest rate on the 3.875% convertible notes to 5.875%. Our total proceeds, net of underwriting fees, were $106.7 million. We used the proceeds of these notes to repay borrowings under our lines of credit and to fund general corporate purposes.

On January 22, 2007, we issued an additional $135.0 million of the 3.875% convertible notes due September 15, 2026. On January 30, 2007, we issued an additional $15.0 million of the 3.875% convertible notes due September 15, 2026, upon the exercise by the underwriter of an over-allotment option granted by WRIT. The notes were issued at 100.5% of par. The adoption of FSP 14-1 (see Note 2 to the consolidated financial statements) resulted in a discount on the 3.875% convertible notes that is amortized as an increase to interest expense over the expected life of the debt. This increases the effective interest rate on the 3.875% convertible notes to 5.875%. Our total proceeds, net of underwriting fees, were $146.0 million. We used the proceeds of these notes to fund the acquisition of 270 Technology Park and a portion of the acquisition of Monument II, to repay borrowings under our lines of credit and to fund general corporate purposes.

The convertible notes are convertible into our common shares at the option of the holder, under specific circumstances or on or after July 15, 2026, at an initial exchange rate of 20.090 common shares per $1,000 principal amount of notes. This is equivalent to an initial conversion price of $49.78 per common share, which represents a 22% premium over the $40.80 closing price of our common shares at the time the September 2006 transaction was priced and a 21% premium over the $41.17 closing price of our common shares at the time the January 2007 transaction was priced. Holders may convert their notes into our common shares prior to the maturity date based on the applicable conversion rate during any fiscal quarter if the closing price of our common shares for at least 20 trading days in the 30 consecutive trading day period ending on the last trading day of the immediate preceding fiscal quarter is more than 130% of the conversion price per common share on the last day of such preceding fiscal quarter. The initial conversion rate is subject to adjustment in certain circumstances including an adjustment to the rate if the quarterly dividend rate to common shareholders is in excess of $0.4125 per share. In addition, the conversion rate will be adjusted if we make distributions of cash or other consideration by us or any of our subsidiaries in respect of a tender offer or exchange offer for our common shares, to the extent such cash and the value of any such other consideration per common share validly tendered or exchanged exceeds the closing price of our common shares as defined in the note offering. Upon an exchange of notes, we will settle any amounts up to the principal amount of the notes in cash and the remaining exchange value, if any, will be settled, at our option, in cash, common shares or a combination thereof. The convertible notes could have a dilutive impact on our earnings per share calculation in the future. However, these convertible notes are not dilutive for the 2009 and 2008 Quarters, and are not included in our earnings per share calculations.

On or after September 20, 2011, we may redeem the convertible notes at a redemption price equal to the principal amount of the convertible notes plus any accrued and unpaid interest, if any, up to, but excluding, the purchase date. In addition, on September 15, 2011, September 15, 2016 and September 15, 2021 or following the occurrence of certain change in control transactions prior to September 15, 2011, holders of these notes may require us to repurchase the convertible notes for an amount equal to the principal amount of the convertible notes plus any accrued and unpaid interest thereon.

During the 2009 Quarter we repurchased $12.2 million of the convertible notes at an average of 95.6% of par, resulting in a loss of extinguishment of debt of $132,600, net of unamortized debt costs and debt discounts. During the 2009 Period, we have repurchased $101.6 million of the convertible notes at an average of 87.1% of par, resulting in a gain on extinguishment of debt of $6.9 million. During the fourth quarter of 2008, we repurchased $16.0 million of the convertible notes at 75.0% of par, resulting in a gain on extinguishment of debt of $2.9 million. No repurchases were made during the 2008 Quarter or Period. As of September 30, 2009, the amount outstanding on the convertible notes is $142.4 million.

On January 1, 2009 we adopted FASB Staff Position No. APB 14-1 (see Notes 2 and 11 to the consolidated financial statements), which resulted in the reclassification of $21.0 million of our convertible notes original carrying amount into shareholders equity. The amortization of the resulting discount on the convertible notes is recognized as interest expense. The effective interest rate on the liability component of the convertible notes was 5.875% for the 2009 and 2008 Quarters and Periods.

The interest expense recognized relating to the contractual interest coupon and relating to the amortization of the discount was as follows (in millions):

	Quarters Ended September 30,		Periods Ended September 30,	
	2009	2008	2009	2008
Contractual interest coupon	$ 1.4	$ 2.5	$ 5.3	$ 7.6
Amortization of the discount	$ 0.6	$ 1.1	$ 2.3	$ 3.2

The carrying amount of the equity component as of September 30, 2009 and December 31, 2008 is $21.0 million. The net carrying amount of the principal is as follows (in thousands):

	September 30, 2009	December 31, 2008
Principal, gross	$ 142,408	$ 244,000
Unamortized discount	(5,194)	(12,047)
Principal, net	$ 137,214	$ 231,953

The remaining discount is being amortized through September, 2011, on the effective interest method.

During the first quarter of 2008, we repaid the $60 million outstanding principal balance under our 6.74% 10-year Mandatory Par Put Remarketed Securities (MOPPRS) notes. The total aggregate consideration paid to repurchase the notes was $70.8 million, which amount included the $8.7 million remarketing option value paid to the remarketing dealer and accrued interest paid to the holders. The loss on extinguishment of debt was $8.4 million, net of unamortized loan premium costs, upon settlement of these securities.

On February 21, 2008, we entered into a $100 million unsecured term loan (the Term Loan) with Wells Fargo Bank, National Association. The Term Loan had a maturity date of February 19, 2010 and bore interest at our option of LIBOR plus 1.50% or Wells Fargo s prime rate.

On May 7, 2009, we entered into an agreement to modify the Term Loan with Wells Fargo, National Association to extend the maturity date from February 19, 2010 to November 1, 2011. This agreement also increased the interest rate on the Term Loan from LIBOR plus 1.50% to LIBOR plus 2.75%. To hedge our exposure to interest rate fluctuations on the Term Loan, we previously had entered into an interest rate swap on a notional amount of $100 million through the original maturity date of February 19, 2010. This interest rate swap had the effect of fixing the LIBOR portion of the interest rate on the term loan at 2.95% through February 2010. The current interest rate, taking into account the swap, is 5.70% (2.95% plus 275 basis points). On May 6, 2009, we entered into a forward interest rate swap on a notional amount of $100 million for the period from February 20, 2010 through the maturity date of November 1, 2011. This forward interest rate swap has the effect of fixing the LIBOR portion of the interest rate on the term loan at 2.10% from February 20, 2010 through November 1, 2011. The interest rate for that time period, taking into account the forward interest rate swap, will be 4.85% (2.10% plus 275 basis points). The forward interest rate swap agreement will settle contemporaneously with the maturity of the loan. These swaps qualify as cash flow hedges as discussed in Note 2.

