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# *Transcript of*
# *Washington REIT*
## Third Quarter 2017 Earnings Conference Call
## October 27, 2017

## Participants
Tejal Engman – Director, Investor Relations
Paul McDermott – President and Chief Executive Officer
Steve Riffee – Executive Vice President and Chief Financial Officer
Drew Hammond – Vice President, CAO and Controller
Tom Bakke – Executive Vice President and Chief Operating Officer
Kelly Shiflett – Vice President, Finance and Treasurer

## Analysts
Dave Rodgers – Robert W. Baird
Jed Reagan – Green Street Advisors
Bill Crow – Raymond James
Chris Lucas – Capital One Securities
Michael Lewis – SunTrust
Blaine Heck – Wells Fargo

## Presentation

**Operator**
Welcome to the Washington Real Estate Investment Trust Third Quarter 2017 Earnings Conference Call. As a reminder, today's call is being recorded. Before turning over the call to the company's President and Chief Executive Officer, Paul McDermott, Tejal Engman, Vice President of Investor Relations will provide some introductory information. Ms. Engman, please go ahead.

**Tejal Engman - Director, IR**
Thank you and good morning everyone. Please note that our conference call today will contain financial measures, such as FFO, core FFO, NOI, Core FAD and adjusted EBITDA that are non-GAAP measures as defined in Reg G. Please refer to our most recent financial supplement and to our earnings press release, both available on the Investor page of our website, and to our periodic reports furnished or filed with the SEC, for definitions and further information regarding our use of these non-GAAP financial measures, and a reconciliation of them to our GAAP results.

Please also note that some statements during this call are forward-looking statements within the Private Securities Litigation Reform Act. Forward-looking statements in the earnings press release, along with our remarks, are made as of today, and we undertake no duty to update them as actual events unfold. Such statements involve known and unknown risks, uncertainties, and other factors that may cause actual results to differ materially. We refer to certain of these risks in our SEC filings. Please refer to pages 9 – 24 of our Form 10-K for our complete risk factor disclosure.

Participating in today’s call with me will be Paul McDermott, President and Chief Executive Officer, Steve Riffee, Executive Vice President and Chief Financial Officer, Tom Bakke, Executive Vice President and Chief Operating

Officer, Drew Hammond, Vice President Chief Accounting Officer and Controller, and Kelly Shiflett, Vice President Finance and Treasurer. Now, I'd like to turn the call over to Paul.

**Paul McDermott - President and CEO**

Thank you Tejal and good morning everyone. Thanks for joining us on our third quarter 2017 earnings conference call.

Washington REIT grew third quarter Core FFO by 2.2% year-over-year to $0.46 per fully diluted share and grew third-quarter same store NOI by 2.6% year-over-year. Year-to-date, we have grown same-store NOI by 7.2% over the same period in 2016, driven by 11.2% office, 4.3% retail and 3.1% multifamily growth. In the third quarter, we drove 170 basis points of average occupancy gains over the prior year and ended the quarter at 93.8% occupied. Subsequent to quarter-end, we closed on the sale of Walker House Apartments in Gaithersburg, Maryland for $32.2 million and signed a letter of intent to sell Braddock Metro Center in Alexandria, Virginia. In addition, we won approval to develop 767 new units at Riverside Apartments, representing an approximate 40% increase over the 550 units we underwrote when we acquired the asset last year.

Assuming the sale of Braddock Metro Center this year, we expect to exceed the top-end of our previous 2017 disposition range, which was $100 million. The sales of Walker House and Braddock Metro Center are the principal sources of capital for our recently completed acquisition of Watergate 600, a Potomac-riverfront office asset in Washington, DC. In aggregate, we are allocating capital *out of* two suburban assets *into* an iconic, urban, metro-centric office building where we created value within the structure of the deal and are realizing upside from the outset. As a result, we are growing NOI and FFO while also significantly improving asset quality.

Moreover, we had maximized asset value at Braddock Metro Center by signing a 131,000 square-foot lease with the USDA last quarter. Monetizing the asset now enables us to re-allocate leasing capital from a GSA deal into revenue-enhancing capital at Watergate 600. Furthermore, the sale of Braddock reduces our exposure to large-tenants, thus supporting our goal to focus on the portfolio of small to mid-size tenants. Following this sale, our office portfolio will continue to focus on private sector tenants and maintain negligible GSA exposure, which remains a key differentiator for Washington REIT.

Moving on to business fundamentals, our overall office portfolio is well-occupied at 93.2% and continues to experience solid leasing momentum on its remaining vacancies. In addition to the approximately 56,000 square feet of leases that we signed in the third quarter, we have another 102,000 square feet under LOI or in lease negotiations. We currently have over 495,000 square feet of tenants that we are touring or trading proposals with and another 633,000 square feet of prospects. This is 4.5 times the total square footage of our current vacancies and impending roll over the next 12 months.

