WASHINGTON REAL ESTATE INVESTMENT TRUST
Form 10-K
February 26, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

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

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

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

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

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

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

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

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

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

Large accelerated filer x Accelerated filer ¨ 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 June 30, 2009, the aggregate market value of such shares held by non-affiliates of the registrant was approximately $1,293,242,069 (based on the closing price of the stock on June 30, 2009).

As of February 25, 2010, 59,818,318 common shares were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our definitive Proxy Statement relating to the 2010 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission, are incorporated by reference in Part III, Items 10-14 of this Annual Report on Form 10-K as indicated herein.

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WASHINGTON REAL ESTATE INVESTMENT TRUST

2009 FORM 10-K ANNUAL REPORT

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PART I

ITEM 1: BUSINESS

WRIT Overview

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

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

Over the last five years, dividends paid per share have been $1.73 for 2009, $1.72 for 2008, $1.68 for 2007, $1.64 for 2006 and $1.60 for 2005.

Our geographic focus is based on two principles:

1. Real estate is a local business and is more effectively selected and managed by owners located, and with expertise, in the region.

2. Geographic markets deserving of focus must be among the nation s best markets with a strong primary industry foundation and diversified enough to withstand downturns in their primary industry.

We consider markets to be local if they can be reached from Washington within two hours by car. While we have historically focused most of our investments in the greater Washington metro region, in order to maximize acquisition opportunities we will consider investments within the two-hour radius described above. We also may consider opportunities to duplicate our Washington-focused approach in other geographic markets which meet the criteria described above.

All of our officers and employees live and work in the greater Washington metro region and all but one of our officers have over 20 years of experience in this region.

This section includes or refers to certain forward-looking statements. You should refer to the explanation of the qualifications and limitations on such forward-looking statements beginning on page 50.

The Greater Washington Metro Area Economy

In 2009, the national economic recession negatively affected the Washington metro region, evidenced by negative job growth and a decrease in gross regional product (GRP). Current estimates by Delta Associates / Transwestern Commercial Services (Delta), a national full service real estate firm that provides market research and evaluation services for commercial property, indicate that the Washington metro region lost 24,000 jobs in twelve months ending October 2009. The region s unemployment rate was 6.2% at October 2009, up from 4.1% in the prior year. However, it still remains the lowest rate among all of the nation s largest metro areas. In addition, the region s unemployment rate is well below the national average of 10.0% in November 2009. The government, education/health and professional/business services sectors experienced positive job growth, while the other sectors recorded job losses. The Center for Regional Analysis at George Mason University (CRA) estimates that the Washington area s GRP decreased by 0.5% in 2009, which is less severe than the estimated national decline of 2.5%. Approximately one-third of the area s GRP was generated by the federal government.

CRA expects growth in the Washington metro region to be slow as the region and the nation recover from the severe economic conditions. According to CRA, the Washington Leading Index, which forecasts area economic performance over the next 18 months, is 107.0, as of September 2009, which is above the 20-year average of 102.6. CRA also forecasts GRP for the Washington metro region to increase by 2.7% in

2010. This compares to a national GRP projection of 2.5%. CRA forecasts job growth in the region to increase in 2010 and 2011, adding 24,900 and 34,900 new jobs, respectively, compared to the 15-year annual average of 52,100.

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Greater Washington Metro Region Real Estate Markets

The Association of Foreign Investors in Real Estate (AFIRE) has publicized that it now considers Washington, DC as the top U.S. city for real estate investment. The area s economy has translated into stronger relative real estate market performance in each of our segments, compared to other national metropolitan regions, as reported by Delta. Despite our region s strength in comparison to other metropolitan regions, we believe the potential exists in the current economic environment for continued downward pressure on rents in 2010. Market statistics and information from Delta are set forth below:

Office and Medical Office Sectors

Average effective rents decreased 6.9% in 2009 in the region compared to an increase of 0.1% in 2008.

Vacancy was 13.0% at year-end 2009, up from 10.6% at year-end 2008 and 9.1% at year-end 2007.

The region has the fourth lowest vacancy rate of large metro areas in the United States.

Net absorption (defined as the change in occupied, standing inventory from one period to the next) totaled 0.6 million square feet in 2009, down from 3.4 million square feet in 2008 and a 7.5 million square foot long-term average.

Of the 5.7 million square feet of office space under construction at year-end 2009 (down from 15.4 million square feet at year-end 2008), 48% is pre-leased compared to 26% one year ago.