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The following is a summary of our unsecured note and term loan borrowings (in thousands):

	September 30, 2009	December 31, 2008
5.70% term loan due 2011	$ 100,000	$ 100,000
5.95% notes due 2011	150,000	150,000
5.05% notes due 2012	50,000	50,000
5.125% notes due 2013	60,000	60,000
5.25% notes due 2014	100,000	100,000
5.35% notes due 2015	150,000	150,000
3.875% notes due 2026	142,408	244,000
7.25% notes due 2028	50,000	50,000
Discount on notes issued	(6,366)	(13,352)
Premium on notes issued	22	31
Total	$ 796,064	$ 890,679

The required principal payments excluding the effects of note discounts or premium for the remaining three months in 2009 and the remaining years subsequent to December 31, 2009 are as follows (in thousands):

2009	$
2010	
2011[1]	392,408
2012	50,000
2013	60,000
Thereafter	300,000
	$ 802,408

(1) We reflect the 3.875% convertible notes as maturing in 2011on this schedule due to the fact that we may redeem them at a redemption price equal to the principal amount of the notes plus any accrued and unpaid interest, if any, up to, but excluding, the purchase date on or after September 20, 2011. In addition, on September 15, 2011, September 15, 2016 and September 15, 2021 or following the occurrence of certain change in control transactions prior to September 15, 2011, holders of these notes may require us to repurchase the notes for an amount equal to the principal amount of the notes plus any accrued and unpaid interest thereon.

Interest on these notes is payable semi-annually. These notes contain certain financial and non-financial covenants, all of which we have met as of September 30, 2009.

The covenants under our line of credit agreements require us to insure our properties against loss or damage in amounts customarily maintained by similar businesses or as they may be required by applicable law. The covenants for the notes require us to keep all of our insurable properties insured against loss or damage at least equal to their then full insurable value. We have an insurance policy which has no terrorism exclusion, except for non-certified nuclear, chemical and biological acts of terrorism. Our financial condition and results of operations are subject to the risks associated with acts of terrorism and the potential for uninsured losses as the result of any such acts. Effective November 26, 2002, under this existing coverage, any losses caused by certified acts of terrorism would be partially reimbursed by the United States under a formula established by federal law. Under this formula the United States pays 85% of covered terrorism losses exceeding the statutorily established deductible paid by the insurance provider, and insurers pay 10% until aggregate insured losses from all insurers reach $100 billion in a calendar year. If the aggregate amount of insured losses under this program exceeds $100 billion during the applicable period for all insured and insurers combined, then each insurance provider will not be liable for payment of any amount which exceeds the aggregate amount of $100 billion. On December 26, 2007, the Terrorism Risk Insurance Program Reauthorization Act of 2007 was signed into law and extends the program through December 31, 2014.

NOTE 7: SHARE OPTIONS AND GRANTS

Options

In March 2007, the WRIT Board of Trustees adopted, and in July 2007 WRIT shareholders approved, the Washington Real Estate Investment Trust 2007 Omnibus Long-Term Incentive Plan (2007 Plan). This plan replaced the Share Grant Plan, which expired on December 15, 2007, as well as the 2001 Stock Option Plan and Stock Option Plan for Trustees. The shares and options granted pursuant to the above plans are not affected by the

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adoption of the 2007 Plan. However, if an award under the Share Grant Plan is forfeited or an award of options granted under the Option Plans expires without being exercised, the shares covered by those awards will not be available for issuance under the 2007 Plan.

The 2007 Plan provides for the award to WRIT s trustees, officers and non-officer employees 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. If an award under the 2007 Plan of restricted shares or restricted share units is forfeited or an award of options or any other rights granted under the 2007 Plan expires without being exercised, the shares covered by any such award would again become available for issuance under new awards.

The previous Option Plans provided for the grant of qualified and non-qualified options. Options granted under the plans were granted with exercise prices equal to the market price on the date of grant, vested 50% after year one and 50% after year two and expire ten years following the date of grant. Options granted to trustees were granted with exercise prices equal to the market price on the date of grant and were fully vested on the grant date. As discussed in Note 2, option awards were accounted for in accordance with APB No. 25, and we have recognized no compensation cost for stock options. The last option awards to officers were in 2002, to non-officer key employees in 2003 and to trustees in 2004. The following chart details the previously issued and currently outstanding and exercisable stock options:

	2009	
	Shares	Wtd Avg Ex Price
Outstanding at January 1	317,000	$ 25.31
Granted		
Exercised	750	$ 21.34
Expired/Forfeited		
Outstanding at September 30	316,250	$ 25.31
Exercisable at September 30	316,250	$ 25.31

The 316,250 options outstanding at September 30, 2009, all of which are exercisable, have exercise prices between $14.47 and $33.09, with a weighted-average exercise price of $25.31 and a weighted average remaining contractual life of 2.7 years. The aggregate intrinsic value of outstanding exercisable shares at September 30, 2009 and December 31, 2008 was $1.1 million and $0.9 million, respectively. The aggregate intrinsic value of options exercised was minimal in the 2009 Period and $1.1 million in the 2008 period. There were no options forfeited in the 2009 and 2008 Quarters or Periods.

Share Grants, Performance Share Units and Restricted Share Units

As discussed in Note 2 to the consolidated financial statements, we previously maintained a Share Grant Plan for officers, trustees and other members of management. In 2004 and 2005, awards were granted to officers and other members of management in the form of restricted shares, with a value equal to various percentages of a participant s salary based upon WRIT s performance compared to an appropriate benchmark target, with minimum and maximum thresholds. The awards were valued based on market value at the date of grant. Shares vest ratably over a five year period from the date of grant.