Our positive leasing momentum is partly driven by the redevelopment projects we are showcasing at unique assets such as the Army Navy Building and Watergate 600. We are approximately 83% leased at the Army Navy Building through yesterday, and have several prospects chasing the remaining vacancy with nonprofits, trade associations, government affairs and law firms creating a competitive environment that enables us to push rents while offering lower tenant incentives relative to competing Class A office product in DC. On Watergate 600, we are seeing good interest from consulting firms and media companies for the Blank Rome space and are actively negotiating with several amenity providers for the ground level.

Our office portfolio also benefits from being strategically positioned to capitalize on the growing demand from small and mid-size, as well as value-conscious office tenants. According to CBRE data, the six sectors that have net absorbed space in Washington, DC year to date, have leased a median square footage of approximately 6,000 square feet with full service rents of approximately $50 a foot. *This* is the typical profile of office demand growth in Washington, DC. Importantly, it is also the profile of the target tenant for our DC same-store office portfolio, where the average deal size year-to-date is approximately 7,000 square feet and the average rent is approximately $51 per foot full service.

On the supply front, according to JLL data, more than 2 million square feet of existing DC office product priced in the mid-$40s to mid-$50s per foot full service has been converted into commodity Class A product priced at or above $70 per foot, with a further 1.6 million square feet to be converted this year. Value office product is currently outperforming the market on occupancy, rent growth and concessions, yet there is concern that the oversupply of Class A space could put downward pressure on rents for the market at large. While that is logical, the reality is that developers consider the effect that cutting rents will have on their promoted interest as well as on the existing competitive product that they also own, making them reluctant to cut rents to levels that compete with value space. When we have seen aggressive deal structures with lower net effective rents, the decrease in face rent has been nominal but tenant incentives have increased significantly to $12 to $14 per foot per year of term for long-term leases. We have not seen these aggressive deals offered to tenants below 10,000 square feet as that would reprice the building for nominal occupancy gain. And at the value-end of the small tenant spectrum a typical user would need a 30% to 40% face rent drop to even consider the space.

To conclude on DC office, we continue to aggressively market multiple redevelopment scenarios at 2445 M Street which we are repositioning as the new hub of the West End, in the heart of the thriving M Street retail corridor, which connects the CBD and Georgetown and is home to some of DC's finest hotels such as the Fairmont, Park Hyatt and Ritz Carlton as well as the newly opened Nobu restaurant, which is directly across the street from the asset. We have seen activity from law firms and consulting firms with one major law firm recently short listing 2445 as the only redevelopment asset on their final list. While we are confident in our ability to execute a redevelopment strategy, we will continue to pursue all options to maximize value for our shareholders.

We are increasing our retail same-store NOI growth assumptions for the second time this year and have seen excellent activity on our new development at Spring Valley Village. We are finalizing commitments with two highly regarded local retailers for the ground floor and are seeing demand from a variety of personal and business service users for the second floor.

As announced last quarter, we are negotiating an LOI for the hhgregg vacancy at Frederick Crossing, but given interest from a second retailer for a portion of the 23,500 square feet of vacancy, we are simultaneously exploring options to divide the space and thereby further optimize rents while reducing risk. There has also been a notable pickup in activity on the Hhgregg vacancy at Hagerstown, which is seeing strong interest from discount department store users. We expect both vacancies to be re-leased in 2018.

Approximately 89% of our third-quarter retail NOI was driven by community and neighborhood shopping centers as well as Class A power centers, and approximately 81% of our third quarter retail NOI was driven by centers that have a grocery anchor or a shadow grocery anchor, which drives strong levels of traffic and provides a stabilizing effect on the center.

Finally on multifamily, where we are also raising our same-store NOI growth assumptions for the second time this year, our unit renovation strategy continues to work well across our Class B portfolio and is contributing to our outperformance relative to market fundamentals. According to Delta Associates data, the average gap between rents at our B assets and the Class A rents within the same submarkets is north of $500 per unit relative to a $300 to $350 market-wide A versus B gap. In the third quarter, we have grown average rents in our B portfolio by approximately 200 basis points year-over-year, comparing favorably to the region's Class B rental growth of 100 basis points as reported by Delta. Furthermore, our understanding of the upgrades and finishes that tenants are willing to pay a premium for is also driving unit renovation programs at some of our Class A multifamily assets. As a result, in the third quarter we have grown Class A average rents by 230 basis points year-over-year, relative to the region's Class A rental growth of 20 basis points as reported by Delta.