Retail Sector

Rental rates at grocery-anchored centers decreased 5.8% in the region in 2009, from the 1.7% increase in 2008.

Vacancy rates increased to 5.6% at year-end 2009 from 3.7% at year-end 2008.

Total retail sales decreased by 7% in 2009 as compared to a 3% decrease in 2008.

Multifamily Sector

Rents for all investment grade apartments decreased 2.0% in the greater Washington metro region during 2009. Class A rents declined by 1.7% in 2009 compared to growth of 0.1% in 2008.

The vacancy rate for all apartments was 4.3% at year-end 2009, the same as year-end 2008. The national rate was 7.6% at year-end 2009, which places the Washington metro region as one of the lowest vacancy rates of any metro area in the nation. Class A vacancy decreased to 3.6% at year-end 2009 from 4.4% at year-end 2008.

Industrial/Flex Sector

Rental rates for the industrial sector decreased 4.3% in the Washington metro region in 2009 compared to an increase of 0.3% in 2008.

Overall vacancy was 11.4% at year-end 2009, up from 10.1% at year-end 2008.

Net absorption was a negative 2.3 million square feet, compared to a positive 4.4 million square feet in 2008.

Of the 1.1 million square feet of industrial space under construction at year-end 2009, 41% was pre-leased, compared to 30% of space under construction that was pre-leased at year-end 2008.

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Our Portfolio

As of December 31, 2009, we owned a diversified portfolio of 90 properties consisting of 27 office properties, 18 medical office properties, 14 retail centers, 11 multifamily properties, 20 industrial/flex properties and land for development. Our principal objective is to invest in high quality properties in prime locations, then proactively manage, lease and direct ongoing capital improvement programs to improve their economic performance. The percentage of total real estate rental revenue by property group for 2009, 2008 and 2007, and the percent leased, calculated as the percentage of physical net rentable area leased, as of December 31, 2009, were as follows:

Percent Leased[1] December 31, 2009		Real Estate Rental Revenue* 2009	2008	2007
91%	Office	44%	42%	41%
89%[2]	Medical office	15	16	15
96%	Retail	14	15	17
96%	Multifamily	15	13	13
85%	Industrial	12	14	14
		100%	100%	100%

(1) Data excludes discontinued operations.
(2) Reflects the acquisition of Lansdowne Medical Office Building during the third quarter of 2009. This property was vacant as of December 31, 2009.

On a combined basis, our commercial portfolio (i.e. our office, medical office, retail and industrial properties, but not our multifamily properties) was 90% leased at December 31, 2009, 94% leased at December 31, 2008 and 97% leased at December 31, 2007.

The commercial lease expirations for the next five years are as follows:

	# of Leases	Square Feet	Gross Annual Rent	Percentage of Total Gross Annual Rent
2010	297	1,550,000	$ 33,409,000	14%
2011	292	1,489,000	33,552,000	14
2012	212	1,187,000	26,688,000	11
2013	175	1,300,000	28,369,000	12
2014	143	1,073,000	28,935,000	12
2015 and thereafter	351	2,943,000	90,308,000	37
Total	1,470	9,542,000	$ 241,261,000	100%

Total real estate rental revenue from continuing operations was $306.9 million for 2009, $278.7 million for 2008 and $248.9 million for 2007. During the three year period ended December 31, 2009, we acquired four office buildings, six medical office buildings, one multifamily building and two industrial/flex properties. We also placed into service from development one office building and two multifamily buildings. During that same time frame, we sold three office buildings, one multifamily building and four industrial/flex properties. These acquisitions and dispositions were the primary reason for the shifting of each group s percentage of total real estate rental revenue reflected above.

No single tenant accounted for more than 3.2% of real estate rental revenue in 2009, 3.5% of revenue in 2008 and 3.6% of revenue in 2007. All federal government tenants in the aggregate accounted for approximately 2.0% of our 2009 total revenue. Federal government tenants include the Department of Defense, U.S. Patent and Trademark Office, Federal Bureau of Investigation, Office of Personnel Management, Secret Service, Federal Aviation Administration, NASA and the National Institutes of Health. Our larger non-federal government tenants include the World Bank, The Advisory Board Company, INOVA Health System, IBM Corporation, Patton Boggs LLP, Sunrise Senior Living, Inc., URS

Corporation, Lafarge North America, Inc., and Children s National Medical Center.