Beginning in 2005, annual long-term incentive compensation for trustees was changed from options of 2,000 shares plus 400 restricted shares to $30,000 in restricted shares. In May 2007, the value of the restricted shares awarded to trustees was increased to $55,000. These shares vest immediately and are restricted from sale for the period of the trustee s service.

The 2007 Plan provides for the granting of restricted share units to officers and other members of management and performance share units to officers, based upon various percentages of their salaries and their positions with WRIT. For officers, one-third of the award is in the form of restricted share units that vest 20% per year based upon continued employment and two-thirds of the award is in the form of performance share units. For other members of management, 100% of the award is in the form of restricted share units that vest 20% per year from date of grant based on performance targets.

With respect to the performance share units, performance targets will be set annually based on appropriate benchmarks with minimum and maximum payout thresholds. The grants and each award are based on cumulative performance over three years, and performance share units cliff vest at the end of the three year period. These performance share units are based on three-year cumulative performance targets set at the beginning of each year, as

such, the grant date does not occur until all such targets are set and thus the significant terms of the award are known. Because payouts are probable, WRIT estimates the compensation expense at each reporting period based on the current fair market value of the probable award, until the vesting occurs and as progress towards meeting target is known, and recognizes this expense ratably over the three-year period. $22,000 and $176,000 were recognized during the 2008 Quarter and Period, respectively, related to the 2006 performance share units. The estimated expense related to the 2007 performance share units at the end of the three-year period is approximately $648,000 of which $93,000 and ($241,000) were recognized during the 2009 Quarter and Period, respectively, and $24,000 and $11,000 were recognized during the 2008 Quarter and Period. The estimated expense related to the 2008 performance share units at the end of the three-year period is approximately $1.5 million of which $340,000 and $670,000 were recognized during the 2009 Quarter and Period, respectively, and $5,000 and $275,000 were recognized during the 2008 Quarter and period, respectively. The estimated expense related to the 2009 performance share units at the end of the three-year period is approximately $3.1 million of which $382,000 and $785,000 were recognized during the 2009 Quarter and Period, respectively. Participants who terminate prior to the end of the three-year performance period forfeit their entire portion of the award.

Under the 2007 Plan described in Note 2 to the consolidated financial statements, elected deferrals of short term incentive awards by officers are converted into restricted share units which vest immediately on the grant date and WRIT will match 25% of the deferred short term incentive in restricted share units, which vest at the end of three years. Dividends on these restricted share units are paid in the form of restricted share units valued based on the market value of WRIT s stock on the date dividends are paid. WRIT granted 876 and 4,783 restricted share units to officers in 2008 and 2007, respectively, pursuant to elective short term incentive deferrals. During 2008, WRIT granted 263 restricted share units on dividends. In 2009, WRIT granted 360 restricted share units on dividends.

There were 24,344 restricted share units awarded to the prior Chief Executive Officer in the second quarter of 2007, and 38,228 restricted share units awarded to officers and other members of management in December 2007. There were 47,865 restricted share units awarded to officers and other members of management in 2008. Performance and restricted share units awarded were initially valued at a weighted average price per share based upon the market value on the date of grant, as follows:

	Shares	Wtd Avg Grant Price
2007	67,355	$ 32.85
2008	49,004	$ 26.16
2009	360	$ 21.92

There were no shares granted during 2008. During 2007 we issued 15,962 share grants to the prior Chief Executive Officer at a price of $37.59 per share based on the market value on the date of grant. They vested and were expensed immediately upon date of grant.

In August 2008 as the result of an award modification per the terms of the departing Chief Financial Officer s termination agreement, 7,820 share grants issued between 2004 and 2006 were remeasured under FAS 123(R) based on the market value of WRIT s stock at the time of the award modification. The modification accelerated the vesting of the 7,820 share grants to be fully vested by February 28, 2009. In addition, 4,560 restricted share units awarded to the departing Chief Financial Officer in 2006 and 2007 were revalued based on the market value of WRIT s stock at the time of the award modification. The modification also accelerated the vesting of the 4,560 restricted share units to be fully vested by February 28, 2009.

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The following are tables of activity for the period ended June 30, 2009 related to our share grants and restricted share unit grants.

Share Grants

	2009	
	Shares	Wtd Avg Grant Price
Vested at January 1	312,006	$ 29.21
Unvested at January 1	34,849	$ 35.04
Granted		
Vested during year	(30,412)	$ 35.33
Expired/Forfeited		
Unvested at September 30	4,437	$ 32.98
Vested at September 30	342,418	$ 29.76

The total fair value of shares vested during the period ending September 30, 2009 was $0.7 million. As of September 30, 2009, the total compensation cost related to non-vested share awards not yet recognized was $0.1 million, which is expected to be recognized over a weighted average period of 13 months on a straight-line basis.

Restricted Share Units

	2009	
	Shares	Wtd Avg Grant Price
Vested at January 1	28,914	$ 35.00
Unvested at January 1	106,562	$ 30.63
Granted	360	$ 21.92
Vested during year	(16,998)	$ 34.74
Expired/Forfeited	(211)	$ 28.87
Unvested at September 30	89,713	$ 29.82
Vested at September 30	45,912	$ 34.86

The value of unvested restricted share units at September 30, 2009 was $2.2 million, which is expected to be recognized as compensation cost over a weighted average period of 39 months on a straight-line basis.

Total compensation expense recognized for share based awards, including share grants and restricted share units, in the 2009 Quarter and Period was $0.3 million and $1.4 million, respectively and $0.7 million and $1.7 million for the 2008 Quarter and Period, respectively. The expense related to the 2009 Period includes $0.1 million related to the accelerated vesting of the departed Chief Financial Officer s share grant awards.

NOTE 8: OTHER BENEFIT PLANS

We have a Retirement Savings Plan (the 401K Plan), which permits all eligible employees to defer a portion of their compensation in accordance with the Internal Revenue Code. Under the 401K Plan, WRIT may make discretionary contributions on behalf of eligible employees. WRIT made contributions to the 401K plan of $0.1 million and $0.3 million for the 2009 Quarter and Period, respectively, and $0.1 million and $0.3 million for the 2008 Quarter and Period, respectively.

We have adopted a non-qualified deferred compensation plan for the officers and members of the Board of Trustees. The plan allows for a deferral of a percentage of annual cash compensation and trustee fees. The plan is unfunded and payments are to be made out of our general assets. The deferred compensation liability was $0.9 million and $0.8 million at September 30, 2009 and December 31, 2008, respectively.