We are excited about the near and long-term growth prospects of our multifamily portfolio, where a combination of proprietary submarket research and strong operational and development expertise enables us to grow rents at existing assets and to develop a value Class A offering in submarkets with limited new supply. Our expanded team has over 40 years of combined experience in developing multifamily product in our region. They have exceeded our initial underwriting of developing 360 new units at The Wellington and 550 new units at Riverside Apartments to 401 units and 767 units respectively. We have been able to increase density because our developments solve a real need for greater housing in and around high-growth job centers and transportation nodes.

Following the sale of Walker House, we have 4,268 multifamily units in our portfolio and a development pipeline of another 1,168 units, representing approximately 27% organic growth. Approximately 74% of our units are located in Northern Virginia, a share that will reach approximately 80% when we deliver our development projects, both of which are also located in Northern Virginia.

We are bullish on the growth prospects for Northern Virginia, which continues to create significantly more office-using jobs than DC or Maryland. For the 12 months to August 2017, approximately 67% of job growth in Northern Virginia was comprised of the office-using Professional and Business Services and Financial Activities sectors, compared with 3.7% in suburban Maryland and approximately 17% in Washington, DC. Moreover, the fiscal year 2018 defense authorization bill, which proposes increased spending levels, has received bipartisan support and if passed, may drive greater economic growth in Northern Virginia. This bodes well for our portfolio, which derived approximately 72% of multifamily, 43% of office and 30% of retail NOI from assets located in Northern Virginia.

Our region added 44,500 jobs in the 12 months ended September 2017 representing growth that is 35% higher than the region's 15-year-average job growth between 2001 and 2016. Importantly, professional and business services jobs accounted for 37.3% of new jobs, significantly above their 23% share of the overall employment base. According to research from the Fuller institute, the Washington region's current economic growth trajectory has 2017 gross regional product growing at *double* the rate it did in 2016. The Washington Leading Index, which is designed to forecast the performance of the metro area economy six to eight months in advance, has now registered solid gains each month since January 2017 and this continued strength points to sustained economic growth into 2018. We expect a favorable regional macroeconomic environment to provide additional support to the internal growth momentum that we have already created.

Now, I would like to turn the call over to Steve to discuss our financial and operating performance in the third quarter.

**Steve Riffee - EVP and CFO**

Thanks Paul. Good morning everyone. Net income of $2.8 million or $0.04 per diluted share in the third quarter of 2017 was below net income of $79.7 million or $1.07 per diluted share in the third quarter of 2016, which had included the recognition of a $77.6 million gain from the second sale transaction of the suburban Maryland office portfolio.

We reported third quarter core FFO of $0.46 cents per diluted share versus $0.45 cents in the same prior year period, driven by revenue-led year-over-year same-store NOI growth of 2.6%. Year-to-date, we have grown same-store NOI by 7.2% due to a combination of higher revenues and lower expenses compared to the first nine months of 2016. We have achieved this NOI growth while improving the quality of our portfolio by recycling out of commodity, suburban assets and into quality, metro-centric assets such as Riverside Apartments and Watergate 600 that are performing well for us.

Third quarter core funds available for distribution, or Core FAD was approximately $32.2 million, putting us on track to achieve a full-year Core FAD payout ratio in the low-$80s, which is favorable relative to our mid-$80s target Core FAD ratio.

Our third quarter year-over-year same-store NOI growth of 2.6% was primarily driven by same-store average occupancy gains in office as well as higher rental growth in multifamily. On a sequential basis, multifamily and retail grew same-store revenues in the third quarter, while office revenues were lower primarily due to lower reimbursements and lower lease termination fees than the second quarter. As expected, same-store expenses were sequentially higher across all three asset classes due to normal seasonality, including higher utility costs and repair and maintenance project expenses that typically occur in the second-half of the year.

Starting with office, same-store NOI grew 3.8% over third quarter 2016, driven by 480 basis points of average occupancy gains. Approximately 50% of our year-over-year occupancy growth was driven by the Silverline Center, with the rest spread across the portfolio with new lease commencements at 1775 Eye Street, 2000 M Street, 1776 G Street as well as the early renewal and expansion of a tech tenant at 1600 Wilson Boulevard. On a sequential basis, office ending occupancy grew by 40 basis points despite a known tenant move out, which has already been partially re-leased.

We drove strong office rental growth across both new and renewal leases this quarter as we leased a majority of space to small and mid-size users, which represent our core office tenant base. We signed approximately 45,000 square feet of new office leases in the third quarter of 2017 with a greater than usual proportion in our Class A office properties, such as the Army Navy Building where rents are in the mid to upper $60 per foot. We committed $9.30 per foot per year of term in tenant improvements, which compares favorably to the $12 to $14 per foot per year of term offered by comparable Class A office product in Washington, DC. We achieved rent roll ups of 19.7% on a GAAP basis and 6.3% on a cash basis. For new leases below 10,000 square feet, we achieved even larger rent increases of 26% on a GAAP basis and 17.3% on a cash basis.