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

In prior years, we have been engaged in significant ground-up development in order to further strengthen our portfolio with long-term growth prospects. In 2007 and 2008, we completed construction on three ground-up development projects. The first was Bennett Park, a 224-unit multifamily property located in Arlington, VA, with the majority of units delivered by the end of 2007. The second development project was The Clayborne Apartments, a 74-unit multifamily property located in Alexandria, VA. All of the units at Clayborne were delivered during the first quarter of 2008. Bennett Park and Clayborne were 98% and 95% leased, respectively, at December 31, 2009. The third development project was Dulles Station, a Class A office property located in Herndon, VA. Dulles Station is entitled for two office buildings totaling 540,000 square feet. The first 180,000 square foot office building was completed in the third quarter 2007, and was 91% leased at December 31, 2009. Construction of the 360,000 square foot second building remains in the planning phase.

We make capital improvements on an ongoing basis to our properties for the purpose of maintaining and increasing their value and income. Major improvements and/or renovations to the properties in 2009, 2008, and 2007 are discussed under the heading Capital Improvements and Development Costs.

Further description of the property groups is contained in Item 2, Properties and in Schedule III. Reference is also made to Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

On February 25, 2010, we had 301 employees including 226 persons engaged in property management functions and 75 persons engaged in corporate, financial, leasing, asset management and other functions.

Tax Treatment of Recent Disposition Activity

We sold several properties during the three year period ended December 31, 2009. All disclosed gains on sale are calculated in accordance with U.S. generally accepted accounting principles (GAAP).

In May 2009, we sold a multifamily property, Avondale Apartments, for a gain of $6.7 million. In July 2009, we sold an industrial property, Tech 100 Industrial Park, for a gain of $4.1 million. In July 2009, we sold an office property, Brandywine Center, for a gain of $1.0 million. In November 2009, we sold another industrial property, Crossroads Distribution Center, for a gain of $1.5 million. The capital gains from the sales were paid out to shareholders.

In June 2008, we sold two industrial properties, Sullyfield Center and The Earhart Building, for a gain of $15.3 million. The capital gains from the sales were paid out to shareholders.

In September 2007, we sold two office properties, Maryland Trade Centers I and II, for a gain of $25.0 million. The proceeds from the sales were reinvested in replacement properties.

We distributed all of our 2009, 2008 and 2007 ordinary taxable income to our shareholders. No provision for income taxes was necessary in 2009, 2008 or 2007.

Availability of Reports

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

ITEM 1A: RISK FACTORS

Set forth below are the risks that we believe are material to our shareholders. We refer to the shares of beneficial interest in WRIT as our common shares, and the investors who own shares as our shareholders. This section includes or refers to certain forward-looking statements. You should refer to the explanation of the qualifications and limitations on such forward-looking statements beginning on page 50.

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

The United States and global equity and credit markets recently experienced significant price volatility and liquidity disruptions which caused the market prices of stocks to fluctuate substantially and the spreads on prospective debt financings to widen considerably. These circumstances significantly negatively impacted liquidity in the financial markets, making terms for certain financings less attractive or unavailable. Further disruption in the equity and credit markets could negatively impact our ability to access additional financing at reasonable terms or at all. If such further disruption were to occur, in the event of a debt financing, our cost of borrowing in the future would likely be significantly higher than historical levels. As well, in the case of a common equity financing, the disruptions in the

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financial markets could have a material adverse effect on the market value of our common shares, potentially requiring us to issue more shares than we would otherwise have issued with a higher market value for our common shares. Further disruption in the financial markets also could negatively affect our ability to make acquisitions, undertake new development projects and refinance our debt. As well, it could also make it more difficult for us to sell properties and could adversely affect the price we receive for properties that we do sell, as prospective buyers experience increased costs of financing and difficulties in obtaining financing.

Further disruptions in the financial markets also could adversely affect many of our tenants and their businesses, including their ability to pay rents when due and renew their leases at rates at least as favorable as their current rates. As well, our ability to attract prospective new tenants in the future could be adversely affected by disruption in the financial markets.

Our performance and value are subject to risks associated with our real estate assets and with the real estate industry.