We established a Supplemental Executive Retirement Plan (SERP) effective July 1, 2002 for the benefit of our prior CEO. Under this plan, upon the prior CEO s termination of employment from WRIT for any reason other than death, permanent and total disability, or discharge for cause, he is entitled to receive an annual benefit equal to his accrued benefit times his vested interest. We accrued benefit cost in an amount that resulted in an accrued balance at the end of the prior CEO s employment in June 2007 which was not less than the present value of the estimated

benefit payments to be made. At September 30, 2009 and December 31, 2008, the accrued benefit liability was $1.7 million and $1.9 million, respectively. For the 2009 Quarter and Period, we recognized current service cost of $31,000 and $93,000, respectively. For the 2008 Quarter and Period, we recognized current service cost of $33,000 and $99,000, respectively. On December 31, 2006, WRIT adopted the amended GAAP recognition and disclosure surrounding defined benefit pension and other post retirement plans, which required WRIT to recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its pension plan in the December 31, 2006 statement of financial position, with a corresponding adjustment to accumulated other comprehensive income, net of tax. Because the prior CEO s SERP is unfunded, the adoption of the amended recognition and disclosure provisions did not have an effect on WRIT s consolidated financial condition at December 31, 2006, or for any prior period presented and it will not affect WRIT s operating results in future periods. WRIT currently has an investment in corporate owned life insurance intended to meet the SERP benefit liability since the prior CEO s retirement. Benefit payments to the prior CEO began in 2008.

In November 2005, the Board of Trustees approved the establishment of a SERP for the benefit of the officers, other than the prior CEO. This is a defined contribution plan under which, upon a participant s termination of employment from WRIT for any reason other than death, discharge for cause or total and permanent disability, the participant will be entitled to receive a benefit equal to the participant s accrued benefit times the participant s vested interest, offset by the corresponding change in the liability. We report the investments at fair value, and include unrealized holding gains and losses in earnings. For the 2009 Quarter and Period, we recognized current service cost of $84,000 and $196,000, respectively. For the 2008 Quarter and Period, we recognized current service cost of $76,000 and $237,000, respectively.

NOTE 9: FAIR VALUE OF FINANCIAL INSTRUMENTS

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 September 30, 2009 may differ significantly from the amounts presented.

Below is a summary of significant methodologies used in estimating fair values and a schedule of fair values at September 30, 2009.

Cash and Cash Equivalents

Cash and cash equivalents includes 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.

Notes Receivable

The fair value of the notes is estimated based on quotes for debt with similar terms and characteristics or a discounted cash flow methodology using market discount rates if reliable quotes are not available.

Derivatives

The company reports its interest rate swap at fair value in accordance with GAAP, and thus the carrying value is the fair value.

Mortgage Notes Payable

Mortgage notes payable consist of instruments in which certain of our real estate assets are used for collateral. The fair value of the mortgage notes payable is estimated based primarily upon lender quotes for instruments with similar terms and maturities.

Lines of Credit Payable

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. The carrying value of the lines of credit payable is estimated to be market value given the adjustable rate of these borrowings.

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Notes Payable

The fair value of these securities is estimated based primarily on lender quotes for securities with similar terms and characteristics.

	As of September 30, 2009		As of December 31, 2008	
(in thousands)	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
Cash and cash equivalents, including restricted cash	$ 25,191	$ 25,191	$ 30,697	$ 30,697
2445 M Street note receivable	$ 6,992	$ 8,300	$ 7,331	$ 7,331
Interest rate hedges liability	$ 2,080	$ 2,080	$ 2,335	$ 2,335
Mortgage notes payable	$ 406,377	$ 407,430	$ 421,286	$ 408,089
Lines of credit payable	$ 6,000	$ 6,000	$ 67,000	$ 67,000
Notes payable	$ 796,064	$ 698,530	$ 890,679	$ 712,763

NOTE 10: SEGMENT INFORMATION

We have five reportable segments: office, medical office, retail, multifamily and industrial/flex properties. 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. Industrial/flex centers are used for flex-office, warehousing, services and distribution type facilities.

Real estate rental revenue as a percentage of the total for each of the five reportable operating segments is as follows:

	Quarters Ended September 30,		Periods Ended September 30,	
	2009	**2008**	**2009**	**2008**
Office	44%	42%	44%	42%
Medical office	15%	16%	15%	16%
Retail	13%	15%	14%	15%
Multifamily	16%	14%	15%	13%
Industrial	12%	13%	12%	14%

The percentage of total income producing real estate assets, at cost, for each of the five reportable operating segments is as follows:

	September 30, 2009	December 31, 2008
Office	44%	45%
Medical office	17%	16%
Retail	12%	12%
Multifamily	14%	14%
Industrial	13%	13%

The accounting policies of each of the segments are the same as those described in Note 2. 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 table presents real estate rental revenue and net operating income for the 2009 and 2008 Quarters and Periods from these segments, and reconciles net operating income of reportable segments to net income as reported (in thousands):

	Quarter Ended September 30, 2009						
	Office	Medical Office	Retail	Multifamily	Industrial/Flex	Corporate and Other	Consolidated
Real estate rental revenue	$ 33,532	$ 11,099	$ 10,182	$ 11,833	$ 8,961	$	$ 75,607
Real estate expenses	12,156	3,832	2,517	4,964	2,399		25,868
Net operating income	$ 21,376	$ 7,267	$ 7,665	$ 6,869	$ 6,562	$	$ 49,739
Depreciation and amortization							(23,643)
Interest expense							(18,224)
General and administrative							(3,834)
Other income							262
Loss on extinguishment of debt							(133)
Gain from non-disposal activities							62
Gain on sale of real estate							5,147
Income from discontinued operations							227
Net income							9,603
Less: Net income attributable to noncontrolling interests							(53)
Net income attributable to the controlling interests							$ 9,550
Capital expenditures	$ 2,844	$ 1,126	$ 714	$ 303	$ 797	$ 67	$ 5,851
Total assets	$ 931,489	$ 359,656	$ 228,404	$ 243,889	$ 256,911	$ 38,048	$ 2,058,397