In addition, we signed approximately 10,500 square feet of office renewal leases in the third quarter of 2017 and achieved rent roll ups of 19.1% on a GAAP basis and 16.2% on a cash basis. All of the office leases renewed were below 10,000 square feet in size.

Excluding the office asset we expect to sell, the prospects for rent roll ups for our office portfolio look encouraging over the next 12 months as 87% of the expiring leases are leased to tenants below 10,000 square feet. As a result, the overall mark to market for the next 12 months of lease expirations in our office portfolio could be positive on a cash basis and continue to strengthen on a GAAP basis. Notably, these positive re-leasing spreads are on leases that typically have 2.5% to 3% annual rent escalators and that are long-term in nature.

Moving onto Retail, third quarter same-store NOI grew by approximately 0.7% on a year-over-year basis as rental growth and lease termination fee income offset 70 basis points of year-over-year average occupancy declines. Sequentially, average occupancy rose 100 basis points with Aldi's commencement at Gateway Overlook as well as specialty leasing offsetting the impact of the hhgregg move outs. We are capitalizing on retailers' use of popups as a tool to test a shopping center location and there are some indications that some of these may lead to long-term leases. Our retail portfolio was 94% leased at quarter-end with good activity on vacancies and the opportunity to grow occupancy in 2018.

We leased approximately 48,000 square feet of retail space and drove 16% GAAP and 10.6% cash roll ups on new leases. Renewals were up 2.7% on a GAAP basis, and were slightly higher on a cash basis. We paid no tenant incentives on renewals and standard incentives on new leases.

Finally, multifamily same-store NOI was up 2.6% over third quarter 2016 driven by 200 basis points of rent growth. This was higher than we previously expected and contributed to our raising our full-year same-store NOI growth assumptions for multifamily. Same store renewal leases grew 383 basis points, while same-store new leases grew 171 basis points. On a per unit basis, the same-store portfolio ended the third quarter 94.8% occupied with overall occupancy at 94.7%. In the third quarter, we renovated 39 units at The Wellington and 71 units at Riverside. As a result, at quarter-end, we had 328 units left to renovate at The Wellington and 504 units left to renovate at Riverside. We continue to generate a mid-to-high teen return on cost on the renovation dollars that have been invested at these two assets to date and expect these programs to continue through 2018 and into early 2019.

Now, turning to guidance, with only one quarter remaining, we are maintaining the mid-point of our 2017 Core FFO guidance and tightening the guidance range to $1.81 to $1.83, from a previous range of one $1.80 to $1.84 per diluted share. We do not assume further acquisitions in 2017. As Paul mentioned, assuming the sale of Braddock Metro Center closes before year-end, we expect to exceed the top end of our previously assumed 2017 disposition range, which was $100 million.

Our guidance is supported by the following assumptions. Overall same-store NOI growth expectations are raised to a range of 6% to 6.25%, from a previous range of 5.75% to 6.25%. We assume office same-store NOI growth to be approximately 9%, from a previous range of 9% to 9.5%, considering slightly higher expenses in the third and fourth quarters. We are raising our retail same-store NOI growth assumptions for the second quarter in a row and now expect growth to range between 2.75% to 3.25% from a previous range of 2.5% to 3%. Our stronger retail growth outlook is despite absorbing the impact of the previously-disclosed hhgregg and Offenbachers bankruptcies and reflects our stable tenant watch list as well as our region’s resilient retail fundamentals. We are also raising multifamily same-store NOI growth assumptions for a second consecutive quarter to approximately 3.75%, from a previous range of 3% to 3.5%. In multifamily, unit-renovation led rental growth at several of our Class B as well as at certain Class A properties is contributing to our outperformance. Our office non same-store NOI is expected to range between $18.5 to $19 million. Multifamily non same-store NOI is expected to range between $13 to $13.25 million.

Our interest expense is expected to range from $47.25 to $47.5 million considering the anticipated timing of the assumed dispositions. G and A remains projected to range from $22 to $22.5.

Our capital plan for 2017 focuses on maintaining our balance sheet strength and flexibility to realize our development and redevelopment plans and to pursue further value-add growth opportunities. In the third quarter, we have opportunistically raised approximately $50 million of gross proceeds through our ATM program at an average price of $32.89, which should position us to take advantage of the value-creation opportunities we are pursuing. Assuming we close on our dispositions by year-end, we expect our net debt to adjusted EBIDTA to end the year below 6 times, which is better than our target range of 6 to 6.5 times.

And with that, I will now turn the call back over to Paul.