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

- downturns in the national, regional and local economic climate;
- the economic health of our tenants and the ability to collect rents;
- consumer confidence, unemployment rates, and consumer tastes and preferences;
- competition from similar asset type properties;
- local real estate market conditions, such as oversupply or reduction in demand for office, medical office, retail, multifamily and industrial properties;
- changes in interest rates and availability of financing;
- vacancies, changes in market rental rates and the need to periodically repair, renovate and re-let space;
- increased operating costs, including insurance premiums, utilities and real estate taxes;
- inflation;
- civil disturbances, earthquakes and other natural disasters, terrorist acts or acts of war; and
- decreases in the underlying value of our real estate.

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

All of our properties are located in the Washington metropolitan region, which may expose us to a greater amount of market dependent risk than if we were geographically diverse. General economic conditions and local real estate conditions in our geographic region may be dependent upon one or more industries, thus a downturn in one of the industries may have a particularly strong effect. In particular, economic conditions in our market are directly affected by federal government spending in the region. In the event of reduced federal spending or negative economic changes in our region, we may experience a negative impact to our profitability and may be limited in our ability to make distributions to our shareholders.

We face risks associated with property acquisitions.

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

- we may be unable to finance acquisitions on favorable terms;
- acquired properties may fail to perform as we expected in analyzing our investments;
- we may be unable to acquire a desired property because of competition from other real estate investors, including publicly traded real estate investment trusts, institutional investment funds and private investors;
- even if we enter into an acquisition agreement for a property, it is subject to customary conditions to closing, including completion of due diligence investigations which may have findings that are unacceptable;
- even if we enter into an acquisition agreement for a property, we may be unable to complete that acquisition after making a non-refundable deposit and incurring certain other acquisition-related costs;
- we may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into our existing operations;

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- competition from other real estate investors may significantly increase the purchase price; and
- our estimates of capital expenditures required for an acquired property, including the costs of repositioning or redeveloping, may be inaccurate.

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

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

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

From 2010 through 2014, leases on our commercial properties will expire on a total of approximately 69% of our leased square footage as of December 31, 2009, with leases on approximately 16% of our leased square footage expiring in 2010, 16% in 2011, 12% in 2012, 14% in 2013 and 11% in 2014. We derive substantially all of our income from rent received from tenants. If our tenants decide not to renew their leases, we may not be able to re-let the space. If tenants decide to renew their leases, the terms of renewals, including the cost of required improvements or concessions, may be less favorable than current lease terms. Multifamily properties are leased under operating leases with terms of generally one year or less. For the years ended 2009, 2008 and 2007, the multifamily tenant retention rate was 54%, 67% and 68%, respectively. Similar to our commercial properties, if our multifamily tenants decide not to renew their leases, we may not be able to re-let the space, or the terms of the renewal may be less favorable than current lease terms. As a result of the foregoing, our cash flow could decrease and our ability to make distributions to our shareholders could be adversely affected.

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

The bankruptcy or insolvency of a major tenant may adversely affect the income produced by a property. For example, during the fourth quarter of 2008, the bankruptcy of a large retail tenant caused a loss of approximately $1.0 million. In light of the current economic recession, it is possible that additional major tenants could file for bankruptcy protection or become insolvent in the future. We cannot evict a tenant solely because of its bankruptcy. On the other hand, a court might authorize the tenant to reject and terminate its lease. In such case, our claim against the bankrupt tenant for unpaid, future rent would be subject to a statutory cap that might be substantially less than the remaining rent actually owed under the lease. As a result, our claim for unpaid rent would likely not be paid in full. This shortfall could adversely affect our cash flow and results from operations.

If a tenant experiences a downturn in its business or other types of financial distress, it may be unable to make timely rental payments. By way of illustration, provision for losses on accounts receivable from continuing operations increased to $6.7 million in 2009, from $4.2 million in 2008 and $1.9 million in 2007. This unfavorable trend could continue or worsen in 2010 and forward.

We face risks associated with property development.

Developing properties present a number of risks for us, including risks that:

if we are unable to obtain all necessary zoning and other required governmental permits and authorizations or cease development of the project for any other reason, the development opportunity may be abandoned after expending significant resources, resulting in the loss of deposits or failure to recover expenses already incurred;

the development and construction costs of the project may exceed original estimates due to increased interest rates and increased cost of materials, labor, leasing or other expenditures, which could make the completion of the project less profitable because market rents may not increase sufficiently to compensate for the increase in construction costs;

construction and/or permanent financing may not be available on favorable terms or may not be available at all, which may cause the cost of the project to increase and lower the expected return;

- the project may not be completed on schedule as a result of a variety of factors, many of which are beyond our control, such as weather, labor conditions and material shortages, which would result in increases in construction costs and debt service expenses; and

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

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

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

Our properties face significant competition.