	Quarter Ended September 30, 2008						
	Office	Medical Office	Retail	Multifamily	Industrial/Flex	Corporate and Other	Consolidated
Real estate rental revenue	$ 29,251	$ 11,041	$ 10,260	$ 9,723	$ 9,523	$	$ 69,798
Real estate expenses	10,999	3,616	2,189	4,404	2,582		23,790
Net operating income	$ 18,252	$ 7,425	$ 8,071	$ 5,319	$ 6,941	$	$ 46,008
Depreciation and amortization							(21,240)
Interest expense							(18,447)
General and administrative							(2,731)
Other income							338
Gain from non-disposal activities							17
Income from discontinued operations							684
Net income							4,629
Less: Net income attributable to noncontrolling interests							(48)
Net income attributable to the controlling interests							$ 4,581

Capital expenditures	$ 3,106	$ 775	$ 1,145	$ 1,841	$ 1,983	$ 388	$ 9,238
Total assets	$ 773,501	$ 347,788	$ 235,213	$ 263,024	$ 272,317	$ 76,933	$ 1,968,776

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	Period Ended September 30, 2009						
	Office	Medical Office	Retail	Multifamily	Industrial/ Flex	Corporate and Other	Consolidated
Real estate rental revenue	$ 101,676	$ 33,617	$ 30,995	$ 34,606	$ 28,169	$	$ 229,063
Real estate expenses	36,886	11,331	7,955	14,549	7,688		78,409
Net operating income	$ 64,790	$ 22,286	$ 23,040	$ 20,057	$ 20,481	$	$ 150,654
Depreciation and amortization							(70,095)
Interest expense							(57,221)
General and administrative							(10,732)
Other income							921
Gain on extinguishment of debt, net							6,931
Gain from non-disposal activities							62
Gain on sale of real estate							11,821
Income from discontinued operations							1,304
Net income							33,645
Less: Net income attributable to noncontrolling interests							(154)
Net income attributable to the controlling interests							$ 33,491
Capital expenditures	$ 10,329	$ 3,283	$ 1,218	$ 1,881	$ 2,329	$ 208	$ 19,248

	Period Ended September 30, 2008						
	Office	Medical Office	Retail	Multifamily	Industrial/ Flex	Corporate and Other	Consolidated
Real estate rental revenue	$ 87,336	$ 32,644	$ 31,247	$ 26,644	$ 28,534	$	$ 206,405
Real estate expenses	31,221	10,566	6,872	12,374	7,250		68,283
Net operating income	$ 56,115	$ 22,078	$ 24,375	$ 14,270	$ 21,284	$	$ 138,122
Depreciation and amortization							(62,213)
Interest expense							(56,187)
General and administrative							(8,812)
Other income							796
Loss on extinguishment of debt							(8,449)
Gain from non-disposal activities							17
Gain on sale of real estate							15,275
Income from discontinued operations							3,416
Net income							21,965
Less: Net income attributable to noncontrolling interests							(158)
Net income attributable to the controlling interests							$ 21,807
Capital expenditures	$ 11,019	$ 3,849	$ 2,801	$ 4,792	$ 4,405	$ 612	$ 27,478

NOTE 11: CHANGE IN METHOD OF ACCOUNTING FOR CONVERTIBLE DEBT

On May 9, 2008, the FASB issued FASB Staff Position APB 14-1 (FSP 14-1). This guidance clarifies the accounting for convertible debt instruments that may be settled in cash (including partial cash settlement) upon conversion. We adopted FSP 14-1 effective for the fiscal year beginning January 1, 2009. FSP 14-1 required retrospective application, and has been applied to all periods presented in these consolidated financial statements. This guidance significantly impacted the accounting of our convertible debt by requiring bifurcation of a component of the debt, classification of that component in stockholders equity, and then accretion of the resulting discount on the debt to result in interest expense equal to our nonconvertible debt borrowing rate. The adoption of FSP 14-1 impacted operating results with higher interest expense and lower gain on extinguishment of the convertible debt. The effective interest rate on the liability component of the convertible notes is 5.875% for the 2009 and 2008 Quarters and Periods.

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The following financial statement line items were affected by this accounting change for the periods indicated (in thousands, except for per share amounts):

Consolidated statements of income:

	For the Quarter Ended September 30, 2009		
	As computed prior to FSP 14-1	As reported under FSP 14-1	Effect of Change
Interest expense	$ 17,452	$ 18,224	$ (772)
Gain (loss) on extinguishment of debt	$ 247	$ (133)	$ (380)
Income from continuing operations	$ 5,381	$ 4,229	$ (1,152)
Net income attributable to the controlling interests	$ 10,702	$ 9,550	$ (1,152)
Earnings per share, diluted	$ 0.18	$ 0.16	$ (0.02)

	For the Quarter Ended September 30, 2008		
	As computed prior to FSP 14-1	As reported under FSP 14-1	Effect of Change
Interest expense	$ 17,149	$ 18,447	$ (1,298)
Income from continuing operations	$ 5,243	$ 3,945	$ (1,298)
Net income attributable to the controlling interest	$ 5,879	$ 4,581	$ (1,298)
Earnings per share, diluted	$ 0.12	$ 0.09	$ (0.03)

	For the Period Ended September 30, 2009		
	As computed prior to FSP 14-1	As reported under FSP 14-1	Effect of Change
Interest expense	$ 54,363	$ 57,221	$ (2,858)
Gain on extinguishment of debt	$ 10,329	$ 6,931	$ (3,398)
Income from continuing operations	$ 26,776	$ 20,520	$ (6,256)
Net income attributable to the controlling interests	$ 39,747	$ 33,491	$ (6,256)
Earnings per share, diluted	$ 0.71	$ 0.60	$ (0.11)

	For the Period Ended September 30, 2008		
	As computed prior to FSP 14-1	As reported under FSP 14-1	Effect of Change
Interest expense	$ 52,395	$ 56,187	$ (3,792)
Income from continuing operations	$ 7,066	$ 3,274	$ (3,792)
Net income attributable to the controlling interest	$ 25,599	$ 21,807	$ (3,792)
Earnings per share, diluted	$ 0.53	$ 0.45	($ 0.08)

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Consolidated balance sheets:

	As of September 30, 2009		
	As computed prior to FSP 14-1	As reported under FSP 14-1	Effect of Change
Income producing property	$ 1,889,895	$ 1,890,505	$ 610
Development in progress	$ 24,460	$ 24,611	$ 151
Prepaid expenses and other assets	$ 106,479	$ 104,421	$ (2,058)
Total assets	$ 2,059,694	$ 2,058,397	$ (1,297)
Notes payable	$ 801,342	$ 796,064	$ (5,278)
Total liabilities	$ 1,298,106	$ 1,292,828	$ (5,278)
Additional paid in capital	$ 921,850	$ 942,884	$ 21,034
Distributions in excess of net income	$ (162,586)	$ (179,639)	$ (17,053)
Total equity	$ 761,588	$ 765,569	$ 3,981
Total liabilities and equity	$ 2,059,694	$ 2,058,397	$ (1,297)

	As of December 31, 2008		
	As computed prior to FSP 14-1	As reported under FSP 14-1[1]	Effect of Change
Income producing property	$ 1,853,398	$ 1,854,008	$ 610
Development in progress	$ 23,630	$ 23,732	$ 102
Prepaid expenses and other assets	$ 114,980	$ 112,284	$ (2,696)
Total assets	$ 2,111,391	$ 2,109,407	$ (1,984)
Notes payable	$ 902,900	$ 890,679	$ (12,221)
Total liabilities	$ 1,481,203	$ 1,468,982	$ (12,221)
Additional paid in capital	$ 756,341	$ 777,375	$ 21,034
Distributions in excess of net income	$ (128,139)	$ (138,936)	$ (10,797)
Total equity	$ 630,188	$ 640,425	$ 10,237
Total liabilities and equity	$ 2,111,391	$ 2,109,407	$ (1,984)

(1) See our Current Report on Form 8-K filed July 10, 2009 and Note 3 to the consolidated financial statements.

NOTE 12: SHAREHOLDERS EQUITY

During the third quarter of 2008, we entered into a sales agency financing agreement with BNY Mellon Capital Markets, LLC relating to the issuance and sale of up to $150.0 million of our common shares from time to time over a period of no more than 36 months. Sales of our common shares are made at market prices prevailing at the time of sale. Net proceeds from the sale of common shares under this program are used for the repayment of borrowings under our unsecured lines of credit and notes payable, acquisitions and general corporate purposes. During the 2009 Quarter we issued 1,431,440 common shares at a weighted average price of $27.70 under this program, raising $39.1 million in net proceeds. For the 2009 Period, we issued 1,989,708 common shares at a weighted average price of $27.37 under this program, raising $53.8 million in net proceeds.

During the second quarter of 2009, we completed a public offering of 5.25 million common shares priced at $21.40 per share, raising $107.5 million in net proceeds. The net proceeds were used to repay a mortgage note payable, borrowings under our unsecured lines of credit and for general corporate purposes.

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. Net proceeds under this program are used for general corporate purposes. During the 2009 Quarter, 41,166 common shares were issued at a weighted average price of $28.68 per share, raising $1.2 million in net proceeds. During 2008, 125,348 common shares were issued at a weighted average price of $32.75 per share, raising $4.1 million in net proceeds.

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NOTE 13: SUBSEQUENT EVENTS

Subsequent to the end of the 2009 Quarter, we executed repurchases totaling $8.1 million of the face value of our 3.875% convertible notes at an average of 96.9% of par.

Subsequent events have been evaluated through November 6, 2009, the date of issuance for these consolidated financial statements and notes thereto.

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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, 2008 filed with the Securities and Exchange Commission on March 2, 2009, as well as our Current Report on Form 8-K filed with the Securities and Exchange Commission on July 10, 2009.

We refer to the three months ended September 30, 2009 and September 30, 2008 as the 2009 Quarter and the 2008 Quarter , respectively, and the nine months ended September 30, 2009 and September 30, 2008 as the 2009 Period and the 2008 Period , respectively.

Forward-Looking Statements

We claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for the foregoing statements. The following important factors, in addition to those discussed elsewhere in our 2008 Annual Report on Form 10-K under the caption Risk Factors and elsewhere in that report, 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 the current 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; (u) the impact of newly adopted accounting principles; and (v) other factors discussed under the caption Risk Factors. We undertake no obligation to update our forward-looking statements or risk factors to reflect new information, future events, or otherwise.

Overview

Our revenues are derived primarily from the ownership and operation of income-producing properties in the greater Washington metro region. As of September 30, 2009, we owned a diversified portfolio of 91 properties totaling approximately 11 million square feet of commercial space and 2,536 residential units. These 91 properties consist of 27 office properties, 21 industrial/flex properties, 18 medical office properties, 14 retail centers, 11 multi-family properties and land for development. We have a fundamental strategy of regional focus, diversification by property type and conservative capital management.

When evaluating our financial condition and operating performance, we focus on the following financial and non-financial indicators, discussed in further detail herein:

- Net operating income (NOI) by segment, 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.

- Economic occupancy (occupancy), calculated as actual real estate rental revenue recognized for the period indicated as a percentage of gross potential real estate rental revenue for that period. Percentage rents and expense reimbursements are not considered in computing economic occupancy percentages.

- 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.

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Rental rates.

Leasing activity, including new leases, renewals and expirations.

Our results of operations in the 2009 Quarter were primarily impacted by acquisitions in 2008 and 2009, development properties placed into service, dispositions and the performance of our core portfolio. We completed acquisitions totaling $277.3 million and dispositions totaling $74.7 million during 2008 and 2009. We placed into service from development at the end of 2007 and during 2008 two multifamily properties and one office property. The performance of our core portfolio, consisting of properties owned for the entirety of the 2009 and 2008 Quarters or Periods, declined compared to 2008, reflecting the impact of the national economic recession. Within the greater Washington metro region, market conditions remain sluggish. The region s overall vacancy rate is higher, and leasing activity is below average. Further, rental rates have declined and concessions to tenants have increased. These market conditions have generally resulted in higher vacancy and bad debt for our core commercial portfolio, as reflected in the Results of Operations analysis found later in this section.

We summarize below our significant transactions during the 2009 and 2008 Periods:

2009 Period

The completion of a public offering of 5.25 million common shares priced at $21.40 per share, raising $107.5 million in net proceeds.

The disposition of one multifamily property, Avondale, for a contract sales price of $19.8 million and a gain on sale of $6.7 million.