**Paul McDermott - President and CEO**
Thank you, Steve. Our strong operational performance this quarter and year-to-date has significantly outperformed our region on occupancy and rent growth. We are using proprietary research to strategically allocate capital to the value-creation opportunities that offer us the best risk-adjusted growth in our region, while exiting assets and submarkets with lower growth and higher risk profiles. Looking back, our successful capital allocation to the redevelopment of Silverline Center, as well as the acquisitions of The Wellington, Riverside and Watergate 600 in conjunction with our sale of commodity suburban assets has contributed significantly to the growth we are experiencing today. We are confident in our ability to continue to generate high risk-adjusted returns as we steadily harvest multiple NOI growth drivers including the redeveloped Army Navy Building and the to-be-redeveloped Watergate 600, the unit renovation programs within multifamily and the new development at Spring Valley and the ground-up multifamily developments at The Wellington and Riverside. We expect these embedded growth drivers to enhance our NOI as they continue to deliver over the next five years. Moreover, we continue to pursue external value-creation opportunities, particularly in multifamily, an asset class that offers us optimal risk-adjusted returns.

In addition to realizing the benefits of our research-driven capital allocation, we believe there is more potential upside than downside to market fundamentals if federal legislative activity picks up. The Senate and the House have both passed a budget resolution, clearing the path for the tax reform legislation that Congressional Republicans' are working on drafting and subsequently passing. As a result, activity in our region may gear up around tax reform. There has historically been a strong correlation between the volume of legislation passed by Congress and net real estate absorption in our regional economy. Just in the last week, there is renewed optimism for increased legislative momentum that would improve our region's fundamentals and further augment our growth.

Now I would like to open the call to answer your questions. Operator, please go ahead.

**Operator**
Thank you. Ladies and gentlemen, at this time we will be conducting a question-and-answer session. [Operator instructions]. Our first question comes from the line of Dave Rodgers from Robert W. Baird. Please proceed with your question.

**Q:** Good morning, everybody. Just wanted to quickly ask about maybe two specific spaces or assets in the portfolio. One on Watergate, Paul you did give us three different categories at the beginning of your prepared comments in terms of kind of where leasing stands on the entire portfolio. Where is Watergate in that mix and what's the feedback been?

**Tom Bakke – Executive Vice President and Chief Operating Officer**
Hey, Dave, it's Tom. Let me try to address that. Watergate is positioned as a unique iconic asset that almost stands on its own as one of only three buildings on the water in this part of the city. And we are currently finishing up a complete lobby renovation that should done early in '18, and offering a new amenity package, new roof terrace, and the activity levels have been there. Media companies, we probably had five or six 50,000 or larger users express interest in that. You remember that Blank Rome is in there, through '18 and then we've got some additional coverage. So we've got time, but we'd like to obviously get it leased up sooner. And we feel confident about it.

**Steve Riffee – Executive Vice President and Chief Financial Officer**
And for those people that are in place now, we're at 98% leased today. And as Tom, said we have time to address the future leasing.

**Q:** Great. Maybe second space, with regard to the Advisory Board Company, I heard some market chatter just about more activity there. I don't suppose you're ready to announce anything. But are you seeing more increased interest in that space as you're getting closer and can you talk any more about that?

**Tom Bakke – Executive Vice President and Chief Operating Officer**
Yes, so as Paul said our strategy at 2445 has been to go to the market with two options to basically see where the demand is playing out. This is another unique type of asset, West End, sort of all by itself in between Georgetown and the CBD. The M Street corridor over there is really very dynamic and only getting more attractive. So the users that have shown interest have been primarily law firms and consulting firms, a couple of significant users. And they look at this as a unique place to locate for their business, because getting in and out of the city from the West End is probably the most efficient and enjoyable commute in the city.

And so we've had interest from users looking at both the high end renovation approach and willing to pay up for that and also some looking for sort of a more basic upgrade that would be priced closer to an A-minus price point.

**Q:** Great. Maybe last to Steve, going back to the capital side of the equation, or Paul, you can chime in too, but it looks like asset sales, looks like they'll slightly exceed acquisitions for the year unless something else comes up. And then you've got the ATM that you've issued which looks like it's largely matching your development spend suggesting you're spending a lot of equity obviously in the development pipeline. Should we expect to see you continue to deleverage even though you're below your target already? Is that just kind of a good goal at this point given where the stock is and should we expect to see more of that?

**Steve Riffee – Executive Vice President and Chief Financial Officer**
Well, Dave, we're way ahead of our development spend. So I think what we've tried to do is even strengthen the balance sheet a little bit further because we are continuing to pursue additional value creation opportunities. So we're going to, assuming everything closes by the end of year, end below six. We've said we're comfortable operating at a net debt to adjusted EBITDA of 6 to 6.5. So I think we've created capacity to do the kinds of things that we're trying to do and stay ahead of it, not create overhangs. We're not giving guidance for next year, but the one thing I would say is our development spend for next year is probably just under $60 million. So I think we stayed well ahead of that.