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

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

We rely on borrowings under our credit facilities and offerings of debt securities to finance acquisitions and development activities and for general corporate purposes. The commercial real estate debt markets recently experienced significant volatility due to a number of factors, including the tightening of underwriting standards by lenders and credit rating agencies and the reported significant inventory of unsold mortgage backed securities in the market. The volatility resulted in investors decreasing the availability of debt financing as well as increasing the cost of debt financing. While the commercial real estate debt markets have begun to improve, we believe that circumstances could arise in which we may not be able to obtain debt financing in the future on favorable terms, or at all. If we were unable to borrow under our credit facilities or to refinance existing debt financing, our financial condition and results of operations would likely be adversely affected.

We are subject to the risks normally associated with debt, including the risk that our cash flow may be insufficient to meet required payments of principal and interest. We anticipate that only a small portion of the principal of our debt will be repaid prior to maturity. Therefore, we are likely to need to refinance a significant portion of our outstanding debt as it matures. There is a risk that we may not be able to refinance existing debt or that the terms of any refinancing will not be as favorable as the terms of the existing debt. If principal payments due at maturity cannot be refinanced, extended or repaid with proceeds from other sources, such as new equity capital, our cash flow may not be sufficient to repay all maturing debt in years when significant balloon payments come due.

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

On February 25, 2010, our total consolidated debt was approximately $1.2 billion. Consolidated debt to consolidated market capitalization ratio, which measures total consolidated debt as a percentage of the aggregate of total consolidated debt plus the market value of outstanding equity securities, is often used by analysts to gauge leverage for equity REITs such as us. Our market value is calculated using the price per share of our common shares. Using the closing share price of $27.92 per share of our common shares on February 25, 2010, multiplied by the number of our common shares, our consolidated debt to total consolidated market capitalization ratio was approximately 42% as of February 25, 2010.

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

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Rising interest rates would increase our interest costs.

We may incur indebtedness that bears interest at variable rates. Accordingly, if interest rates increase, so will our interest costs, which could adversely affect our cash flow and our ability to service debt. As a protection against rising interest rates, we may enter into agreements such as interest rate swaps, caps, floors and other interest rate exchange contracts. These agreements, however, increase our risks that other parties to the agreements may not perform or that the agreements may be unenforceable.

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

Our credit facilities contain customary restrictions, requirements and other limitations on our ability to incur indebtedness. We must maintain a minimum tangible net worth and certain ratios, including a maximum of total liabilities to total gross asset value, a maximum of secured indebtedness to gross asset value, a minimum of annual EBITDA to fixed charges, a minimum of unencumbered asset value to unsecured indebtedness, a minimum of net operating income from unencumbered properties to unsecured interest expense and a maximum of permitted investments to gross asset value. Our ability to borrow under our credit facilities is subject to compliance with our financial and other covenants. The recent economic downturn may adversely affect our ability to comply with these financial and other covenants.

Failure to comply with any of the covenants under our unsecured credit facilities or other debt instruments could result in a default under one or more of our debt instruments. This could cause our lenders to accelerate the timing of payments and/or prohibit future borrowings, either of which would have a material adverse effect on our business, operations, financial condition and liquidity.

We face risks associated with short-term liquid investments.

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

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

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

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

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

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

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

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

Some potential losses are not covered by insurance.

We carry insurance coverage on our properties of types and in amounts that we believe are in line with coverage customarily obtained by owners of similar properties. We believe all of our properties are adequately insured. The property insurance that we maintain for our properties has historically been on an all risk basis, which is in full force and effect until renewal in September 2010. There are other types of losses, such as from wars or catastrophic events, for which we cannot obtain insurance at all or at a reasonable cost.

We have an insurance policy 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. We continue to monitor the state of the insurance market in general, and the scope and costs of coverage for acts of terrorism in particular, but we cannot anticipate what amount of coverage will be available on commercially reasonable terms in future policy years.

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

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

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

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

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Potential liability for environmental contamination could result in substantial costs.

Under federal, state and local environmental laws, ordinances and regulations, we may be required to investigate and clean up the effects of releases of hazardous or toxic substances or petroleum products at our properties, regardless of our knowledge or responsibility, simply because of our current or past ownership or operation of the real estate. In addition, the U.S. Environmental Protection Agency, the U.S. Occupational Safety and Health Administration and other state and local g