The disposition of one industrial property, Tech 100, for a contract sales price of $10.5 million and a gain on sale of $4.1 million.

The disposition of one office property, Brandywine Center, for a contract sales price of $3.3 million and a gain on sale of $1.0 million.

The acquisition of one newly constructed medical office building for $19.9 million, adding approximately 87,400 square feet, which was 0% leased at the end of the 2009 Period.

The execution of an agreement to modify our $100.0 million unsecured term loan with Wells Fargo Bank, National Association to extend the maturity date from February 19, 2010 to November 1, 2011. This agreement also increased the interest rate on the term loan from LIBOR plus 150 basis points to LIBOR plus 275 basis points.

The issuance of 2.0 million common shares at a weighted average price of $27.37 under our sales agency financing agreement, raising $53.8 million in net proceeds.

The execution of one mortgage note of approximately $37.5 million at a fixed rate of 5.37%, secured by the Kenmore Apartments.

The prepayment of a $50.0 million mortgage note payable, secured by Munson Hill Towers, Country Club Towers, Roosevelt Towers, Park Adams Apartments and the Ashby of McLean, with no prepayment penalties.

The repurchase of $101.6 million of our 3.875% convertible notes at 80% to 95.8% of par, resulting in a gain on extinguishment of debt of $6.9 million.

The execution of new leases for 1,119,800 square feet of commercial space, with an average rental rate increase of 11.8% over expiring leases.

2008 Period

The acquisition of one industrial/flex property for $11.2 million, adding approximately 150,000 square feet, which was 100% leased at the end of the 2008 Period.

The acquisition of one medical office building for $6.5 million, adding approximately 36,000 square feet, which was 100% leased at the end of the 2008 Period.

The acquisition of one 374-unit apartment building for $58.3 million, adding approximately 269,000 square feet, which was 96% leased at the end of the 2008 Period.

The sale of two industrial properties for a contract sales price of $41.1 million, resulting in a gain on sale of $15.3 million.

The completion of a public offering of 2.6 million common shares priced at $34.80 per share, raising $86.7 million in net proceeds.

The issuance of 1.1 million common shares at weighted average price of $36.15 under our sales agency financing agreement, raising $40.7 million in net proceeds.

The execution of three mortgage notes totaling approximately $81.0 million at a fixed rate of 5.71%, secured by three multifamily properties.

The repayment of the $60 million outstanding principal balance under 6.74% 10-year Mandatory Par Put Remarketed Securities (MOPPRS) notes. The total aggregate consideration paid to repurchase the notes was $70.8 million, which amount included the $8.7 million remarketing option value paid to the remarketing dealer and accrued interest paid to the holders. The loss on extinguishment of debt was $8.4 million, net of unamortized loan premium costs, upon settlement of these securities. WRIT refinanced the repurchase of these notes, and refinanced a portion of line outstandings, by issuing a $100 million 2-year term loan. WRIT also entered into an interest rate swap on a notional amount of $100 million, which had the effect of fixing the interest rate on the term loan at 4.45%.

The exercise of the right to increase the capacity of the unsecured revolving credit facility with a syndicate of banks led by Wells Fargo Bank, National Association from $200 million to $262 million.

The execution of two leases totaling 154,000 square feet at the previously unleased Dulles Station, Phase I office building. In addition to those leases, we executed new leases for 458,000 square feet of commercial space elsewhere in our portfolio, with an average rental rate increase of 20.9% over expiring leases.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based 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. On an on-going basis, we evaluate these estimates, including those related to estimated useful lives of real estate assets, estimated fair value of acquired leases, cost reimbursement income, bad debts, contingencies and litigation. We base the estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. There can be no assurance that actual results will not differ from those estimates.

We believe the following critical accounting policies reflect the significant judgments and estimates used in the preparation of our consolidated financial statements. Our significant accounting policies are also described in Note 2 to the consolidated financial statements contained in this Form 10-Q.

Revenue Recognition

Residential properties (our multifamily segment) are leased under operating leases with terms of generally one year or less, and commercial properties (our office, medical office, retail and industrial segments) are leased under operating leases with average terms of three to seven years. We recognize rental income and rental abatements from our residential and commercial leases when earned on a straight-line basis over the lease term. Recognition of rental income commences when control of the facility has been given to the tenant. We record a provision for losses on accounts receivable equal to the estimated uncollectible amounts. This estimate is based on our historical experience and a review of the current status of our receivables. Percentage rents, which represent additional rents based on gross tenant sales, are recognized when tenants sales exceed specified thresholds.

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

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

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable primarily represents amounts accrued and unpaid from tenants in accordance with the terms of the respective leases, subject to our revenue recognition policy. Receivables are reviewed monthly and reserves are established when, in the opinion of management, collection of the receivable is doubtful. Reserves are established for tenants whose rent payment history or financial condition casts doubt upon the tenants ability to perform under their lease obligations. When the collection of a receivable is deemed doubtful in the same quarter that the receivable was established, then the allowance for that receivable is recognized as an offset to real estate revenues. When a receivable that was initially established in a prior quarter is deemed doubtful, then the allowance is recognized as an operating expense. In addition to rents due currently, accounts receivable include amounts representing minimal rental income accrued on a straight-line basis to be paid by tenants over the remaining term of their respective leases.

Included in our accounts receivable balance as of September 30, 2009 and December 31, 2008, are notes receivable balances of $8.4 million and $8.6 million, respectively.

Real Estate and Depreciation

We depreciate buildings on a straight-line basis over estimated useful lives ranging from 28 to 50 years. We capitalize all capital improvement expenditures associated with replacements, improvements or major repairs to real property that extend its useful life and depreciate them using the straight-line method over their estimated useful lives ranging from 3 to 30 years. We also capitalize costs incurred in connection with our development projects, including capitalizing interest and other internal costs during periods in which qualifying expenditures have been made and activities necessary to get the development projects ready for their intended use are in progress. In addition, we capitalize tenant leasehold improvements when certain criteria are met, including when we supervise construction and will own the improvements. We depreciate all tenant improvements over the shorter of the useful life of the improvements or the term of the related tenant lease. Real estate depreciation expense from continuing operations was $19.1 million and $56.7 million for the 2009 Quarter and Period, respectively, and $17.2 million and $50.5 million for the 2008 Quarter and Period, respectively. Maintenance and repair costs that do not extend an asset s life are charged to expense as incurred.