**Q:** Thank you.

**Operator**
Our next question comes from the line of Jed Reagan from Green Street Advisors. Please proceed with your question.

**Q:** Good morning, guys. You talked about a pretty healthy office leasing pipeline. Would you say that's indicative of marketwide changes in fundamentals or tenant activity picking up recently or is that more specific to your portfolio?

**Tom Bakke – Executive Vice President and Chief Operating Officer**
It's Tom, again, Jed. I think I'd love to just say it's just our portfolio, nobody else has seen any activity, but I think we've seen some significant law firms in the market. That's obviously the bread and butter of D.C., and some of those are really large, so that's adding to those numbers—250,000, 300,000 foot prospects. That adds a little bit to that number. But we are seeing some good activity because I think the Watergate 600 and 2445 are really interesting assets that do attract a unique look from the market because they haven't been available for a long time. So these assets are getting a lot of looks.

**Q:** Any changes you're seeing in terms of asking rents, base rents or concessions?

**Tom Bakke – Executive Vice President and Chief Operating Officer**
Yeah, I think the comment there is that in the B space we're seeing concessions continue to move our way, whereas for A they're moving the other way. For A I've seen some comps recently where all-in TI and free rent - now, granted the terms of stretching out, you're seeing 15-year terms - but I've seen TI and free rent starting to move up into the $220 to $250 per foot range.

I'll give you an example on a B deal we just did. We normally are doing less than 10K deals, that's sort of our bread and butter. But we had a floor come available at 1140 Connecticut, a solid B building. And we had an opportunity to do a full floor deal on that space, which we made, and we made that deal around 50, but our TI number was only $85. So, that's an example of the difference between A and B.

**Q:** That $220 you mentioned, that would be on a ten-year deal or fifteen-year deal.

**Tom Bakke – Executive Vice President and Chief Operating Officer**
That's probably going to get out to 15 years.

**Q:** Followup on the question about the capital plan. I know it's still early for '18, but I mean how are you thinking about dispositions for next year and are there more non-core sales that you could be teeing up?

**Steve Riffee – Executive Vice President and Chief Financial Officer**
Hey, Jed, this is Steve. We're not ready to give guidance yet, but we're always doing portfolio asset management. So that is always one of the options that we look at in terms of source of capital. We look forward to updating everybody on that as we get a little bit closer to giving guidance for next year.

**Q:** Okay. And related to that, any color you can offer on Braddock pricing?

**Steve Riffee – Executive Vice President and Chief Financial Officer**
Well, we're trying not to do that because we're not done with the deal at this point in time. All we've said is that total proceeds for the year are going to be greater than what we had guided the last time, and again, when this is a little further along we'll provide more updates.

**Q:** Okay, fair enough. And then maybe last one for Paul perhaps. Any changes you're seeing in the pricing environment or investor demand for product across the D.C. Metro and maybe how is the opportunity set looking for acquisitions for you guys?

**Paul McDermott – President and Chief Executive Officer**
Sure. So let's go back a year, Jed. This time last year things had pretty much come to a halt with the election coming up. In the first quarter we saw a lot of capital coming into D.C. I think part of it was a reallocation, partly defensive playing. I think right now if you were to talk to the investment sales community, it's pretty flat out there. We're actually seeing some retrading over the last two weeks based on interest rates, but I will start with the core Jed.

I'd say probably two thirds of the capital that we're seeing chasing core product here in D.C. is foreign capital. There's been a significant interest and to me that's kind of a safe haven strategy to park it here. The most amount of capital that we're seeing kind of in the D.C. across the asset classes is value-add/core plus capital. I also think that's where it's getting a little slippery. We're definitely seeing people kind of back into underwriting with some pretty aggressive rental increase assumptions to hit those value add yields.

And then the other piece of the capital structure they're playing on is leverage, and that's the moving target right now with what's been going on in the bond market. Certainly haven't seen any slowdown in capital coming in, but I do think the deal volume is flattening out as we approach year-end, Jed.

**Q:** Okay. That's helpful. You mentioned the retrading. Anything material there in terms of some of the recent deals being retraded in terms of changing prices?

**Paul McDermott – President and Chief Executive Officer**
Like I said, I think it's really just been financing related. And these guys are in and out of the swap market. So that's just a recent phenomenon that we're just hearing. As you approach year-end, most of these people have specked up. They've done due diligence. Most of these financing commitments probably were floating obviously until they went hard. And we're just seeing some people nibble around the edges trying to grab a little bit more yield.

**Q:** Got it. That's helpful. Thank you.

**Paul McDermott – President and Chief Executive Officer**
Thanks, Jed.

**Operator**
[Operator instructions]. Our next question comes from the line of Bill Crow with Raymond James. Please proceed with your question.

**Q:** Good morning, guys. Two quick questions for you. First of all, I guess, retail is not completely dead if you've got multiple tenants chasing your space. Can you just kind of talk about what category those retailers are in? Where are you seeing in the most interest?

**Tom Bakke – Executive Vice President and Chief Operating Officer**
Hey, Bill. It's Tom. So, you're speaking of the HHGregg spaces. And I think—

**Q:** Correct.

**Tom Bakke – Executive Vice President and Chief Operating Officer**
Yeah, discount operators, fairly active. You're hearing that pretty much everywhere. Grocers, believe it or not, these are in power centers, and grocers are now moving into certain power centers. We did an ALDI up at Gateway. Lidl has sort of slowed down their expansion plans, but ALDI is still very aggressive. And there are some other new entrants into this market in the grocery sector looking for positions. And then the other types of users are sort of home goods and then sort of quasi entertainment venue. Those are the primary users that we're seeing looking at these boxes.

**Q:** All right, that's helpful. Second question, it seems to be on the top of everybody's minds, but this Amazon second headquarter search, and D.C. seems to be on the shortlist. Thoughts on where that might be within the market?

**Paul McDermott – President and Chief Executive Officer**
Well, Bill, we had a multiple bids come in from both D.C, Maryland and Virginia, and probably on our estimation could be like mid-teens of the 238 submissions that went into Amazon.

**Q:** Yeah, Paul, I guess I'm asking you to handicap where you think the best, most practical location would be within the market.

**Paul McDermott – President and Chief Executive Officer**
Just on our observation, Northern Virginia probably makes a lot of sense. They have a presence out there. We like the state sponsored site, CIT off the toll road. It's good access to transportation, good infrastructure, Silverline coming out there, retail. It will be heavily retail amenitized and a good, educated workforce out there.

**Q:** Fair enough. Thanks for your time.

**Paul McDermott – President and Chief Executive Officer**
Sure, Bill. Thank you.

**Operator**
Our next question comes from the line of Chris Lucas from Capital One Securities. Please proceed with your question.

**Q:** Good morning, everyone. Paul, I hope you're wrong. That's too close to home.

**Paul McDermott – President and Chief Executive Officer**
Sorry, Chris.

**Q:** That's all right. The two questions I had: One, I apologize I missed the front end of the call. But, Steve, just on the $5 million impairment that you guys took, can you maybe provide a little color on that?

**Steve Riffee – Executive Vice President and Chief Financial Officer**
Well, when you calculate an impairment, it's not just a straight up sales price versus a book value of land and buildings. So what our estimated impairment is assumed projections of write-off of straight line rents primarily and unamortized TIs.

**Q:** Okay, great. And then also sounds like, Paul, the market seems to continue to sort of lack opportunities that fit your criteria. Are there new development opportunities within the portfolio that you're looking at right now that might be something that you start to tee up going into next year, particularly given the strength of the balance sheet at this point?

**Paul McDermott – President and Chief Executive Officer**
Sure, Chris. We're in the works on seven NOI drivers right now. I think everybody is aware of them, but if not, they are: finishing out Spring Valley, completing the renovation on the Watergate, completing the leasing, and we finished out the renovation on Army Navy, the unit renovations at both Wellington and Riverside and then the ground up development on both Wellington and Riverside. And now we have additional units to address at Riverside approximately 227 more than we initially underwrote. I think we have some more development opportunities at at least one of our residential assets, and then we are looking at additional FAR potential redevelopment on probably a retail center or two.

Chris, we are still seeing acquisition opportunities that we think have redevelopment potential. I think a lot of the value add capital that I alluded to earlier that's in D.C. is not really looking to unplug existing NOI. They're looking to kind of do it on top of in-place NOI. So I think our ability to, and these are deals that we've been tracking, Chris, for probably 18 to 24 months. I do think Washington REIT will continue to have a healthy pipeline going into '18.

**Q:** Okay. And then last question, I don't know if you guys touched on this, the cap rate for Walker House roughly?

**Paul McDermott – President and Chief Executive Officer**
Upper fives, which exceeded our expectations for Gaithersburg, Maryland.

**Q:** That's terrific. Thank you. I appreciate it.

**Operator**
Our next question comes from the line of Michael Lewis from SunTrust. Please proceed with your question.

**Q:** Hi. Thank you. I just had one question. Paul, as I listen to you talk about this correlation between office absorption and bills passed, I've seen those specifics too, and I've actually even written things to that effect. But I am not sure I fully understand why that is. Maybe it's lobbyists that that come in and take space on an as-needed basis. But I ask the question because when I think of tax reform, I can't really think of anything even more so than healthcare maybe, that impacts every single company and every single interest. And so to elaborate on why that correlation is, maybe this becomes kind of even stronger demand driver than normal. I'm just curious what your thoughts are on that.