We capitalize interest costs incurred on borrowing obligations while qualifying assets are being readied for their intended use. Total interest expense capitalized to real estate assets related to development and major renovation activities was $0.3 million and $1.0 million for the 2009 Quarter and Period, respectively, and $0.5 million and $2.0 million for the 2008 Quarter and Period, respectively. Interest capitalized is amortized over the useful life of the related underlying assets upon those assets being placed into service.

We recognize impairment losses on long-lived assets used in operations and held for sale, development assets or land held for future development, if indicators of impairment are present and the net undiscounted cash flows estimated to be generated by those assets are less than the assets carrying amount and estimated undiscounted cash flows associated with future development expenditures. If such carrying amount is in excess of the estimated cash flows from the operation and disposal of the property, we would recognize an impairment loss equivalent to an amount required to adjust the carrying amount to the estimated fair value. The estimated fair value would be calculated in accordance with GAAP. There were no property impairments recognized during the 2009 and 2008 Quarters and Periods.

We record real estate acquisitions as business combinations in accordance with GAAP. Acquired or assumed assets, including physical assets and in-place leases, and liabilities are recorded based on their fair values. Goodwill is recorded when the purchase price exceeds the fair value of the assets and liabilities acquired. The estimated fair values of the assets and liabilities are determined in accordance with current GAAP fair value provisions. The fair

values of acquired buildings are determined on an as-if-vacant basis considering a variety of factors, including the physical condition and quality of the buildings, estimated rental and absorption rates, estimated future cash flows and valuation assumptions consistent with current market conditions. The as-if-vacant fair value is allocated to land, building and tenant improvements based on property tax assessments and other relevant information obtained in connection with the acquisition of the property.

The fair value of in-place leases consists of the following components (a) the estimated cost to us to replace the leases, including foregone rents during the period of finding a new tenant and foregone recovery of tenant pass-throughs (referred to as absorption cost), (b) the estimated cost of tenant improvements, and other direct costs associated with obtaining a new tenant (referred to as tenant origination cost); (c) estimated leasing commissions associated with obtaining a new tenant (referred to as leasing commissions); (d) the above/at/below market cash flow of the leases, determined by comparing the projected cash flows of the leases in place to projected cash flows of comparable market-rate leases (referred to as net lease intangible); and (e) the value, if any, of customer relationships, determined based on our evaluation of the specific characteristics of each tenant s lease and our overall relationship with the tenant (referred to as customer relationship value). We have attributed no value to customer relationship value as of September 30, 2009 or December 31, 2008.

The amounts used to calculate net lease intangibles are discounted using an interest rate which reflects the risks associated with the leases acquired. Tenant origination costs are included in income producing property on our balance sheet and are amortized as depreciation expense on a straight-line basis over the remaining life of the underlying leases. Leasing commissions and absorption costs are classified as other assets and are amortized as amortization expense on a straight-line basis over the remaining life of the underlying leases. Net lease intangible assets are classified as other assets and are amortized on a straight-line basis as a decrease to real estate rental revenue over the remaining term of the underlying leases. Net lease intangible liabilities are classified as other liabilities and are amortized on a straight-line basis as an increase to real estate rental revenue over the remaining term of the underlying leases. Should a tenant terminate its lease, the unamortized portion of the tenant origination cost, leasing commissions, absorption costs and net lease intangible associated with that lease are written off.

Federal Income Taxes

We believe that we qualify as a real estate investment trust (REIT) under Sections 856-860 of the Internal Revenue Code and intend to continue to qualify as such. To maintain our status as a REIT, we are required to distribute 90% of our ordinary taxable income to our shareholders. When selling properties, we have the option of (a) reinvesting the sale price 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. In June 2008, two industrial properties, Sullyfield Center and The Earhart Building, were sold for a gain of $15.3 million. The proceeds from the sale were treated as a distribution to shareholders. In May 2009, a multifamily property, Avondale, was sold for a gain of $6.7 million. In July 2009, an industrial property, Tech 100, and an office property, Brandywine Center, were sold for gains of $4.1 million and $1.0 million, respectively. We currently anticipate that the proceeds from these gains will be treated as a distribution to shareholders. Generally, no provisions for income taxes are necessary except for taxes on undistributed REIT taxable income and taxes on the income generated by our taxable REIT subsidiaries (TRS). A TRS is subject to corporate federal and state income tax on its taxable income at regular statutory rates. There were no income tax provisions or material deferred income tax items for our TRS for the nine month periods ended September 30, 2009 and 2008.

Results of Operations

The discussion that follows is based on our consolidated results of operations for the 2009 and 2008 Quarters and Periods. The ability to compare one period to another may be significantly affected by acquisitions completed and dispositions made during those periods.

For purposes of evaluating comparative operating performance, we categorize our properties as core , non-core or discontinued operations. A core property is one that was owned for the entirety of the periods being evaluated and is included in continuing operations. A non-core property is one that was acquired or placed into service during either of the periods being evaluated and is included in continuing operations. Results for properties sold or held for sale during any of the periods evaluated are classified as discontinued operations. One property was acquired during the 2009 Period, and four properties were acquired during 2008. Also classified as non-core are three development properties placed into service in 2008 and 2007. Three properties were sold and two properties were classified as held for sale during the 2009 Period, and two properties were sold during 2008. These held for sale and sold properties are classified as discontinued operations for the 2009 and 2008 Quarters and Periods.

To provide more insight into our operating results, our discussion is divided into two main sections: (a) the consolidated results of operations section, in which we provide an overview analysis of results on a consolidated basis, and (b) the net operating income (NOI) section, in which we provide a detailed analysis of core versus non-core NOI results by segment.

Consolidated Results of Operations

Real Estate Rental Revenue

Real estate rental revenue for properties classified as continuing operations is summarized as follows (all data in thousands except percentage amounts):

	Quarters Ended September 30,				Periods Ended September 30,			
			Change				Change	
	2009	**2008**	**$**	**%**	**2009**	**2008**	**$**	**%**
Minimum base rent	$ 66,111	$ 60,457	$ 5,654	9.4%	$ 198,201	$ 178,982	$ 19,219	10.7%
Recoveries from tenants	8,104	7,966	138					