**Paul McDermott – President and Chief Executive Officer**
Sure, Michael, I'll kick off and then if anybody else wants to jump in. So when we look at the legislative process and by the way, we're coming off the worst legislative Congress in 71 years, which has had a nice drag on office fundamentals in D.C., but when we look at what it takes to get a bill passed and new legislation right now, yes, it touches lobbyists, yes, it touches all law firms, a lot of professional and business services space, tax reform, accounting firms, special interests, associations.

We're already seeing people start to mount up. I mean I think right now if you were to ask some of the larger tenant reps in the area, they're probably seeing a slight pick-up in activity that will be associated with tax reform. And you will see some of these firms that are in existing spaces asking about "shadow space" or "swing space" within their own buildings right now. So, we think it just takes more bodies, and given the dynamic political environment we're in right now where it's very polarizing, we see more special interest groups coming in, just more people showing up that want a seat at the table, and those people need office space.

So I would have liked to have said that this was going to have a fundamental impact earlier, but I do think that it's upside for this region and for Washington REIT's portfolio.

**Steve Riffee – Executive Vice President and Chief Financial Officer**
And Michael, maybe just to add, Paul talked about tax firms, law firms and accounting firms. A lot of the national tax practices of some of these big firms are based here. And we hear they're gearing up because they're going to do a lot of consulting and trying to roll this out nationally, and a lot of their expertise is ramping up here in D.C.

**Q:** Well, originally Trump wanted to put those guys out of business, I think, but that's probably not going to happen. Thanks, guys.

**Operator**
Our next question comes from the line of Blaine Heck with Wells Fargo. Please proceed with your question.

**Q:** Thanks. Good morning. Paul or Tom, just on the Blank Rome lease. When I look at your largest tenants page, it looks like the lease term was extended and there was new disclosure regarding an agreement with Atlantic Media to take that for another eight months or so. Is that right? And can you give a little color on what's actually going on there?

**Steve Riffee – Executive Vice President and Chief Financial Officer**
So the actual lease expiration is the end of '18. For most of the space, we have from the seller of the building a master lease to backstop it to the end of '19 on a blended basis because there's a couple of spaces that we'll get back a little bit earlier. We just added that much to the lease maturity schedule.

**Q:** Okay, so, I guess is there a chance that the Atlantic Media kind of backs up, turns into a longer release? Or are you guys still looking for another tenant to take that space for a longer term?

**Tom Bakke – Executive Vice President and Chief Operating Officer**

Now, we want to backfill that. In fact, it's mutually beneficial for us to get it released earlier and then let the previous owner off the master lease.

**Q:** Okay, helpful. And then, Steve, can you just give a little bit more color in the flip in same-store NOI and the office portfolio on a year-over-year basis and from Q2 to Q3? I mean I guess as you said most of the occupancy difference year-over-year is due to Silverline. So it would seem NOI would still be much higher this year than last. And then just looking at the third quarter versus the second, can you give any detail around the amount of term fees last quarter and maybe the effect of the decrease in reimbursements?

**Steve Riffee – Executive Vice President and Chief Financial Officer**
Sure. So let's just put it in overall perspective. We've raised our guidance twice this year on same-store. And we've raised that overall same-store guidance again this quarter. So it's always taking into consideration the prior year quarterly comp. If anything, things have gotten slightly better as opposed to worse. We've said all along that the first half of the year, we've had a bigger year-over-year occupancy gain and that the comps in terms of occupancy are more normalized in the last two quarters of the year in terms of we did have in the second quarter significantly more term fees and expense reimbursement relative to the third quarter.

So they basically hit in one quarter more so than the other. This has all been in the guidance all year. And if anything we just took it up a little bit higher, Blaine. The last comp for the fourth quarter if you think about it we've got a seasonal winter that we are assuming is a little bit more normal. We had basically the mildest December and fourth quarter a year ago, so we're back to seasonal expenses, etc. There is no major deterioration from what we've been guiding all year. I think we're slightly ahead of schedule.

**Q:** Okay, I was just looking at the—I mean the occupancy is still up 480 basis points year-over-year, so thought that might have translated into something similar to what we saw in first and second quarter, but fair enough. Thanks, guys.

**Paul McDermott – President and Chief Executive Officer**
Thanks, Blaine.

**Operator**
There are no other further questions in queue. I'd like to hand the call back over to management for closing comments.

**Paul McDermott – President and Chief Executive Officer**
Thank you again, everyone. I would like to thank everyone for your time today, and we look forward to spending more time with many of you at NAREIT in Dallas next month. Good afternoon.